LLOYDS BANKING GROUP

Sustainability Metrics Basis of Reporting

Lloyds Banking Group
Report 2023

Welcome

At Lloyds Banking Group, our purpose is Helping Britain Prosper. As the UK's largest financial services provider with more than 27 million customers, we have an important role to play in creating a more sustainable and inclusive future for people and businesses, by shaping finance as a force for good.

Our purpose is Helping Britain Prosper...

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About this report

As a Group, we have set several sustainability-related ambitions to support diversity in our business and the decarbonisation of our business in line with limiting global warming to 1.5°C. In setting our ambitions, measuring our metrics allows us to identify, assess and manage our related risks and opportunities. Calculation of metrics allows us to monitor our progress against these ambitions and targets.

This document details the approach and scope applied to setting our sustainability-related ambitions and targets and measuring the progress made against them. It is the responsibility of the Group's management to ensure that appropriate procedures are in place to prepare our sustainability reporting in line with this document.

Intended users

The information provided as part of emissions reporting will be useful to the following stakeholder groups:

- Internal stakeholders
- Lloyds Banking Group (LBG) third parties
- Customers and clients
- Investors and analysts
- Non-governmental organisations (NGOs)
- Governments and regulators

Assurance

The Group has obtained independent limited assurance over selected metrics and disclosures included within this report. Further details on Deloitte's limited assurance statement can be found on **our download centre**.

We have set several ambitions and targets across our Group to support the decarbonisation of our business in line with limiting global warming to 1.5°C.

Our environmental metrics

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Our emission reduction ambitions and targets

Bank financed emissions

Work with customers, government and the market to help reduce the carbon emissions we finance by more than 50% by 2030 on the path to net zero by 2050[1] or sooner.

In addition to this absolute financed emissions target the Bank has published targets for 10 sectors.

For further details on how we have calculated our Bank financed emissions and details of our sector targets see **page 08**.

Scottish Widows financed emissions

Halving the carbon footprint[2] of our investments by 2030 on the path to net zero by 2050.[3]

For further details on how we have calculated our Scottish Widows' financed emissions see **page 23**.

Supply chain

Reduce the carbon emissions we generate through our supply chain by 50% by 2030 on the path to net zero by 2050 or sooner.[4]

For further details on how we have calculated our supply chain emissions see **page 28**.

Own operations

Achieve net zero carbon operations by 2030 and reduce our direct carbon emissions by at least 90%, while also reducing energy consumption across our operations by 50% and limiting travel-related carbon emissions by 50% compared to a 2018/19 baseline.[5]

For further details on how we have calculated our own operations emissions see **page 25**.

Our financed emissions basis of reporting is designed in alignment with the emerging industry standard for calculating financed emissions developed by the Partnership for Carbon Accounting Financials (PCAF). Our supply chain and operational emissions basis of reporting is aligned to the Greenhouse Gas (GHG) Protocol. (We refer to Financed Emissions – the Global GHG Accounting and Reporting Standard as the PCAF standard).

Read the PCAF standard in **The Global GHG Accounting and Reporting Standard for the Financial Industry**.

1 From a 2018 baseline.
2 Carbon footprint is a measure of carbon intensity calculated as the absolute value of emissions related to an investment divided by the value of the investment.
3 From a 2019 baseline.
4 From a 2021/2022 baseline.
5 2018/19 is the closest full-year baseline available at the time when the pledge was launched, representing a point where we had developed mature and stable reporting but excludes later exceptional external factors (i.e. Covid-19).

Our scope 3 emissions coverage

Our scope 3 emissions accounting and reporting principles are aligned to the Corporate Value Chain (Scope 3) Accounting and Reporting Standard issued by the Greenhouse Gas (GHG) Protocol. Emissions reporting methodology for each category can be found in the sections below.

Read the GHG Protocol for calculating scope 3 emissions **here**.

Our scope 3 emissions coverage

Category	Description	Reporting methodology
Category 1	Purchased goods and services	**Page 28** Supply chain methodology.
Category 2	Capital goods	**Page 28** Supply chain methodology.
Category 3	Fuel- and energy-related activities	**Page 25** Own operation methodology.
Category 4	Upstream transportation and distribution	**Page 28** Supply chain methodology.
Category 5	Waste generated in operations	**Page 25** Own operation methodology.
Category 6	Business travel	**Page 25** Own operation methodology.
Category 7	Employee commuting	**Page 25** Own operation methodology.
Category 8	Upstream leased assets	Relevant. We consider ourselves to be in operational control of all sites where we are the lessee (to a third party landlord) and thus account for these emissions in scope 1 and 2. In relation to our supply chain emissions, we calculated emissions associated with upstream leased assets (this contributed less than one per cent of in scope supplier spend in our baseline year) and account for these emissions in Category 1.
Category 9	Downstream transportation and distribution	We are currently reviewing the process by which we would estimate emissions in this category.
Category 10	Processing of sold products	Not relevant. This would account for emissions from the processing of sold intermediate products by non-operationally controlled parties subsequent to sale by LBG (Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Chapter 05, page 47). LBG does not produce products that require further emissions activities to occur prior to consumption, as its products are centred on monetary transactions.
Category 11	Use of sold products	We are currently reviewing the process by which we would estimate emissions in this category.
Category 12	End-of-life treatment of sold products	We are currently reviewing the process by which we would estimate emissions in this category.
Category 13	Downstream leased assets	Relevant. We currently capture emissions from our operational leases associated with our Retail motor leasing business in our Category 15 Investments (bank financed emissions), which are reported as a combined total along with our Retail motor financing financed emissions. We are currently reviewing the materiality of emissions in this category beyond our Retail motor leasing business.
Category 14	Franchises	All LBG brands are incorporated within our direct operational control and thus reported within other values.
Category 15	Investments	Bank and Scottish Widows financed emission methodology.

Our environmental metrics continued

Governance

The model we have developed to calculate our financed emissions baseline is subject to a governance process that includes input from model users and peer review from external consultants and senior stakeholders across our businesses and functions, in line with the Group's three line of defence model, with dedicated teams in place focused on methodology. Roles and responsibilities will differ in some areas between divisions and entities, reflecting our Group structure.

The following Governance process applies to the reporting and disclosure of our financed emissions:

- Divisional and functional-level climate and sustainability steering groups or committees
- Group Net Zero Committee
- Responsible Business Committee
- Audit Committee
- Insurance Board (Scottish Widows-related matters only)

Further details on the role of these committees and groups can be found within the How we deliver section of the **2023 sustainability report**.

Control

There is a defined control framework which forms an integral part of our overall calculation and reporting process to ensure associated risks are monitored and controlled. This includes alignment to the PCAF methodology and reporting principles, as well as the Group's Climate Risk Policy, Climate Library Risk and associated controls.

PCAF is an international industry-led initiative to measure and disclose the GHG emissions associated with financial activities and is recognised as the most widely adopted global standard for measuring financed emissions by the financial sector. The risk

The risk and control self-assessment (RCSA) process is used to identify, measure and manage operational risk across the Group. Within the RCSA framework, key climate-related risks have been prioritised into five broad themes, including disclosures and supporting the transition to net zero, although this will continue to evolve. This aims to ensure that these risks are managed effectively and supported by appropriate controls, including for monitoring and reporting emissions.

Three lines of defence[1]

The Group's structure provides clear oversight and ownership of our sustainability strategy and management of climate risk across the three lines of defence, with dedicated teams in place focused on these areas.

	Teams
1st line	The Group Sustainable Business team is responsible for overseeing the Group's strategic approach to responding to global and local issues on environmental and social sustainability. At a divisional and/or sector level there are sustainability teams supporting the delivery of our strategy. They are responsible for developing the Group's strategic response to climate risk, including setting the business strategy, ambitions and development of sustainable product-level offerings to support the Group's sustainability strategy. This includes calculating and forecasting emissions, as well as sector-level target setting and transition plans to support the Group's environmental commitments and targets. Group Finance is responsible for incorporating climate into the Group's planning and external reporting.
2nd line	Risk is responsible for overseeing the risks relating to ESG topics. This includes formal responsibilities in relation to oversight of the risks arising from climate change to support meeting regulatory expectations. Teams across Risk are responsible for oversight of the Group's strategy for environmental and social sustainability, as well as incorporating consideration of ESG-related topics into the appropriate risk management processes. Activity in relation to climate risk is most advanced, including development of methodologies to quantify climate risk, oversight of net zero strategies and setting the Group's climate risk appetite.
3rd line	Group Audit has an established team focussing on ESG risks. This team, supported by other subject matter experts, provides independent assurance to the Audit Committee and the Board. Group Audit also attends key sustainability and climate risk governance committees and forums

1 The three lines of defence responsibilities may operate differently across the Group's legal entities

Boundary of our reporting and recalculation approach

Sustainability reporting covers LBG including our subsidiaries. We do not currently consider our share of emissions for our joint ventures and associates.

Aligning to GHG Protocol, if a business is acquired as a subsidiary during the year, the business will be included in the Group's emission reporting from the date of acquisition. Where there are limitations in including an acquired entity due to factors such as data availability, these exclusions will be specifically stated in the relevant emission disclosure. If the Group divests of a business during the year, that business will be included in the Group's reporting up until the date of disposal.

The Group recognises that in order to allow for meaningful comparisons to be made between the current reporting year and the selected baseline year, it may be necessary to re-state disclosed emissions from time to time to reflect changes to scope, changes to external standards or where a more accurate method of calculating associated emissions becomes available. We will restate our baseline year and reported periods on a materiality basis under the following circumstances:

- **Changes in boundaries:** Any change in organisational or operational boundary or structural changes
- **Additional asset classes:** Inclusion of additional asset classes that were not included in the scope of the initial baseline due to materiality (at the time of initial calculation), lack of data availability or no methodology in existence e.g. no methodology for accounting for sovereign bond emissions
- **Change in methodology:** Methodology changes include updated emissions factors
- **Data adjustments:** Increased data availability or quality, new data sources or changes in data classifications e.g. more companies reporting direct emissions or regulatory updates causing more homes to have energy performance certificates (EPCs) or improved data results in an improvement to the PCAF data quality score even if the financed emissions do not change
- **Discovery of significant error:** Discovery of a significant error, or a number of cumulative errors that are significant in aggregate. The threshold of five per cent of target emission baseline and/or reported period is used as an indicator of material misstatement from a quantitative perspective.

Calculation of emissions involves a degree of estimation which we consider in the context of the PCAF data quality scoring for financed emissions.

The methodology and data used to calculate emissions continues to evolve, and we expect industry guidance, market practice, and regulations to continue to change. Considering this, we will continue to refine our analysis using the most appropriate data sources and methodologies available for the sectors we report emissions for, including industry guidance such as PCAF, GHG Protocol, market practice and regulation. This may result in periodic updates to our methodology where needed to reflect real world decarbonisation and the latest developments in scenario pathways which drive our target setting.

Third party use of carbon credits

It is important that, if used, carbon credits are deployed as part of science-aligned decarbonisation strategies and are not used as an alternative for abatement. Credits can be used to mitigate remaining residual emissions and can also support mitigation activities beyond a business' value chain. These activities can help support the transition at the pace and scale required, including associated environmental and social benefits. To provide clarity and transparency on our approach to carbon offsetting, we have set out a series of nine principles relating to carbon offsetting that the Group follows.

Full details are in the **Group offsetting principles**.

Within our own emissions calculations, our approach seeks to exclude the use of credits by third parties, noting that currently emissions reported by some organisations may not provide the required level of granularity or transparency to allow this.

Group financed emissions

The following section relates to the Group's financed emissions. This includes our three core divisions: Retail, Commercial Banking (collectively referred to as the Bank) and Insurance, Pensions and Investments (Scottish Widows).

For details of the proportion of our assets, within the scope of the PCAF standard, for which we have calculated financed emissions please see our **2023 sustainability report**.

In measuring and disclosing our GHG emissions financed by loans and investments, the Group has continued to apply the emerging industry-led standard developed by PCAF. PCAF is now recognised as the most widely adopted global standard for measuring and accounting for scope 3 emissions by the financial sector, referred to here and across the industry as financed emissions.

The PCAF standard requires financial institutions to measure and report their GHG emissions using either the operational or financial control approach. LBG has adopted an operational control approach. As we do not have control over the operations of our customers that we are lending to or the companies we have invested in, the PCAF standard requires us to report our calculated financed emissions under scope 3 category 15 (investments) emissions.

We have adopted the guidance provided by the PCAF standard across material asset classes where published methodologies have been made available. PCAF requires the reporting of scope 1 and scope 2 emissions of borrowers and investees across all sectors.

In the context of scope 3 (business loans asset class), for sectors where PCAF does not yet require scope 3 emissions reporting and has not issued guidance, we follow PCAF's suggestion to follow the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard and only account for scope 3 emissions where relevant.

What emissions are covered?

Our Group financed emissions align with Category 15 – Investments per the GHG Protocol.

Our Group financed emissions are the Scope 1 and 2 emissions generated from our investments or lending. Scope 3 emissions are reported separately for certain sectors, aligning to the PCAF standard phased approach.

Group financed emissions

	Reported
Scope 1	Relates to emissions that a company or asset makes directly from owned or controlled sources, for example while running its boilers and vehicles.
Scope 2	Relates to emissions that a company or asset makes indirectly, for example when the electricity or energy it buys for heating and cooling buildings is being produced on its behalf.
Scope 3 (value chain)	Includes all other indirect GHG emissions of the reporting company not included in scope 2 and can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur because of using the organisation's products or services. The comparability, coverage, transparency and reliability of scope 3 data still varies by sector and data source. Where data allows, we seek to disclose our scope 3 emissions in line with PCAF guidance on required sectors for scope 3 emissions disclosure. Where this has not been possible this exclusion has been noted within the relevant sector methodology.

Our environmental metrics continued

Attribution

Aligning to the PCAF standard, we have adopted an attribution factor at a single client- or asset class-level to measure our share of financed emissions. Where necessary, hierarchies of best-available data and approximations have been used to resolve certain data gaps. We have incorporated additional detail and explanation of the variations to our approach within the individual sector sections.

Reporting period

Financed emissions reporting uses latest available emissions factors and can lag behind our financial reporting period end. For example, our 2023 Climate-related disclosures will disclose emissions based on our lending and investments position for the period ended 31 December 2022 using latest available emissions factors. For our commercial and residential real estate (CRRE) sector we will only disclose our 2021 baseline emission intensity due to data availability.

PCAF general data quality score card

We used a range of internal and external data sources to determine the scope 1, scope 2 and scope 3 (where applicable) emissions for each asset class. Where sourcing of emission data by client or by asset type was challenging, adaptations to our approach reflected the hierarchy of options outlined in the PCAF data scoring framework. This is in line with the PCAF approach of using top-down estimates derived from sector averages or using physical output where direct data was not available. We have calculated our average data quality scores across all business lines and sectors, using the classification found in PCAF guidance.

Broadly speaking, the lower the PCAF score, the more robust the data underlying the calculation. Over time we would expect our PCAF data quality score to improve as better data becomes available, for example from organisations improving the quality of their emissions reporting. However, we acknowledge for certain sectors there may be a limit in terms of how far the quality can improve due to factors outside of our control, for example government allowing access to grid consumption and smart meter data to improve our homes and commercial and residential real estate PCAF score.

Evolution of approach

We have continued to mature and refine our measurement of financed emissions across the Group. Progress has been made to extend the scope of our emissions baseline, refine our methodologies, and improve data quality, recognising there is still more to do. This includes working in partnership with government, industry, and policymakers to improve our approach and calculation estimates.

Further, we have continued to enhance our emissions calculation process, governance and controls via a Group-wide financed emissions framework which follows the Group's three lines of defence model.

Known areas for enhancements and developments

Data quality, including precision, coverage, matching and recalculations, is one of the known areas for improvement. Climate data, models and methodologies are evolving and not yet at the same standard as more traditional financial metrics nor subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. Most of our data is collected from external sources and the quality and methodologies relating to the underlying data can be hard to assess. External sources then require mapping to Lloyds' internal data. Whilst we have set a framework that facilitates a robust matching process, it is likely that residual issues will remain, one example being mergers and acquisitions which can blur any recalculation of a starting point.

Bank financed emissions

We follow PCAF methodology as the emerging standard in the banking sector for quantifying financed emissions for our on-balance sheet financed emissions using the value of lending, which includes business loans, trade and receivables finance and project finance. Where relevant, we apply relevant sector-specific PCAF guidance. Where adjustments have been made to account for specific areas of the Group's portfolio, this is outlined within the methodology section of individual sectors.

Our approach to sector targets

In 2022, we prioritised our first round of targets for fossil fuel sectors (oil and gas, thermal coal and power utilities) and other sectors with high emissions and/or material exposure and readily available data. Seven sector targets were published as a result. They are for some of our highest emitting sectors, including UK residential mortgages, Retail motor, automotive original equipment manufacturer (OEM), aviation, thermal coal, oil and gas and power generation. In 2023, we have published additional targets covering three more sectors which are road passenger transport, agriculture and CRRE. We have set intensity reduction targets for our key sectors, except for oil and gas and agriculture which are both absolute reductions in emissions from 2019 and 2021 baselines, respectively, and thermal coal power which we have committed to exit by 2030.

A summary of our targets can be found within our **2023 sustainability report**.

Scope of our lending

We include lending as at the reporting date as in scope, and in line with PCAF methodology we do not consider off-balance sheet contingents, derivatives, and government bonds to be in scope. Where lending provided takes the form of revolving credit facilities which can include undrawn balances, we use the amount drawn at the reporting date for the purposes of our financed emissions reporting (not the maximum amount we are committed to finance under the facility).

Our current scope of lending includes revolving credit facilities and overdrafts but excludes credit card lending. Other activities such as savings and personal accounts are not included in our financed emissions calculations.

We have elected to defer publishing our baseline for facilitated emissions, which form a small proportion of our activities. This will allow us to make an appropriate assessment of the nascent PCAF methodology.

Key steps in target setting

Our approach following NZBA guidance

Sector selection

We have prioritised setting our targets on fossil fuel sectors and other carbon-intensive sectors covering the majority of the bank's portfolio emissions in accordance with the NZBA Guidelines. These targets currently cover ten sectors. In 2023, we have developed targets for agriculture, CRRE and road passenger transport.

Scenario and reference pathways

We have used three climate scenarios and related scenario pathways as a foundation to create reference pathways. The reference pathway is calculated by rescaling the scenario pathway to our banking portfolio for the sector, such that it is equal to our NZBA target baseline emissions in the base year.

1) The International Energy Agency Net Zero Emissions 2050 (IEA NZE 2050) for sectors where our portfolio clients or their main activities have a global or regional focus beyond the UK. IEA NZE 2050 is adjusted using Transition Pathway Initiative methodology for the creation of an OECD scenario for the power generation sector.
2) The UK Climate Change Committee's Balanced Net Zero Pathway (CCC BNZP) from the Sixth Carbon Budget for sectors where clients or customers were solely UK focused.
3) The IEA Energy Technology Perspectives 2020 (IEA ETP 2020) for the aviation transportation subsector.

The IEA NZE 2050 and CCC BNZP scenarios seek to limit global warming to 1.5°C by the end of the century ond encompass little to no overshoot, with low reliance on negative emissions technologies. The IEA ETP 2020 scenario seeks to limit global warming to well below 2°C by the end of the century and is only being used for aviation where the near-term challenges in decarbonising the sector indicate achieving an aviation portfolio 1.5°C target by 2030 is unlikely.

Methodology and data selection

We have continued to apply the emerging industry standard developed by the PCAF for measuring and disclosing financed emissions. We have used the same PCAF approach when developing baseline emissions estimates for our targets and have also used client-related targets and commitments where relevant to inform our target setting activity.

Base year

We select a baseline that is no more than two years from the date the target is set. This can be adjusted, however, if the baseline year represents an abnormal year e.g. the baseline year for the aviation target is 2019 instead of 2020 due to the impact of the Covid-19 pandemic on travel in 2020.

UK residential mortgages

Target and scope

We have developed an intensity-based target for our UK residential mortgage portfolio to reduce our financed emissions intensity (scope 1 and 2) by 41 per cent (from a 2020 baseline), from 46kgCO_2e/m² to 28kgCO_2e/m² by 2030.

The target covers 100 per cent of in-scope UK retail mortgages and relates to the properties we provide residential mortgages for across all Group brands, covering portfolios held in other UK jurisdictions such as the Isle of Man and Channel Islands (December 2022). This includes UK mortgage lending, covering both buy-to-let and owner-occupied mortgages. Mortgage portfolios held as part of our Wealth and European portfolios are outside of the scope of the target as bespoke calculations, transition and strategies are required.

Our emissions from our UK retail mortgages are derived from the estimated energy use by properties (direct and indirect) resulting in the inclusion of both scope 1 and scope 2 emissions. In line with the PCAF standard guidance (Chapter 5.5 Mortgages), adjustments have been made to include unregulated emissions and latest grid decarbonisation figures to reflect real world emissions.

Units

Primary: Physical intensity (kgCO_2e/m²)
Our target is based on physical emissions intensity which is considered best to reflect the expected growth in the UK housing market over future decades. This intensity measure is in line with PCAF, the emerging standard for estimating residential real estate emissions.

Secondary: Absolute financed emissions (MtCO_2e)
We are also committed to track the absolute financed emissions metric to ensure overall emissions reduction.

Calculation methodology basis

Baseline

Base year for our target is 2020 as this reflected the best available data for publication. PCAF formulae for calculating base year emissions has been applied.

Formulae for calculation

UK residential mortgage portfolio financed emissions (MtCO_2e) are calculated using the formula from the PCAF standard (Chapter 5.5 Mortgages).

$$\text{Property financed emissions} = \text{Property attribution factor} \times \text{Property emissions}$$

where the property attribution factor is calculated as:

$$\text{Property attribution factor} = \frac{\text{Outstanding amount}}{\text{Property value at origination}}$$

$$\text{Portfolio financed emissions} = \sum_{P} \text{Property emissions}_{P}$$

(with p = property)

Emission intensity for the portfolio is calculated using the formula:

$$\text{Portfolio emission intensity} = \frac{\text{Portfolio financed emissions } (\text{kg}CO_2\text{e})}{\text{Portfolio floor area } (\text{m}^2)}$$

Key assumptions

- **Attribution:** A property's original valuation or valuation at point of additional lending is used for the valuation at origination. Where neither exists an estimate for valuation at origination is calculated through indexing.
- **Emissions:** The main source of emissions data in the UK is from EPCs available through the England and Wales or Scottish government EPC registers. EPC data from the registers are matched at a property level and used in the calculation of aggregated portfolio emissions.
- **Unknown EPCs:** Unknown EPCs make up c30 per cent of our mortgage portfolio. Where EPCs are unknown, emissions are estimated by applying averages from portfolio known EPCs. For unknown EPCs we use the average floorspace (calculated from known EPCs).
- **Emissions calculation:** Property-level emissions are adjusted to include unregulated emissions (appliances and cooking) and to reflect latest reported decarbonisation of the electricity grid.
  - **Unregulated emissions:** An enhancement to the PCAF methodology to represent electricity use from appliances and cooking is estimated using Standard Assessment Procedure (SAP) methodology.
  - **Grid decarbonisation:** Has been factored in using the latest Treasury Green Book supplementary appraisal guidance forecast or actuals where available.

Scenario and reference pathways

We have used the Sixth Carbon Budget Balanced Net Zero (BNZ) scenario published by the Climate Change Committee to benchmark our UK residential portfolio. This Climate Change Committee is a body independent from the UK Government and sets out a roadmap for decarbonising the UK economy by 2050. This pathway best reflects the LBG portfolio of UK-based property and the dependencies of our individual owner occupied and buy-to-let customers on government policy to decarbonise.

The BNZ pathway is 1.5°C aligned and net zero by 2050, with a forecasted 41 per cent reduction by 2030.

Sources

External sources used in the calculation of emission data are summarised in the table on **page 21**.

In addition the following internal source is used:
- Internal property data from Mortgages Database

Data quality score

As recommended by PCAF, a data quality score is calculated at the property level by attaching score 3 to known EPCs and score 5 to unknown EPCs. A weighted average PCAF score is calculated (weighted by loan amount at reporting date) resulting in an overall 2022 score of 3.4 for the homes portfolio.

Further improvement in the portfolio data quality score will remain limited. Only an increase in the coverage of known EPCs will improve the score each year, until UK household metered data becomes readily available.

Retail motor

Target and scope

We have developed an intensity-based target covering scope 1 and 2 emissions for our Retail motor portfolio (leases from Lex Autolease and financing from Black Horse), to reduce the emissions intensity of our cars and vans by more than 50 per cent by 2030 (from a 2018 baseline), reaching: 75gCO_2e/km or lower (cars) and 99gCO_2e/km or lower (vans).

Of our UK retail motor portfolio, our target covers 91 per cent of motor vehicle loans and operating lease assets (December 2022). This scope is motor vehicles where an annual mileage estimate is available. Where mileage is difficult to estimate, such as forecourt dealership stock, these vehicles are excluded. We provide lending for other vehicle types such as fork-lift vehicles where there is unknown mileage or where there is currently no methodology and these are excluded. We also provide finance for leisure products such as static caravans, touring caravans, and trailer tents; these vehicles are not in scope for the financed emissions calculations. The GHG included in this emission target is CO_2.

Units

Primary: Physical intensity (gCO_2e/km)
The target is based on physical Intensity for cars and vans to facilitate easy comparison between clients.

Secondary: Absolute financed emissions (MtCO_2e)
We are also committed to track the absolute financed emissions metric to ensure overall emissions reduction.

Calculation methodology basis

Baseline

The baseline year adopted for the target is 2018, in line with the overall Group banking emissions ambition. The emission baseline is calculated using PCAF methodology, in line with asset class motor vehicle loan (Chapter 5.6 PCAF standard). We continue to apply the CCC BNZP scenario which is deemed appropriate given our UK-based portfolio.

Motor is reported on a total emissions basis, being the sum of the total annual estimated CO_2 equivalent (CO_2e) across all portfolios.

Formulae for calculation

Formula 1 (motor portfolio total emissions) is based on the sum of formulae 2 and 3 below. Formulae 1 to 3 can be referenced to the PCAF standard (Chapter 5.6 Motor vehicle loans).

Formula 1 – Motor portfolio total emissions:

$$\text{Motor portfolio total emissions } (tCO_2e/yr) = \sum_v \text{Vehicle annual emissions}_v$$

(with v = vehicle)

The following calculations are based on contracted or estimated mileage and the emission intensity per vehicle, with differing formulas applied to electric vehicles (EV) compared with other non-EVs.

Formula 2 – Emission intensity per vehicle (except EVs)

$$\text{Vehicle annual emissions}_v \left(\frac{tCO_2e}{yr}\right) = \text{Distance travelled (mileage)}_v \times \text{Emissions intensity}_v \left(\frac{tCO_2e}{km}\right) \times 1.60934 \text{ (miles to km)}$$

(with v = vehicle)

The emission intensity is the reported, or where not available, the estimated CO_2e/km – based on make and model of the vehicle from CAP data sources.

Formula 3 – Emission intensity per vehicle (EVs)

For EVs that have a model-specific energy intensity (kWh/km) value available, this is used in conjunction with the UK grid emission intensity (CO_2e/kWh) to calculate an emission intensity value.

The formula below is then used to calculate the absolute emissions in tonnes CO_2e:

$$\text{Vehicle annual emissions}_v \left(\frac{tCO_2e}{yr}\right) = \text{Distance travelled (mileage)}_v \times \text{Energy intensity}_v \left(\frac{kWh}{km}\right) \times \text{Emission intensity}_g \left(\frac{tCO_2e}{kWh}\right) \times 1.60934 \text{ (miles to km)}$$

(with v = vehicle, g = UK electricity grid)

Emissions intensity (for each of the cars and vans portfolios) is calculated as an average of the individual vehicle intensity measures.

Key assumptions

We have deviated from PCAF's Chapter 5.6 Motor vehicle loans by applying a 100 per cent attribution factor to individual emissions estimates to calculate the financed emissions associated with the loans. This is due to differences in vehicle ownership and contract structure that would enable LBG to significantly reduce their emissions by simply amending the contract structure in the future and apportion more of the live book to attributed contract types (i.e. operating to regular loans in Lex Autolease or personal contract purchase (PCP) to Hire Purchase (HP) under the Black Horse Retail banner), without actually impacting the underlying contributing emissions of the portfolios.

The Group determined that it would be inappropriate to treat vehicles differently based solely on the contract held with the customer as this would make it possible to influence the emissions reductions based solely on factors that are not linked to emissions reduction. As a result, the Group has adopted a conservative basis and applies a 100 per cent attribution factor to all motor vehicles in the portfolio, acknowledging this could represent an inflated emissions factor.

Scenario and reference pathway

We have used the CCC's Balanced Net Zero Pathway to inform the level of ambition for our Retail motor targets for cars and vans. The emission reductions in our targets are ahead of those based on the CCC's 1.5°C BNZP, when accounting for the required reductions in tail pipe emissions (scope 1) from vehicles with fossil fuel internal combustion engines (using data from the CCC's 2023 Progress Report) and the CCC's 1.5°C aligned BNZP for decarbonisation of emissions from grid electricity (scope 2) to power electric vehicles.

Sources

External sources used in the calculation of emission data are summarised in the table on **page 21**.

Where available, DVLA data is used to source vehicle CO_2 figures. Where a system CO_2 was not available CAP HPI data, Experian data and then industry standards were used where possible. In a limited number of cases there is insufficient data to source CO_2 data from the sources listed above so an average CO_2 for the vehicles in these categories is applied. This only applies to the vehicles in scope.

For EVs and plug-in hybrid vehicles emissions factors are sourced from the Department for Energy Security and Net Zero (DSENZ), which is also used for gaps in relation to grid factors.

For our finance and hire purchase lease portfolio, annual milage data is sourced from contracts. Where annual mileage is not available the Department for Transport, National Travel Survey data is used.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each vehicle loan emission calculation, based on the quality of the source data. A value is assigned for both mileage and CO_2 emissions and the highest value is then taken for that loan.

The PCAF scores assigned for mileage are:

- **PCAF score 2:** Where vehicle make and model are known and distance travelled is estimated based on local statistical data, using our contracted mileage or government statistics for average mileage.
- **PCAF score 4:** Where vehicle type is known (i.e., car, etc.), but make and model is unknown and we use government statistics for average mileage.

The PCAF scores assigned for CO_2 emissions are:

- **PCAF score 2:** Where vehicle make and model are known and:
  - If Battery Electric vehicle and has battery conversion factor
  - If plug-in hybrid vehicle and has a CAP code-related CO_2 emissions value and battery conversion
  - If internal combustion engine (ICE) vehicle and has CAP code-related CO_2 emissions value
- **PCAF score 4:** Where vehicle type is known (i.e., car, etc.), but make and model is unknown and we use government statistics for average CO_2.

To calculate a combined PCAF score for individual portfolios (Lex, Black Horse Retail and Black Horse Fleet) and overall, we calculate a weighted average PCAF score, which is weighted by the reported vehicle loan balance. This results in an overall 2022 score of 2.1 for the motor portfolio.

Commercial Banking (CB) sector targets

Methodology

Financed emissions, for the baseline year and subsequent years, are calculated using PCAF methodology, in line with the approach outlined for three asset classes:

- Business loans (PCAF standard Chapter 5.2)
- Project finance (PCAF standard Chapter 5.3)
- Commercial real estate (PCAF standard Chapter 5.4)

For the majority of the portfolio, we follow the business loan approach for calculating emissions. For power, where the majority of the drawn lending is to finance power generation projects, we have followed the project finance approach for these clients and business loan approach for the corporate clients, i.e. where these are general purpose loans. The commercial real estate approach is only relevant for that sector.

The general approach to calculating financed emissions is set out in Figure 4.2 of the PCAF guidance.

Figure 4-2 The general approach to calculate financed emissions:

$$\text{Financed emissions} = \sum_i \text{Attribution factor}_i \times \text{Emissions}_i \text{ (with i = borrower or investee)}$$

$$\frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i}$$

We calculate attribution factors in line with PCAF guidance as detailed below.

Formulae for business loans attribution factor:

For business loans and equity investments to/in private companies:

$$\text{Attribution factor}_c = \frac{\text{Outstanding amount}_c}{\text{Total equity + debt}_c}$$

For unlisted equity, the outstanding amount is calculated as follows:

$$\frac{\text{\# Shares of financial institute}_c}{\text{\# Total shares}_c} = \text{Total equity}_c$$

For business loans to listed companies:

$$\text{Attribution factor}_c = \frac{\text{Outstanding amount}_c}{\text{Enterprise value including cash (EVIC)}_c}$$

(with c = borrower or investee company)

EVIC is defined as: The sum of the market capitalisation of ordinary shares at fiscal year end, the market capitalisation of preferred shares at fiscal year end, and the books values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.

Formula for project finance attribution factor:

$$\text{Attribution factor}_p = \frac{\text{Outstanding amount}_p}{\text{Total equity + debt}_p}$$

For equity, the outstanding amount is calculated as follows:

$$\frac{\text{\# Shares of financial institute}_p}{\text{\# Total shares}_p} = \text{Total equity}_p$$

(with p = project)

Sources

We use a variety of sources to calculate emissions data. Ideally, we seek to use company-level data where available. If this is not possible as a UK-centric bank where most of our clients are UK-based, we have chosen to use the Office for National Statistics (ONS) data, i.e. the absolute emissions and the net capital stock per Standard Industrial Classification (SIC) code, to calculate the sector-specific scope 1 emissions factors.

For scope 2 emissions factors, where we have not been able to source a scope 2 emissions value we used a scope 1: scope 2 ratio calculated using DESNZ data. This is mapped to the ONS SIC grouping in order to be standardised with the scope 1 emissions factors. Similarly, for oil and gas where scope 3 data is not available, a scope 3: scope 1+2 ratio has been used. This is discussed further in the oil and gas section.

These scope 1 and 2 emissions factors are used for all of the sectors where either client-level emissions or physical activities with company financials are not available. Emission calculation using factors derived in this way have a PCAF score of 5.

The sources used for each sector are described in more detail in the sector sections.

Automotive OEM

Target and scope

We have developed an intensity-based target for our auto OEM sector to reduce the emissions intensity by 47 per cent to 124gCO_2e/vkm by 2030 (from a 2020 baseline).

Emissions are calculated for the Commercial Bank's lending to automotive OEMs and their captive finance arms. Our automotive OEM target covers 98 per cent of our lending to this sector (December 2022). We exclude from our target small and medium-sized clients which we deem immaterial or have limited data available.

Emissions coverage – scope 1 and 2 emissions from client operations (manufacturing) and scope 3 emissions from the use of the sold vehicle by consumers (category 11 from GHG Protocol)

Units

Primary: Physical intensity (gCO_2e/vkm)
We have chosen a physical intensity metric to facilitate easy comparison between clients.

Secondary: Absolute financed emissions (MtCO_2e)
We are also committed to track the absolute financed emissions metric to ensure overall emissions reduction.

Calculation methodology basis

Baseline

We have chosen 2020 as the baseline year for our target, in line with the two year window of the NZBA target setting guidance. Scope 1, 2, and 3 (category 11) emissions have been included in the baseline financed emissions.

Financed emissions calculations

Emissions are calculated in line with the PCAF business loans approach.

The PCAF standard outlines three options for calculating the financed emissions for business loans, depending on the emissions data available. This is outlined in the PCAF standard table 5-7 and the options available are summarised below:

- **Option 1:** Where client emissions and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 1 (verified client emissions) or 2 (unverified client emissions)
- **Option 2:** Where client production data and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 3
- **Option 3a:** Where estimates of client emissions from external providers are available (e.g. S&P), or when EVIC or Total Debt + Total Equity and client turnover are available and sector emissions data can be used, the emission calculation will have a PCAF score of 4.
- **Option 3b or 3c:** Where client emissions and either EVIC or Total Debt + Total Equity are not available, sector data will be used and the emissions calculation will have a PCAF score of 5

In the PCAF business loan approach, applying option 1 above, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions.

The client attribution rate is calculated by dividing the lending amount by their enterprise value including cash (EVIC) or their total capital, i.e. total debt + total equity

$$a_f = \frac{\text{Lending amount}}{\text{EVIC or Total capital}}$$

The financed vehicle mileage of a client, m_f, is given by:

$$m_f = a_f \times m_c$$

where m_c, the total vehicle mileage of a client is given by:

$$m_c = \text{number of vehicles sold} \times \text{vehicle lifetime km}$$

Alternatively, m_c can be approximated by dividing the client's emissions by the sector's forecast emission intensity (from the sector pathway)

The financed emissions intensity of a client, i_f, is given by:

$$i_f = \frac{e_f}{m_f}$$

The overall financed emissions intensity of the portfolio is calculated using the formula below:

$$\text{Portfolio emission intensity} = \frac{\text{Portfolio financed emissions (gCO}_2\text{e)}}{\text{Portfolio vehicle kilometre (vkm)}}$$

The target set is based on the Sectoral Decarbonization Approach (SDA) methodology as referenced by the Science Based Target Initiative (SBTI).

Assumptions

The main assumption used in the baseline emissions calculations for auto OEMs is that the auto OEM portfolio represents the large and global auto industry and therefore the use of their products are global and not UK-specific. Therefore, global emission factors are appropriate. However, as global emission factors are not available, we create global average emission factors per vehicle type based on country- level emission factors and the number of vehicle sales per country.

Scenario and reference pathways

We have chosen the IEA NZE by 2050 scenario for our portfolio benchmark pathway to align to LBG's net zero commitment which provides a global pathway to net zero CO_2e emissions. This is in line with the global nature of our auto OEM portfolio.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each loan emission calculation, based on the quality of the source data. The overall PCAF score for the portfolio is the weighted average of the PCAF scores of the individual loans (weighted by the loan amounts). The overall PCAF scores for the automotive sector are: 2.0 for scope 1 and 2 and 2.0 for scope 3 for 2022.

If current year client emissions data is not available, prior year data is used. The calculation is assigned the same PCAF score as if the data was gathered from the current year.

Sources

The sources used in the calculation of our financed emissions (absolute and intensity) are summarised on **page 21**.

Aviation

Target and scope

We have developed an intensity-based target for our aviation sector to reduce the emissions intensity by 31 per cent to 709gCO_2e/rtk (revenue tonne kilometres) by 2030 (from a 2019 baseline). The aviation target and emissions calculation relate to operating airlines and excludes smaller business clients due to data limitations. Where operating airlines are included in the target, it covers the value chain for the following areas:

- Passenger transport
- Industrial transport

Our aviation target covers 98 per cent of our lending to the sector (December 2022). The scope of the emissions we report on is scope 1, 2, and 3 (fuel upstream emissions).

Our emission target covers all GHG emissions.

Units

Primary: Physical intensity (gCO_2e/rtk)
We have chosen a physical intensity metric to facilitate easy comparison between clients.

Secondary: Absolute financed emissions (MtCO_2e)
We are also committed to track the absolute emissions metric to ensure overall emissions reduction.

Calculation methodology basis

Baseline

2019 was selected as the baseline year for our emissions target, as this reflects actual travel levels before the impact of Covid-19.

Financed emissions calculations

Emissions are calculated in line with the business loan approach.

The PCAF standard outlines 3 options for calculating the financed emissions for business loans, depending on the emissions data available This is outlined in the PCAF standard table 5-7 and the options available are summarised below:

- **Option 1:** Where client emissions and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 1 (verified client emissions) or 2 (unverified client emissions)
- **Option 2:** Where client production data and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 3
- **Option 3a:** Where estimates of client emissions from external providers are available (e.g. S&P), or when EVIC or Total Debt + Total Equity and client turnover are available and sector emissions data can be used, the emission calculation will have a PCAF score of 4.
- **Option 3b or 3c:** Where client emissions and either EVIC or Total Debt + Total Equity are not available, sector data will be used and the emissions calculation will have a PCAF score of 5

In the PCAF business loan approach, applying option 1 above, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions. The attribution rate is calculated by dividing the lending amount by their enterprise value including cash (EVIC) or their total capital, i.e. total debt + total equity

$$a_f = \frac{\text{Lending amount}}{\text{EVIC or Total capital}}$$

The financed mileage (rtk), of a client, m_f, is given by:

$$m_f = a_f \times m_c$$

where m_c is the mileage flown (rtk).

And the financed emissions intensity of a client, i_f, is given by:

$$i_f = \frac{e_f}{m_f}$$

Company-level revenue passenger km (rpk) and cargo tonne km (ctk) are published by the International Air Transport Association (IATA). These can be converted to rtk using the formula:

$$rtk = ctk + 0.1rpk$$

The overall financed emissions of the portfolio are calculated using the formula below:

$$\text{Portfolio emission intensity} = \frac{\text{Portfolio financed emissions } (gCO_2e)}{\text{Portfolio revenue tonne kilometre (rtk)}}$$

At the time of implementation of the target, there was no methodology to estimate the Scope 3 data if it is not available. In this case we cannot calculate the financed emissions for Scope 3 and these emissions will be excluded from reported metrics. If client production data is unavailable we estimate production using sector level data.

Assumptions

- The PCAF business loan approach is appropriate for the aviation portfolio.
- The passenger and industrial transport portfolio represents the large and global aviation industry and the use of their products is global and not UK specific.

Scenario and reference pathways

Given the uncertainty in relation to achieving the target due to external factors such as the rate of sustainable aviation fuel adoption and the development of low-carbon technology, we have aligned our portfolio to a well below 2°C pathway IEA ETP 2020.

Sources

The sources used in the calculation of our financed emissions (absolute and intensity) are summarised on **page 21**.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each loan emission calculation, based on the quality of the source data. The overall PCAF score for the portfolio is the weighted average of the PCAF scores of the individual loans (weighted by the loan amounts). The overall PCAF scores for the aviation sector are: 2.0 for scope 1 and 2 and 2.0 for scope 3 for 2022.

If current year client emissions data is not available, prior year data is used. The calculation is assigned the same PCAF score as if the data was gathered from the current year.

Energy

We have set three targets in relation to the energy sector. They are thermal coal, oil and gas and power generation.

Thermal coal

Target and scope

We achieved our target to fully exit thermal coal power in the UK by 2023. We have set a target to fully exit all entities that operate thermal coal facilities by 2030.

Thermal coal is coal used by power plants and industrial steam boilers to produce steam, electricity, or both. Our approach applies to all customers involved in the following activities: coal mining (including thermal coal exploration, coal mine construction and coal mine operation), energy utilities, coal power generation and provision of services or supply of equipment to coal-fired power stations and/or thermal coal mines.

Methodology

This target is a commitment to exit all entities that operate thermal coal facilities by 2030 and will currently be tracked through lending exposure to the sector as opposed to annual emissions estimates. This target is only applicable to our corporate and institutional clients (clients with a turnover >£100 million) and excludes any clients within our small and medium enterprises (SME) portfolio that would form part of the supply chain to the energy and coal mining entities. The target relating to thermal coal mining excludes commodities trading activities

.

Oil and gas

Target and scope

We have set a target to reduce our oil and gas sector absolute emissions by 50 per cent to 4.4MtCO_2e by 2030 (from a 2019 baseline). The oil and gas target covers 46 per cent of our lending to this sector (December 2022).

We calculate scope 1, 2 and 3 emissions for clients which have been included in the baseline and target setting, as per the NZBA guidelines. Scope 3 emissions form a substantial part of this sector's emissions and are included in the baseline and target in line with NZBA guidelines.

We set our target and calculate our financed emissions based on our lending to clients in extraction, refining and transport via pipeline, including commodities trading arms of supermajor oil and gas clients but not including support services and other commodity traders.

All GHG gases are included within our measure of emissions, MtCO_2e.

Where scope 2 or scope 3 data are not available, a ratio (scope 2: scope 1) or (scope 3: scope 1+2) has been developed (similar to the scope 2: scope 1 ratio of the Transition Pathway Initiative (TPI) methodology).

Units

Absolute financed emissions (MtCO_2e).

Calculation methodology basis

Baseline

2019 has been selected as the baseline year and month, which is the latest year with sector-level data available, and within two years as per the NZBA target setting requirement.

The TPI oil and gas methodology and the SBTI's SDA are used to form our model.

Financed emissions calculations

We calculate emissions for oil and gas in line with the PCAF business loans approach.

The PCAF standard outlines three options for calculating the financed emissions for business loans, depending on the emissions data available. This is outlined in the PCAF standard table 5-7 and the options available are summarised below:

- **Option 1:** Where client emissions and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 1 (verified client emission) or 2 (unverified client emissions)
- **Option 2:** Where client production data and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 3
- **Option 3:** Where client emissions and EVIC or Total Debt + Total Equity are not available, sector data will be used and the emissions calculation will have a PCAF score of 5

In the PCAF business loan approach, applying option 1 above, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions. The attribution rate is calculated by dividing the lending amount by their enterprise value including cash (EVIC) or their total capital, i.e. total debt + total equity

$$a_f = \frac{\text{Lending amount}}{\text{EVIC or Total capital}}$$

Applying option 2, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate as in option 1 and e_c is the client's emissions. The client emissions are calculated by

$$e_c = p_c \times ef_t$$

where ef_t is the emission factor for the product type and p_c is the quantity of the product type e.g. crude oil.

Applying option 3, the absolute financed emissions of a client, e_f, is given by:

$$e_f = \text{Lending amount} \times ef_a$$

where ef_a is the emission asset factor of the sector.

Where our customers report their emissions for scope 1, 2 and 3 these are used to determine the emission figures. If they do not report emissions for one or more scopes, a modelled emission figure is used, considering annual production and emission factors for attribution.

Where modelled emission figures are unavailable, we derive emission estimates from UK sector-level data: financed drawn x emissions asset ratio based on the UK-sector data (i.e. the ONS emission factors).

Assumptions

The UK sector emissions profiles are representative of the emissions profiles within the CB portfolio as a major part of the portfolio are either SME/mid-corporate or unlisted UK corporations.

The PCAF business loan approach is appropriate for the oil and gas portfolio (top-down approach used where client-level data not available).

Scenario and reference pathways

- We have chosen the IEA NZE 2050 for our portfolio reference pathway to align to LBG's net zero commitment, which provides a global pathway to net zero CO_2 emissions.
- This pathway was chosen as it aligns to peers, had data available at a sufficiently granular level, has an annual update frequency, is 1.5°C aligned, relies more on renewable energy and overall lower energy use (therefore less reliance on carbon removal).
- Based on the oil and gas portfolio financed emissions 2019 baseline, we calculate the ratio to the current global emissions. We use this ratio as a constant to calculate the projected emissions to net zero according to the NZE 2050 pathway.

Sources

The sources used in the calculation of our financed emissions are summarised on **page 21**.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each loan emission calculation, based on the quality of the source data. The overall PCAF score for the portfolio is the weighted average of the PCAF scores of the individual loans (weighted by the loan amounts). The overall PCAF scores for the oil and gas sector are: 3.8 for scope 1 and 2 and 4.2 for scope 3 for 2022.

If current year client emissions data is not available, prior year data is used. The calculation is assigned the same PCAF score as if the data was gathered from the current year.

Power generation

Target and scope

We have developed an intensity-based target for our power sector to reduce emissions intensity by 81 per cent to 53gCO_2e/kWh by 2030 (from a 2020 baseline).

We have included project finance and corporate loans within this calculation, with the focus on corporate and institutional customers that have been specifically identified as electricity generating companies. We have opted to exclude small and medium sized client clients which have lower value lending value. We have excluded power distribution and transmission finance. We don't provide any project finance for emissions removals, whether nature or technology based, at this time.

The power target covers 67 per cent of our lending to this sector (December 2022).

All GHGs have been included, with the assumption that these are all reported in disclosures. Scope 1 and 2 emissions are included in the baseline and target setting for corporate clients.

For Project Finance, the information for scope 2 emissions is not available and thus excluded from the baseline and target setting. Where the technology is biomass, we have included the biogenic CO_2 emissions within the scope 1 emissions.

Scope 3 has been excluded from the target setting as data and client target information is limited.

Units

Primary: Physical intensity (gCO_2e/kWh)
We have selected an intensity-based target to facilitate client comparisons.

Secondary: Absolute financed emissions (MtCO_2e)
We are committed to track absolute emissions in line with our Bank overall ambition.

Calculation methodology basis

Baseline

2020 has been selected as the baseline year and month, as the latest year with sector-level data available, and within two years as per the NZBA target setting requirement.

Financed emissions calculations

For corporate loans, we have used the PCAF business loan approach.

The PCAF standard outlines 3 options for calculating the financed emissions for business loans, depending on the emissions data available This is outlined in the PCAF standard table 5-7 and the options available are summarised below:

- **Option 1:** Where client emissions and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 1 (verified client emissions) or 2 (unverified client emissions)
- **Option 2:** Where client production data and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 3
- **Option 3:** Where client emissions and EVIC or Total Debt + Total Equity are not available, sector data will be used and the emissions calculation will have a PCAF score of 5

In the PCAF business loan approach, applying option 1 above, the absolute financed emission of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions. The attribution rate is calculated by dividing the lending amount by their enterprise value including cash (EVIC) or their total capital, i.e. total debt + total equity.

$$a_f = \frac{\text{Lending amount}}{\text{EVIC or Total capital}}$$

The financed power generated (kWh) of a client, p_f, is given by:

$$p_f = a_f \times p_c$$

where p_c is the power generated (kWh).

And the financed emissions intensity of a client, i_f, is given by:

$$i_f = \frac{e_f}{p_f}$$

For project finance, we have used the PCAF project finance approach.

The PCAF standard outlines 3 options for calculating the financed emissions for project finance, depending on the emissions data available This is outlined in Table 5-10 of the PCAF standard. We apply option 2.

- **Option 2:** Where production data and the project value is available (Project Debt + Project Equity), the emissions calculation will have a PCAF score of 3.

In the PCAF project finance approach, applying option 2 above, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions.

The client emissions are calculated by:

$$e_c = p_c \times ef_t$$

where ef_t is the emission factor for the technology type. The attribution rate is calculated by dividing the lending amount by the project value as defined by the project total equity and total debt.

$$a_f = \frac{\text{Lending amount}}{\text{Project value}}$$

The formulae for the financed power generated and financed emissions intensity of a client for project finance are the same as the formulae used in the business loan approach.

The portfolio emissions and power generated are the sum of the client financed emissions and financed power generated.

Emissions intensity for the portfolio is calculated using the formula below:

$$\text{Portfolio emission intensity} = \frac{\text{Portfolio financed emissions } (gCO_2e)}{\text{Portfolio power generated (kWh)}}$$

We have used the SBTI's SDA to form our model and 2030 intensity-based target.

Assumptions

The main assumptions used in the baseline emissions calculations are:

- The UK sector emissions profiles are representative of the emissions profiles within the CB portfolio as the few clients which have no client-level nor production data are unlisted UK corporations.
- The PCAF business loan approach is appropriate for the Power generation corporate portfolio.
- The PCAF project finance approach is appropriate for the CB Power project finance portfolio.

Scenario and reference pathways

The IEA NZE 2050 has been chosen for our reference net zero pathway but adjusted to create an OECD-specific scenario for our portfolio benchmark pathway to align to LBG's net zero commitment. This means that net zero emissions are targeted to be achieved by 2035.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each loan emission calculation, based on the quality of the source data. The overall PCAF score for the portfolio is the weighted average of the PCAF scores of the individual loans (weighted by the loan amounts). The overall PCAF scores for the power sector is 3.0 for scope 1 and 2.

If current year client emissions data is not available, prior year data is used. The calculation is assigned the same PCAF score as if the data was gathered from the current year.

Sources

The sources used in the calculation of our financed emissions (absolute and intensity) are summarised on **page 21**.

For project finance, internal project finance models are used to obtain generation data and total debt and total equity of the projects.

Road passenger transport

Target and scope

We have developed an intensity-based target for our road passenger transport sector to reduce the emissions intensity by 49 per cent to 85gCO_2e/pkm by 2030 (from a 2019 baseline).

We categorise our lending to the road sector into passenger and freight transport:

- Passenger transport:
  - Other land
  - Automotive rentals
- Freight transport:
  - Road
  - Postal and courier activities

Freight transport is currently excluded from the road passenger transport sector target. Freight was excluded due to the lack of available data for the small and mid corporate (SMC) clients and the immateriality of the lending to larger corporate clients.

The road passenger transport target covers 71 per cent of our lending to this sector (December 2022).

Units

Primary: Physical intensity (gCO_2e/pkm) I.e. gCO_2e/passenger km for road passenger transport
We have selected an intensity-based target to facilitate client comparisons.

Secondary: Absolute financed emissions (MtCO_2e)
We are committed to track absolute emissions in line with our Bank overall ambition.

All GHG types have been included as CO_2e.

Scope 1, 2, and 3 emissions have been included in the baseline and target setting, as per the NZBA guidelines.

For road passenger transport, the main scope 3 category is category 3 (fuel and energy-related activities), but due to differences in business models and counterparty reporting, all scope 3 categories will be included unless otherwise stated.

Calculation methodology basis

Baseline

2019 has been selected as the baseline year, as it is the latest year with sector-level data available that did not suffer a significant impact from Covid-19.

This represents an exception to the NZBA target setting requirement of baseline year selection within two years. Due to the heavy impact of Covid-19 on 2020 and 2021, they were not selected, and sector-level data is not yet available for 2022.

Financed emissions calculations

As these are corporate loans, we apply the PCAF business loan approach.

The PCAF standard outlines 3 options for calculating the financed emissions for business loans, depending on the emissions data available This is outlined in the PCAF standard table 5-7 and the options available are summarised below:

- **Option 1:** Where client emissions and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 1 (verified client emissions) or 2 (unverified client emissions)
- **Option 2:** Where client production data and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 3
- **Option 3a:** Where estimates of client emissions from external providers are available (e.g. S&P), or when EVIC or Total Debt + Total Equity and client turnover are available and sector emissions data can be used, the emission calculation will have a PCAF score of 4.
- **Option 3b or 3c:** Where client emissions and either EVIC or Total Debt + Total Equity are not available, sector data will be used and the emissions calculation will have a PCAF score of 5

In the PCAF business loan approach, applying option 1 above, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions. The attribution rate is calculated by dividing the lending amount by their enterprise value including cash (EVIC) or their total capital, i.e. total debt + total equity.

$$a_f = \frac{\text{Lending amount}}{\text{EVIC or Total capital}}$$

Applying option 2, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate as in option 1 and e_c is the client's emissions. The client emissions are calculated by:

$$e_c = p_c \times ef_t$$

where ef_t is the emission factor for the product type. Applying option 3, the absolute financed emissions of a client, e_f, is given by:

$$e_f = \text{Lending amount} \times ef_a$$

where ef_a is the emission asset factor of the sector.

The financed passenger mileage of a client, m_f, is given by:

$$m_f = a_f \times m_c$$

where m_c can either be reported by client or:

$$m_c = \frac{\text{Scope 1 + Scope 3}}{\text{(Tank to wheel + well to tank) emission factors}} \quad \text{or}$$

$$m_c = \frac{\text{Scope 1}}{\text{Tank to wheel emission factors}}$$

The financed emissions intensity of a client, i_f, is given by:

$$i_f = \frac{e_f}{m_f}$$

The overall financed emissions intensity of the portfolio is calculated using the formula below:

$$\text{Portfolio emission intensity} = \frac{\text{Portfolio financed emissions (g}CO_2\text{e)}}{\text{Portfolio passenger kilometre (pkm)}}$$

The SBTI's SDA is used to form our target model.

Assumptions

The main assumptions used in the baseline emissions calculations for road passenger transport clients are:

- The PCAF business loan approach is appropriate for the road passenger transport portfolio.
- While the leasing vehicles portfolio represents the large and global road industry, the use of our lending is UK specific. Therefore, the UK DESNZ emission factors are appropriate.
- The reported scope 1 emissions of the clients are actually the tailpipe emissions while their scope 3 emissions are mainly the upstream well-to-tank emissions. This assumption may not be correct for clients with mixed transport portfolios. However, where data is not available split by transport, the approach offers a consistent view of portfolio emissions.

Scenario and reference pathways

CCC 6th Carbon Budget Balanced Net Zero pathway has been chosen as the reference scenario based on the following factors:

- UK specific and takes the carbon budget into account
- 1.5°C aligned

Sources

The sources used in the calculation of our financed emissions (absolute and intensity) are summarised on **page 21**.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each loan emission calculation, based on the quality of the source data. The overall PCAF score for the portfolio is the weighted average of the PCAF scores of the individual loans (weighted by the loan amounts).
The overall PCAF scores for the road passenger transport sector are: 2.2 for scope 1 and 2 and 3.2 for scope 3 for 2022.

If current year client emissions data is not available, prior year data is used. The calculation is assigned the same PCAF score as if the data was gathered from the current year.

Agriculture

Target and scope

We have set a target to reduce our agriculture sector absolute emissions by 25 per cent to 4.7 $MtCO_2e$ by 2030 (from a 2021 baseline)

Based on the GHG Protocol Agricultural Guidance, the NZBA target should cover emissions up to the farm gate, i.e. scope 1, 2, and 3 upstream. Due to data constraints, only scope 1 and 2 are covered in the target.

The agriculture target covers 92 per cent of our lending to this sector (December 2022).

We considered biogenic carbon, i.e. carbon stocks from land use management and carbon sequestration, but other than the few clients that are covered by the Soil Association Exchange (SAX) programme, there is no available data for baselining. Therefore, we have excluded the biogenic carbon reporting and target excluded from this round of NZBA targets.

The scope of the target covers agricultural loans across CB. In developing these targets, we also included data from Scottish Widows. Agriculture loans (a securitised book of agricultural mortgages). Scottish Widows has its own, separate net zero targets.

We excluded forestry and fishing loans, landed estate and non-agricultural related activities such as government bounce back loans and Coronovirus Business Interruption Loan Scheme. The reasons are as follow:

- Immaterial portfolio for aquaculture and forestry
- Difficulty in separating the agricultural and non-agricultural-related activities in landed estates
- Government loan schemes were to support clients during the coronovirus pandemic and not related to the investment into the business per se. The expectations are that these loans will be paid back before 2030.

Units

Absolute financed emissions ($MtCO_2e$) (with an ambition towards revenue intensity)

Calculation methodology basis

Baseline

2021 has been selected as the baseline year. This is in line with NZBA guidance, that the baseline is set no more than two years prior to announcement.

Financed emissions calculations

Emissions are calculated in line with the PCAF business loan approach.

The PCAF standard outlines three options for calculating the financed emissions for business loans, depending on the emissions data available. This is outlined in the PCAF standard table 5-7 and the options available are summarised below:

- **Option 1:** Where client emissions and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 1 (verified client emissions) or 2 (unverified client emissions)
- **Option 3a:** Where client revenue data and EVIC or Total Debt + Total Equity are available, the emissions calculation will have a PCAF score of 3
- **Option 3c:** Where client emissions and EVIC or Total Debt + Total Equity are not available, sector data will be used and the emissions calculation will have a PCAF score of 5

In the PCAF business loan approach, applying option 1 above, the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions. The attribution rate is calculated by dividing the lending amount by their enterprise value including cash (EVIC) or their total capital, i.e. total debt + total equity. In cases where we are using prior year financial data, it is possible that the attribution factor may exceed 1. No cap is imposed on the attribution factor.

$$a_f = \frac{\text{Lending amount}}{\text{EVIC or Total capital}}$$

Applying option 3a above, the client emissions, e_c, is approximated by:

$$e_c = r_c \times ef_s$$

where r_c is the client revenue and the ef_s is the emission revenue factor of the sector. The remainder of the calculation is the same as in option 1. In this option, the attribution rate is capped at 1.

Applying option 3c, the absolute financed emissions of a client, e_f, is given by:

$$e_f = \text{Lending amount} \times ef_a$$

where ef_a is the emission asset factor of the sector.

For the baseline year of 2021, a minority of the portfolio drawn balance is covered by the client level emissions (only SMC clients) as obtained from the SAX data and client financials. The SAX data is only available for single point (2022/2023). We have applied this data retrospectively to 2021.

For the baseline year, only SMC clients have revenue data, covering a minority of the drawn portfolio. The client revenue-based calculation uses the PCAF revenue emission factors and the client financials.

Emissions for the rest of the portfolio are calculated using ONS emission factors.

Assumptions

- The sector-based calculation excludes land value attribution as the underlying data for the ONS emission factors do not include land value; inclusion of land value could result in a significant reduction in the baseline on an absolute emissions basis.
- The 2021 baseline adopts 2020 emissions factors (latest available ONS data).

Scenario and reference pathways

CCC 6th Carbon Budget Balanced Net Zero pathway (agriculture only) as the reference scenario based on the following factors:

- UK specific and takes the carbon budget into account
- 1.5°C aligned
- The Agriculture only pathway doesn't include the impact of sequestration as we are currently unable to quantify the portfolio sequestration.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each loan emission calculation, based on the quality of the source data. The overall PCAF score for the portfolio is the weighted average of the PCAF scores of the individual loans (weighted by the loan amounts). The overall PCAF score for the agriculture sector is 4.9 for 2022.

If current year client emissions data is not available, prior year data is used. The calculation is assigned the same PCAF score as if the data was gathered from the current year.

Sources

The sources used in the calculation of our financed emissions are summarised on **page 21**.

Commercial and Residential Real Estate (CRRE)

Target and scope

We have developed an intensity-based target for our CRRE sector to reduce the emissions intensity by 48 per cent to 24kgCO_2e/m^2 by 2030 (from a 2021 baseline).

Based on the GHG Protocol commercial and residential real estate guidance, the NZBA target should cover operational emissions from the use of buildings, including emissions from tenant use. These correspond to scope 1, 2 and 3 (category 13, use of leased assets). In alignment with the whole buildings approach to emissions reporting set out by PCAF, these are subsequently reported by the Group as scope 1 and 2, however scope 3 category 13 numbers are included in the calculation process.

The CRRE target covers 86 per cent of our lending to this sector (December 2022).

Fugitive emissions are excluded due to the absence of data or an agreed methodology by which to account for them. Unregulated emissions are included.

CB assets in real estate investment are included, selected by filtering by SIC code for 68200, 68202, 68209, 68305, or 68306. Additionally, Housing Associations are included using SIC code 68201. Construction, Housebuilders, and Real Estate Development are excluded due to having a different emissions profile and different data requirements.

Units

Primary: Physical intensity (kgCO_2e/m^2).

Secondary: Absolute financed emissions (MtCO_2e). We are committed to track absolute emissions in line with our Bank overall ambition.

Calculation methodology basis

Baseline

2021 has been selected as the baseline year. This is in line with NZBA guidance, that the baseline is set no more than two years prior to announcement.

Financed emissions calculations

The financed emissions calculation is split into three sections:

- Unsecured lending (business loans PCAF asset class)
- Secured lending matched to buildings (commercial real estate asset class)
- Secured lending not matched to buildings (commercial real estate asset class)

For unsecured lending, the traditional PCAF business loans asset class methodology is used. Reported emissions data is used wherever it is available and multiplied by an attribution factor to obtain financed emissions. Where this data is not available, the outstanding balance is multiplied directly by the ONS-based emissions factor for the specific SIC code to estimate financed emissions.

Applying option 1 from the PCAF standard (Chapter 5.1), the absolute financed emissions of a client, e_f, is given by:

$$e_f = a_f \times e_c$$

where a_f is the attribution rate and e_c is the client's emissions. The attribution rate is calculated by dividing the lending amount by their enterprise value including cash (EVIC) or their total capital, i.e. total debt + total equity

$$a_f = \frac{\text{Lending amount}}{\text{EVIC or Total capital}}$$

Where this data is not available, the outstanding balance is multiplied directly by the ONS-based emissions factor for the specific SIC code to estimate financed emissions.

For secured lending matched to buildings, we use the emissions estimation methodology developed and carried out by CFP. This multiplies the floor area of the building by an emissions factor which depends on the building's EPC and property type. This is then multiplied by an attribution factor where the denominator is the building's valuation to produce financed emissions. Valuations are taken from the Real Estate Database and the Social Housing Database, both internal to LBG. These represent the latest documented valuations for the buildings, hence some of these will be loan valuation at origination and some will be latest valuation. In accordance with PCAF, where we are using the latest valuation we will then use the same value for future reporting, establishing constant denominators to the attribution factors.

Secured lending financed emissions are calculated using the formula below from the PCAF standard (Chapter 5.5 Mortgages):

$$\text{Property financed emissions} = \text{Property attribution factor} \times \text{Property emissions}$$

where the property attribution factor is calculated as:

$$\text{Property attribution factor} = \frac{\text{Outstanding amount}}{\text{Property value at origination}}$$

For secured lending which could not be matched to specific buildings, financed emissions are extrapolated based on the secured financed emissions identified for each client. If a client has secured lending which can not be matched to specific buildings and has no secured lending matched to buildings, the portfolio average of financed emissions per £ of secured lending is used. This is a methodology developed internally due to unique data challenges not addressed by PCAF.

Emissions intensity for the portfolio is calculated using the formula below:

$$\text{Portfolio emission intensity (kg}CO_2\text{e/m}^2\text{)} = \frac{\text{Portfolio financed emissions (kg}CO_2\text{e)}}{\text{Portfolio floor area (m}^2\text{)}}$$

Floor area is obtained, at a building level, from CFP data and aggregated. Where lending can't be matched to specific buildings, we assume it is unsecured and extrapolate the floor area from the data for other buildings in the portfolio.

Portfolio financed emissions is the total of unsecured lending financed emissions and secured lending financed emissions.

Assumptions

We have assumed that exposures which cannot be linked to specific unsecured or secured lending are secured lending. Where this exposure is associated with a client with other secured lending, the emissions intensity is assumed to be the same as the rest of the client's secured lending. The emissions intensity of the remaining secured lending is assumed to be the average of emissions intensity across the secured lending portfolio.

Scenario and reference pathways

The reference scenario is the 6th Carbon Budget's balanced Net Zero pathway for non-residential and residential buildings blended to match the mix of building types in the portfolio. Additionally, the pathway is reweighted based on the tenure-level pathways to reflect the mix of private rental and social housing in the portfolio.

Data quality score

As recommended by PCAF, a data quality score has been assigned to each loan emission calculation, based on the quality of the source data. The overall PCAF score for the portfolio is the weighted average of the PCAF scores of the individual loans (weighted by the loan amounts) and it is 4.5 for the baseline year of 2021.

If current year client emissions data is not available, prior year data is used. The calculation is assigned the same PCAF score as if the data was gathered from the current year.

Sources

The sources used in the calculation of our financed emissions (absolute and intensity) are summarised on **page 21**.

In addition, the following internal sources are used:

- Internal buildings data from Real Estate Database and Social Housing Database.
- Internal data on sustainability linked loans.

External data sources for financed emissions

Key:
● Data source used

Data source	Homes	Motor	Auto OEM	Aviation	O&G	Power	Road passenger transport	Agriculture	CRRE	Source contents
Carbon Disclosure Project (CDP)			●	●	●	●	●		●	Data set collating validated and unvalidated reported emissions data (including target data)
Standard & Poor's (S&P) Trucost Emissions			●	●	●	●	●		●	Data set collating reported and estimated emissions data, emissions reduction targets
Standard & Poor's (S&P) Capital IQ Financials			●	●	●	●	●		●	Data set collating client-level financial data including EVIC, asset and turnover
Company public disclosures			●	●	●	●	●	●	●	Public client disclosures including annual report and accounts (ARA for debt and equity data), sustainability reports (published emissions and targets) and data books associated with said reports
Office for National Statistics										
Emissions (at SIC code level)			●	●	●		●	●	●	Scope 1 emissions at SIC group level used to derive scope 1 emissions per £ of assets
Net capital stock (at SIC code level)			●	●	●		●	●	●	Net capital stock at SIC group/industry-level used to derive emissions per £ of assets
Supply and use tables/UK national accounts							●			Turnover at SIC group-level used to derive emissions per £ of turnover
Inflation and price indices								●		For updating the PCAF emission factors from 2019 to the latest year
Department for Energy Security and Net Zero, previously Department for Business, Energy & Industrial Strategy										
Digest of UK Energy Statistics (DUKES)						●				Used to derive Power emissions factors
Fuel mix disclosure data						●				Used to derive Power emissions factors
Final UK GHG emissions			●	●	●	●	●	●	●	Used to derive the Scope 2 emission per £ of assets
Treasury Green Book supplementary appraisal guidance	●									Source of generation based emission factors measuring GHG emissions per unit of electricity generated. Used to update EPC carbon emissions factors with published actual data (for decarbonised emissions)
UK Government GHG conversion factors for company reporting		●	●			●	●			Factors used to convert emissions from different GHGs to CO_2e
Transition Pathways Initiative			●	●						Data set containing predicted pathways for company-level emissions reduction
6th Carbon Budget Dataset by Climate Change Committee	●	●					●	●	●	UK Government data on national aggregated emissions, emissions reduction pathways, and emissions abatement measures
Climate Change Committee progress update	●			●	●	●	●	●	●	CCC annual disclosure reporting on progress against UK national emissions reduction pathways
International Energy Association			●	●	●	●				International organisation producing scenario pathways including IEA Stated Policies Scenario (STEPS), NZE 2050 and IEA Energy Technology Perspectives (ETP) pathways.

Our environmental metrics continued

External data sources for financed emissions continued

Key:

● Data source used

Data source	**Homes**	**Motor**	**Auto OEM**	**Aviation**	**O&G**	**Power**	**Road passenger transport**	**Agriculture**	**CRRE**	**Source contents**
Marklines			●							Data set includes global vehicle sales (for calculation of vkm, scope 3 category 11 emissions, and emissions intensity)
International Air Transport Association				●						Data includes revenue passenger kilometres and cargo tonne kilometres.
Department for Transport		●								The Department for Transport National Travel Survey is used for mileage averages where we don't have contracted mileage for the vehicle
Experian		●					●	●		For motor: to obtain CAP code and emissions data where no CAP code is held on the system but a vehicle registration is present. For agriculture: client revenue data. For road: asset/turnover ratios to estimate emissions.
CAP HPI		●								CO_2 emission data where we do not capture this on source system
Energy Performance Certificate	●									EPC certificates are sourced from Department for Levelling up Housing and Communities for properties based in England and Wales and Scottish Government for properties based in Scotland
Building Regulations England	●									SAP methodology underpinning EPC calculations sourced from Building Research Establishment
BOLT								●		Client financial data including revenue and assets.
Soil Association Exchange								●		Client data including emissions
Partnership for Carbon Accounting Financials	●							●		Emissions factors estimating emissions per £ of assets or revenue
Green Buildings Tool									●	Building-level data provided by CFP, including data from the EPC Register mapped to LBG assets
Rightmove	●									Property archetypes data
Twinn (by Royal Haskoning DHV)	●									Ambiental peril risks data
Transport Science-Based Target Setting Guidance (developed for Science Based Target Initiative)			●				●			Mobility Model (MoMo) used for vehicle occupancy rate/load factor

Scottish Widows

Our investments' carbon footprint is the principal metric for measuring our investment portfolio's financed emissions and monitoring progress towards our 2030 and 2050 targets. The footprint is the tonnes of GHG emissions 'owned' by the portfolio. This is measured as carbon dioxide equivalents (CO_2e) 'owned' per £1 million invested.

Some of the limitations of carbon footprint as an indicator of environmental sustainability are:

- It does not capture other environmental impacts, such as chemical pollution, resource depletion, biodiversity loss, or water use
- It will not reflect future emission reduction plans or potential low-carbon innovations by companies
- It does not yet fully account for indirect emissions from upstream and downstream activities (scope 3 emissions), which can be significant for certain sectors
- Comparability across different firms' disclosures may be difficult due to differences in data sources, methods, standards and assumptions used to calculate it
- Due to the nature of the calculations, we would expect short-term variation of the carbon footprint number generated by the PCAF standard. In any given year the metric is impacted by: a) changes in reported emissions; b) changes in enterprise value; and c) our own investment activity.

Scottish Widows activities include insurance, asset ownership and asset management. This section details our methodology for the financed emissions arising from our investment portfolio.

Scope of assets

Scottish Widows Assets Under Management (AUM) in scope of our headline net zero target includes:

Shareholder funds: assets held by Scottish Widows Limited and Scottish Widows Europe backing annuities and non-unitised liabilities. Investment balances in other Scottish Widows Group companies including the General insurance business.
Policyholder funds: unitised and with-profit fund assets held in life and pension funds of Scottish Widows Limited and Scottish Widows Europe; mutual funds managed by Scottish Widows Unit Trust Managers Limited and HBOS Investment Fund Managers Limited; and the workplace savings business of Scottish Widows Administration Services Limited. In scope assets include investment funds structured as insurance contracts. Assets under administration for customers of Schroders Personal Wealth and Halifax Share Dealing Limited are not included. Assets held under the Embark Group are currently excluded from these calculations.

Scope

Financed emissions of a company are calculated from the scope 1 and 2 emissions of the investee company.

Although we disclose some scope 3 emissions of the companies we invest in, for specific sectors, at this time we do not feel the data is robust enough or has wide enough coverage for us to be able to set targets using it. We will continue to watch the developments in data quality and will consider extending our portfolio targets to cover Scope 3 of our underlying holdings when there is market consensus on the appropriateness of available data.

Units

The carbon footprint is the tonnes of GHG emissions 'owned' by the portfolio. This is measured as carbon dioxide equivalents (CO_2e) 'owned' per £1 million invested, the unit used is 'tCO_2 /£m invested'. Carbon footprint is a measure of carbon intensity and is calculated as the absolute value of emissions applicable to an investment, divided by the value of investment.

Calculation methodology basis

To calculate carbon footprint, we have adopted, where possible, the guidance issued by PCAF across all material asset classes, where published methodologies have been made available. Only asset types where a PCAF-aligned methodology exists, and for which we have access to the data required to meet the PCAF standard, have been included within our financed emissions calculations:

- For listed equities and corporate bonds, we have followed PCAF methodology 5.1 (Listed equity and corporate bonds) to calculate emissions
- For emissions data associated with loan investments, we have followed PCAF methodology 5.2 (Business loans and unlisted equity)
- The exception to this is our infrastructure loans where PCAF methodology 5.3 (Project finance) has been followed
- There are some assets where, despite a PCAF methodology being available, we do not currently have access to the data to meet the PCAF standard. We have excluded our commercial and residential real estate (CRRE) and Equity Release Mortgage loan investments from the calculations until we have sourced the asset-specific emissions data required to meet the current PCAF-aligned methodology

Those asset types where there is no current PCAF method for calculating emissions, or where the methodology has recently been issued and is being assessed, have been excluded from the scope of the calculations at this time. We will continue to develop our approach and follow industry best practice to include these in future reporting. Asset types excluded on this basis are government bonds, derivatives and cash. Collateralised securities (securitised loans) are also excluded on this basis unless data on the underlying loan portfolio is available enabling an alternative PCAF methodology to be followed.

The following assets have a PCAF methodology, but are excluded from calculations as there is not sufficient data to calculate financed emissions:

- Investments in collective investment schemes where the look through is not currently available. For the final disclosure, an assumption will be made that the underlying assets would be in scope of listed equity and bonds, therefore reducing the percentage coverage of assets in scope of PCAF.
- "Look through" underlying asset data received from third party managers without sufficient identifiers to match to Standard and Poor (S&P) Trucost.
- Investment property held in the Scottish Widows policyholder book could follow the commercial real estate methodology, but we currently do not have enough data on the underlying properties for inclusion.
- Listed equity and bonds that do not have recorded emissions and/or company value data in S&P Trucost.
- Investments in private equity and debt where look through data to the underlying exposure is not yet available.

PCAF listed equity and bonds

The methodology for calculating financed emissions is based on the PCAF standard (Chapter 5.1 Listed equity and corporate bonds).

'This asset class includes all listed corporate bonds and all listed equity for general corporate purposes (i.e. unknown use of proceeds as defined by the GHG Protocol) that are traded on a market and are on the balance sheet of the financial institution'.

For Scottish Widows, certain assets under administration in mutual funds are off-balance sheet but are included within the scope of Scottish Widows financed emissions net zero targets. It was felt important to include such assets in our targets as they are subject to the same types of transition and physical risks, and we have the same type of influence over these assets, as our on-balance sheet funds.

We determine an attribution factor for the financed emissions by dividing the Scottish Widows investment by the value of the company invested in.

Outstanding amount (numerator): *'This is the actual outstanding amount at the financial year end in listed equity or corporate bonds. It should be defined in line with the denominator. Therefore, the value of outstanding listed equity is defined based on its market value (i.e., market price times number of shares), and the value of outstanding corporate bonds is defined based on the book value of the debt that the borrower owes to the lender'.*

Scottish Widows are using the market value of equity and the par or nominal of the corporate bond as the outstanding amount, based on the financial year end.

Our environmental metrics continued

Company value (denominator): *For all listed companies, this is the enterprise value including cash (EVIC) of the respective company. Only for traded bonds to private companies, this is the sum of total company equity and debt, which can be found on the client's balance sheet, as no market value for equity is available.*

EVIC is defined as: *The sum of the market capitalisation of ordinary shares at fiscal year-end, the market capitalisation of preferred shares at fiscal year-end, and the book values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.*

Once the attribution factor is calculated it is multiplied by the company's total scope 1 and scope 2 emissions (together, these scope 1 and scope 2 emissions are how we have defined the company's total emissions, and therefore currently excludes the company's upstream and downstream Scope 3 emissions).

Illustrative example of an equity financed emissions calculation:

$$\text{Financed emissions} = \frac{\text{Investment}}{\text{Total enterprise value}} \times \text{Property emissions}$$

The carbon footprint or emissions per £ invested are the absolute estimated financed emissions calculated above, divided by the portfolio value.

PCAF business loans and unlisted equity

Within the shareholder business in Scottish Widows Limited, there are a number of loans (known as illiquid loans within the business) to various sectors: education, social housing, commercial real estate, infrastructure/project finance, agricultural loans (via a securitisation), and equity release mortgages (via a securitisation).

PCAF has a number of methodologies available for loans with a key decision point being whether the use of proceeds is known. If the use of proceeds is unknown, then the loan is assumed for general corporate purposes and the business loans and unlisted equity methodology can be applied. In terms of sectors noted above, the following are where the use of proceeds is unknown/for general corporate purposes and therefore can follow the business loans PCAF method:

- Education
- Social Housing
- Agricultural loans (via a securitisation – we have opted to look through the securitisation to the underlying loan exposure). Note, whilst included in the calculation of the NZBA targets, Scottish Widows has its own separate net zero target.

Like the listed equity and bonds method, if company-level emissions are available then an attribution factor could be calculated, and a share of those company emissions can be estimated.

Outstanding amount (numerator): *This is the actual outstanding loan amount. For business loans, this is defined as the value of the debt that the borrower owes to the lender (i.e., disbursed debt minus any repayments). It will be adjusted annually to reflect the correct exposure, resulting in the attribution to decline to zero at the end of the lifetime of the loan (i.e., when it is fully repaid).*

Company value (denominator):
a. For business loans and equity investments to/in private companies, this is the sum of total company equity and debt, which can be found on the client's balance sheet.
b. For business loans to listed companies, this is the company enterprise value including cash (EVIC) of the respective client.

Many of the companies to which a loan is made, are not listed on a stock exchange and do not publish emissions, so an alternative method is necessary. Where company-level emissions are not available, Scottish Widows emission factors for the sector per unit of asset (e.g. tCO_2e per euro of asset in a sector) are known. Data quality score in this instance will be 5. The source of the sector-based emissions is the ONS and the DESNZ. Data is mapped to industrial classification of economic activities (SIC) code sectors.

The emissions data can then be paired with the Scottish Widows illiquid loans which are also assigned to SIC codes.

The emissions data is converted into an emissions factor which is multiplied by the loan outstanding amount.

$$\text{Financed emissions} = \text{Lending by SIC code} \times \text{Emissions factor}$$

A key limitation of the SIC code method is that emissions at a company-level could be over or understated if that company's emissions are not close to the sector average.

PCAF project finance

Project loans relate to shareholder loans where the proceeds of the loan are known. This methodology is used for our infrastructure/project finance loan book, since the use of proceeds are known in this instance. The PCAF methodology for Project Finance allows for a sector-based approach to be applied. Scottish Widows have elected to use ONS/DESNZ data for Project Finance loans in line with PCAF option 3c (Outstanding amount in the project is known. Emission factors for the sector per unit of revenue and asset turnover ratios for the sector or from similar projects are known). Data quality score in this instance will be 5. A key limitation of the SIC code method is that emissions at a company-level could be over or understated if that company's emissions are not close to the sector average.

Baseline

We've selected 2019 to be the baseline year in line with the science-based recommendations of the Intergovernmental Panel on Climate Change (IPCC) and guidance from the Institutional Investors Group on Climate Change (IIGCC).

Limitations of the PCAF methodology

Due to the nature of the calculations, we would expect short-term variation of the carbon footprint number generated by the PCAF standard. In any given year the metric is impacted by: a) changes in reported emissions; b) changes in enterprise value; and c) our own investment activity.

In the example where equity markets are strong and the value of our investment increases in line with the enterprise value, this would drive a material reduction in carbon footprint even in the absence of any underlying change in the reported emissions of the company in which we are invested. Therefore, acknowledging this is a long-term target, it is important to study the medium-term trend from future reporting.

Sources

To establish emissions data for corporate bonds and equities, we matched our investments against the published emissions data available on those companies from S&P Global Trucost's data and analytics tool. Trucost provides carbon and environmental data and risk analysis for more than 15,000 companies. Underlying GHG emissions reported by organisations will take time to be reported to our data supplier following publication – typically 12–18 months.

There is a lack of published emissions data on loan investments. Therefore, we adopted an alternative PCAF-aligned approach to calculate emissions using estimates from the ONS and DESNZ for sector averages. Where applicable this follows the approach taken in CB.

The comparability, coverage, transparency and reliability of scope 3 data still varies greatly per sector and data source. We have used the S&P Global Trucost database as the source of scope 3 emissions in line with scope 1 and 2. Scope 3 emissions for upstream and downstream are reported separately in Trucost, but then added together to create a combined scope 3 emissions disclosure.

Own operations methodology

Reporting period
Our environmental indicators are reported annually (covering the period from 1 October of the preceding year to 30 September of the reporting year). This reporting period is used to allow more accurate information to be received from our utility and business travel suppliers ahead of our external reporting.

Scope
We report scope 1 and scope 2 emissions arising from activities for which we are responsible. Our reporting scope is against an operational boundary. The data is for UK and International properties and UK fleet business travel only. The Group currently has no international fleet business emissions. Figures disclosed represent combined totals of Kyoto protocol gases expressed in terms of total CO_2 equivalent (CO_2e), noting the 100 year global warming potential (GWP) of all gases as per the latest available IPCC assessment report at time of disclosure (presently their fifth for 2022/23).

The Group acquired vehicle management and leasing company Tusker in 2023. Scope 1, 2 and 3 emissions limited to business travel, commuting, homeworking, waste, electricity transmission and distribution emissions for Tusker are now embedded into Lloyds' disclosure retrospectively since 2018/19.

Scope 1 definition
Scope 1 covers: emissions generated from the gas and liquid fossil fuels (oils) used in all the buildings the Group operates from (UK and International); emissions generated from UK company owned vehicles used for business; and fugitive emissions arising from the use of air conditioning and chiller/refrigerant plant to service the Group's UK facilities when associated assets are under operational control. The Group does not currently have operational control over any of these assets outside of the UK, and they are therefore currently excluded from this figure.

Units
tCO_2e

Method for scope 1 reporting
Energy data (gas and liquid fossil fuels (oils)) – Core UK sites where the Group holds the energy supply contract directly with the supplier. Energy data for Core UK sites is managed by our Facilities Management (FM) partner who uploads the information to the Group's central environmental system supplied by Credit 360, which then calculates the CO_2e generated using the DESNZ 2022 emission factors.

The amounts of gas (in kWh) and oils (in litres) are received directly from suppliers' invoices.

We use a combination of historical consumption trends, forward projected patterns of usage and budget forecasts to report on accruals to fit in with unbilled periods by the gas suppliers.

No estimated/accrual data is applied to oils, as all oils figures are reported according to the month in which they were delivered to site.

If no data is available for a core site in a given period, yet the site is known to still be active within our portfolio according to our internal property database, we will use the consumption data reported in the equivalent period in the previous year as an approximate.

Shadow/landlord sites, including non-UK sites – this is the term we use for sites where the Group does not hold the energy supply contract directly with the supplier.

As the Group is not billed directly for energy consumed in these sites, we do not have full visibility of consumption data. To allow emissions relating to these sites to be included within our emissions reporting for 2023, an estimation using an average gas consumption level per occupied square metre (obtained from sites where the Group holds the energy supply contract direct with the supplier) has been calculated and applied based on each site's location.

Fugitive emissions
Fugitive emissions for LBG arise from the use of air conditioning and chiller/refrigerant plant to service our UK property portfolio. Actual data relating to fugitive emissions is not currently collated centrally by the Group, though is available for some of our assets. Therefore, for the 2022 reporting period, these emissions have been estimated based on a register of unique assets used by our FM partner to maintain and service the assets within the Group's estate. Leakage rates and emissions factors, from DESNZ 2022 and Climate Change (DECC)'s GHG emissions factors, have been applied to each asset on the register according to the gas type used within the asset.

Fleet data
The distance travelled in kilometres for fleet cars is calculated from the Group's expense systems which reimburses colleagues on a cost per km travelled basis. The Group Sourcing travel team manages the fleet data and uploads the information to the Group's central environmental system supplied by Credit 360 which calculates the CO_2e generated using DESNZ 2022 emissions factors. Mobile branch fuel consumption is estimated by dividing total fuel expenditure by the charged cost per litre of diesel used. Resulting volumes are multiplied by DESNZ emissions factors.

Intensity calculation
To normalise year-on-year comparisons in line with business performance, we are also disclosing an intensity of emissions per million pounds of underlying income. This figure is in line with the revenue to be disclosed in our annual report and accounts, and so covers calendar year 2022.

Source
The Group's environmental system provided by Credit 360.

Our environmental metrics continued

Scope 2 definition

Scope 2 covers: Emissions generated from the electricity used in all the buildings the Group operates from (UK and non-UK sites), as calculated by the location-based and market-based methodology. The reporting period is 1 October 2022 to 30 September 2023. We report emissions arising from activities for which we are responsible; our reporting scope is against an operational boundary. This comprises emissions generated from the use of electricity in UK buildings where the Group holds the supply contract directly with the electricity supplier; emissions generated from the use of electricity in UK buildings where the Group does not hold the supply contract directly with the energy supplier (shadow/landlord sites/non-UK sites). As part of our strategy, the Group has made efforts to source renewable electricity throughout our portfolio.

Units

tCO_2e

Method for scope 2 reporting

Energy (electricity) – Core UK sites where the Group holds the energy supply contract directly with the supplier.

Billed electricity data for Core UK sites is managed by our FM partner, which uploads the information to the Group's central environmental system supplied by Credit 360. The amount of energy used (gross supply in kWh) is received directly from suppliers' invoices. We do not sell electricity back to the national grid.

We use a combination of historical consumption trends, forward projected patterns of usage and budget forecasts to report on accruals to fit in with unbilled periods by the electricity suppliers.

If no data is available for a Core UK site in a given period, yet the site is known to still be active within our portfolio according to our internal property database, we will use the consumption data reported in the equivalent period of the previous year as an approximate.

Energy data (electricity) – shadow/landlord sites/non-UK sites are those sites where the Group does not hold the energy supply contract directly with the electricity supplier.

As the Group is not billed directly for energy consumed in these sites, we do not have full visibility of delivery data.

To allow emissions relating to these sites to be included within our emissions reporting for 2023, an estimation using an average electricity consumption level per occupied square metre (obtained from sites where the Group holds the energy supply contract direct with the supplier) has been calculated and applied based on each site's location.

Unmetered automated teller machines (ATMs)

As a proportion of the Group's ATMs are not billed directly, applicable consumption has been estimated based on the expected electricity consumption calculated from metered ATMs, multiplied by the number of unmetered ATMs in our portfolio.

Location-based reporting

In accordance with the GHG Protocol's Scope 2 guidance, total electricity as calculated above is multiplied by the UK average grid factor, sourced from DESNZ 2023. Emissions factors applied change on a calendar year basis in line with DESNZ.

Market-based reporting

The Group is procuring Renewable Energy Guarantees of Origin (REGO) as proof of renewable origin for our electricity consumption across the UK. REGOs are recognised as the sole guarantee of renewable supply in the UK, mediated by Ofgem, the regulator of the UK energy industry. Additionally, the Group is sourcing Guarantees of Origin (GO) to cover our European sites, Renewable Energy Certificates (RECs) for our US operations and International Renewable Energy Certificates (IRECs) for our Singapore operations. Like REGOs in the UK, these each represent a unique claim to specific MWhs of renewable energy generated within their respective markets.

Owing to the nature of renewable supply that qualifies for these certificates, per GHG Protocol guidance, associated carbon emissions are zero. As the Group is sourcing REGOs equivalent to our total UK electricity consumption, the Group's UK electricity emissions are zero under the market-based methodology.

Overseas locations are accounted for as zero carbon since January 2020 as the Group sourced GOs, RECs and IRECs equivalent to our estimated overseas electricity. Prior to January 2020, overseas locations have been accounted for at a residual mix factor (the grid mix after all contracted supply has been discounted) in accordance with GHG Protocol guidance. Since January 2020, residual factors have not impacted our disclosure owing to the purchase of 100 per cent renewable energy.

District heat networks

Presently, this is only relevant to one location within our portfolio. LBG source actual energy billed from suppliers and apply UK average district heating factors as provided by ESNZ.

Please note, scope 2 market-based emissions are non-zero for the first time since 2019. This is solely because of the district heating emissions noted and we continue to source 100 per cent renewable electricity for all our consumption.

Intensity calculation

To normalise year-on-year comparisons in line with business performance, we are also disclosing an intensity of emissions per million pounds of underlying income. This figure is in line with the revenue disclosed in our annual report and accounts, and so covers calendar year 2023.

Source

The Group's environmental system provided by Credit 360.

Our environmental metrics continued

Scope 3 definition

Our operational disclosure pertains to scope 3 emissions generated by the following emissions sources (per GHG Protocol definitions and covering the combined impacts of all seven Kyoto Protocol GHGs). Impacts of biogenic emissions are not captured within scope 3 numbers in accordance with GHG Protocol guidelines.

Category 3 – Upstream fuel and energy use

Well to Tank (WTT) emissions of energy sources, which account for GHGs emitted during the extraction and transportation of fuels from the source to the point of supply; covering natural gas, liquid fossil fuels (oils), fuels used in the generation of the electricity and fuels used in our vehicles we consume.

Transmission and distribution (T&D) emissions account for the GHGs associated with electricity lost during transmission on the national grid, relative to those consumed on site.

Category 5 – Waste in operations

The operational waste we generate from our own UK and non-UK direct business activities. The word 'operational' is used to distinguish this from the waste that is generated by construction, refurbishment and maintenance work we undertake on our existing sites or through the construction of new sites, as well as the disposal of any IT/electronic equipment.

Category 6 – Business travel

All colleagues undertaking business travel using rail, privately owned vehicles, hired vehicles, taxis, tube or by air, including direct and WTT elements and overnight hotel stays of colleagues during business trips, as claimed through Lloyds Banking Group travel expense platforms.

Category 7 – Employee commuting (and teleworking)

Commuting of UK and non-UK colleagues to and from their home address to Group sites. Global colleagues' energy use whilst working from home. WTT emissions of commuting of UK and non-UK colleagues to and from their home address to Group sites.

Scope

The data is for:

- WTT and T&D emissions from source energy i.e. gas, liquid fossil fuels (oils) and electricity

- Operational waste, which includes general and confidential waste services for UK properties, provided by our FM partner
- Overnight hotel stays of all Group colleagues during business travel around the world
- Business travel undertaken by UK-based colleagues and the associated WTT emissions
- Commuting of all Group colleagues by any means of transport for each working day of the reporting period Colleague heating and electricity energy use whilst working from home

We have opted not to disclose the proportion of data derived from suppliers or other value chain partners. We seek to continually improve quality of all data to be more representative of actual emissions to atmosphere, regardless of its origin.

Units

tCO_2e

Method for scope 3 reporting

Rail and air travel

The distance travelled in kms is calculated from the Group's online travel booking system Hogg Robinson Group (HRG) and the Group's expense systems.

The Group Sourcing travel team manages the data and uploads the information to the Group's central environmental system supplied by Credit 360 which calculates the CO_2e generated using DESNZ 2023 emissions factors. The factors used change on a calendar year basis as per DESNZ guidance.

Privately owned vehicles

The distance travelled in kms for business travel in privately owned vehicles is calculated from the Group's expense systems which reimburses colleagues on a cost per km travelled basis.

The Group Sourcing travel team manages this data and uploads the information to the Group's central environmental system supplied by Credit 360 which calculates the CO_2e generated using DESNZ 2023 emissions factors. The factors used change on a calendar year basis as per DESNZ guidance.

Hire cars

Hire car data is managed by the Lex Autolease business within the Group who collate the data from our hire cars suppliers. Data is then uploaded into the Group's central environmental system supplied by Credit 360, which then calculates the CO_2e generated using DESNZ 2023 emissions factors. The factors used change on a calendar year basis as per DESNZ guidance. Where distance travelled is not known for a hire period an average mileage for their specific trip is used.

Commuting

As part of our annual colleague survey, we ask colleagues to specify their primary mode of transport used to travel to work both before and during the coronavirus pandemic. Knowing colleagues' place of work and place of residence, we estimate the expected daily commuting distance through straight line distance mapping, adjusted to reflect additional distance associated with indirect travel routes. Utilising colleague entry card-swipe data and expected colleague commute distance by transport, by business unit, we can determine an expected annual distance travelled by colleagues. Results are upscaled, according to the proportion of colleagues who did not respond to the survey and those who could not be mapped, and multiplied by emissions factors supplied by DESNZ 2023.

Home working

LBG has accounted for incremental emissions activities now occurring at colleagues' households as a result of colleagues working from home. Number of homeworkers globally is multiplied by expected incremental thermal energy allowance per work hour in the UK heating season (October to March). Workstation power allowance for the sum total of all devices used to facilitate work (lighting, laptop computer, secondary monitor, phone, printers etc.) are multiplied by number of work hours to provide total workstation electricity usage. Thermal and electrical energy requirements are multiplied by the UK natural gas conversion factor and grid electricity average respectively, as published by DESNZ 2023, to determine total emissions.

Upstream emissions from other sources

The base data captured for gas, oils, electricity, fleet, rail and air travel, private vehicles, hire cars, commuting (calculated within the above Scope 1, 2 and 3 parameters) are applied to DESNZ 2023 emissions factors covering WTT and T&D emissions.

Operational waste

Operational waste is managed by our FM partner, which receives information relating to the number and type of collections per site each month directly from sub-contractors and uploads this information to the Group's central environmental system supplied by Credit 360, which calculates the CO_2e generated using DESNZ 2023 emissions factors. Where primary waste data is unavailable, we estimate approximate waste volumes for sites which are not covered by waste collections by multiplying floor area by an intensity of actual data per unit floor area where both are available. Less than 10 per cent of data is estimated in this way.

Hotel stays

Hotel stays data is managed through our HRG platform, recording room nights booked by country. Data is then uploaded into the Group's central environmental system supplied by Credit 360, which then calculates the CO_2e generated using DESNZ 2023 emissions factors. The factors used change on a calendar year basis as per DESNZ guidance.

Source

The Group's environmental system provided by Credit 360.

Supply chain methodology

Purpose
This section describes the principles, methodologies and assumptions used by LBG in the preparation and reporting of the Group's scope 3 supply chain GHG emissions.

Background
The Group has set an ambition to reduce supply chain emissions by 50% by 2030, on a path to net zero by 2050 or sooner. The reporting of scope 3 supply chain emissions is fundamental to supporting and achieving this ambition. It allows LBG to track performance and support the drive towards supply chain carbon emissions reduction.

All GHG emissions figures are reported in carbon dioxide equivalent tonnes (tCO_2e).

GHG accounting and reporting principles
LBG's scope 3 supply chain accounting and reporting principles are aligned to the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

The emissions data and associated reporting, governance, process and controls are designed to be:

- **Relevant** – ensures that LBG's GHG scope 3 supply chain inventory reflects scope 1, scope 2 and upstream scope 3 emissions of in scope LBG's third parties as per the defined boundary, resulting from the activities, products and services they provide to the Group.
- **Complete** – ensures that LBG's GHG emission sources and activities are accounted for and reported on, within the defined boundary where any exclusions are also disclosed and justified.
- **Consistent** – ensures the tracking of emissions over time by using a consistent methodology (see below) and documenting any changes to the process, scope of third parties and methods.
- **Transparent** – ensures that relevant issues are addressed in a factual and coherent manner and data assumptions are disclosed within this section of the Basis of Reporting, including calculation methodologies and data sources used.
- **Accurate** – ensures that the quantification of scope 3 supply chain emissions is accurate with uncertainties reduced as much as possible. Where appropriate, disclosed emissions may be re-stated from time to time in line with the Group's recalculation approach and to reflect any changes to our supply chain boundary, changes to external standards or where a more accurate method of calculating associated emissions becomes available.

Scope 3 categories: supply chain emissions
LBG has aligned its supply chain scope of reporting to the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The following emissions categories are included in LBG's scope 3 supply chain emissions reporting:

- **Category 1:** Purchased goods and services –upstream emissions from the production of goods and services purchased or acquired (including leasing) by LBG not otherwise included in categories 2 and 4. This includes goods and services relating to IT, cyber, operations, management consultancy, legal, HR, marketing, and communications.
- **Category 2:** Capital goods – upstream emissions from the production of capital goods purchased or acquired by LBG. This includes IT hardware and relevant property related goods (e.g. fixtures and fittings).
- **Category 4:** Upstream transportation and distribution – emissions from transportation and distribution of products purchased, between LBG's tier 1 suppliers and its own operations in vehicles not owned or operated by LBG, and emissions from third-party transportation and distribution services purchased by LBG. This includes mail and logistics.

Any exclusions that apply to the above categories are detailed on **page 04**.

All other scope 3 categories are excluded from LBG's scope 3 supply chain reporting. Emissions from other categories are reported elsewhere or not relevant to supplier activities (e.g. downstream Scope 3 categories such as third-party spend related to energy use or travel are not included in the supply chain reporting). The only exception is category 8 upstream leased assets. We have calculated emissions associated with upstream leased assets which contributed less than 1 per cent of in scope spend in our baseline year and are reporting these emissions in Category 1.

Boundary (supply chain emissions)
LBG's scope 3 supply chain emissions are calculated from spend with third parties.

- **Total spend**
  The total spend extract includes some spend that is not with third parties, which we define as 'no spend'. Examples include operational losses, accounting adjustments and intra-Group payments. These 'no spend' items fall outside of the scope of GHG Protocol.

- **Main spend extract**
  Spend data from LBG's Accounts Payable SAP Enterprise Resource Planning Central Component (ECC) system is used as a basis for calculating disclosed supply chain emissions. The accounts payable data is a subset of the Group's general ledger (GL) used to produce the Group's annual report and accounts. The GL data represents a holistic view of income and expenditure across Group-wide entities. The spend extract is on a cash basis, net of VAT, based on posting date. It therefore excludes any accounting treatments such as accruals. Monthly currency conversion factors are applied on non-Sterling spend in LBG's Accounts Payable system by LBG's Group Finance. As a result, all spend data used in emissions calculations is in Sterling.

- **Specific third-party exclusions**
  The following spend lines are excluded from our main spend extract for the reasons set out below:

  – **Intermediaries & broker commission payments**
  We continue to investigate how emissions associated with intermediaries and broker activities should be treated. We do not believe a spend-based calculation approach is appropriate for calculating emissions relating to commission payments.

  – **Sponsorship and community spend**
  We do not include activities associated with sponsorship and community donations.

  – **Payment authorities**
  We continue to investigate the relevancy to the GHG Protocol of the spend with payment authorities.

  – **Taxes and regulatory fees**
  This is mandatory spend beyond the control of LBG that does not align to the GHG Protocol categories.

Other excluded third-party spend.

Third-party spend by LBG businesses which is not captured on LBG's SAP ECC system is currently excluded. We continue to examine these areas of spend for inclusion in future reporting of LBG's supply chain carbon emissions. We are investigating alignment of this spend to the GHG Protocol, availability of supporting data and appropriate methodologies for calculating associated emissions.

Key data:	2021/22	2022/23
Total spend (£ net of VAT)	£4.9bn	£5.6bn
Main spend extract (£ net of VAT)	£4.5bn	£5.3bn
Specific third-party exclusions (£ net of VAT)	£0.5bn	£0.5bn
In scope reported (£ net of VAT)	**£4.0bn**	**£4.9bn**[1]
Other excluded third-party spend (estimated £ including VAT)[2]	£3.1bn	£4.7bn

1 £4.9bn : Difference in total due to rounding to the nearest £0.1bn.
2 This spend with other third parties is before any filtering or alignment with GHG Protocol categories.

Our environmental metrics continued

Supply chain calculation methodology

LBG follows a spend-based methodology to calculate its scope 3 supply chain emissions.

LBG's third-party spend data lines are firstly aligned to appropriate scope 3 categories.

- Spend is allocated to category 2 where the GL account code is capitalised on LBG's balance sheet.
- Spend is allocated to category 4 where the category field is 'Cash in transit, couriers, mail and logistics other services or postage'.
- All other spend lines are allocated to category 1.

Following alignment to the most appropriate category, one of the following approaches is used to calculate the related emissions for the third party.

Approach 1: CDP[1] supply chain allocated

Where a third party is in the scope of LBG's CDP supply chain membership and has allocated emissions relating to the goods and services provided to LBG via their CDP disclosure, these allocated emissions are used.

Approach 2: CDP supply chain apportioned

Where a third party is in the scope of LBG's CDP supply chain membership, but has not allocated their emissions to LBG, their emissions and overall revenue data is used to calculate the emissions as follows:

$$\text{LBG third-party spend} \times \frac{\text{Third-party emissions}}{\text{Overall third-party revenue}}$$

Approach 3: CDP

Where a third party is not in the scope of LBG's CDP supply chain membership but has reported their emissions and overall revenue data in a disclosure to CDP, this data is used to calculate the emissions as follows:

$$\text{LBG third-party spend} \times \frac{\text{Third-party emissions}}{\text{Overall third-party revenue}}$$

1 CDP previously known as the Carbon Disclosure Project is a global disclosure platform which allows organisations to disclose climate change and carbon emissions on an annual basis.

In using CDP data:

- Supplier CDP data is only used if a supplier has disclosed scope 1, 2 and material scope 3 emissions
- To account for suppliers' full upstream emissions (i.e. emissions that occurred prior to LBG's involvement in the value chain), our suppliers' scope 3 category 1 to 8 emissions are included. To avoid double counting downstream emissions (categories 9 to 15) are excluded
- Market-based scope 2 emissions (where disclosed by a supplier) are selected preferentially over location-based scope 2 emissions
- Disclosed supplier emissions are only used in the calculation if total scope 3 emissions are greater than 40 per cent of total Scope 1,2 and 3 emissions. We apply this control as we would typically expect our suppliers' scope 3 emissions to be significantly greater than their scope 1 and 2 emissions.

We take the steps outlined above to mitigate the risk of potential under-reporting until such time we can be confident in the completeness of the respective supplier's emissions inventory. We recognise this has to be balanced against the risk of overstating emissions which could result from reverting to approach 4. To mitigate this risk as far as possible, we cross reference such exceptions with insights from our supplier engagement programme where appropriate and will override this rule for specific suppliers where appropriate.

Approach 4: CEDA (Comprehensive Environmental Data Archive)

Where CDP data is not available, CEDA industry factors are applied to calculate emissions for each spend category. CEDA is an environmentally-extended input-output database which provides emission factors linking spend on goods/services to emissions.

- For each good/service that a third party provides, this is matched against the most relevant CEDA category.
- Each CEDA category has an associated emissions factor based on spend ($kgCO_2e/£$). The associated emissions factor is multiplied by the third-party spend to give emissions for that third-party's activity.

The use of CEDA factors is considered the least accurate approach, however, to ensure emissions calculations are complete (in line with GHG Protocol requirements) their use is considered appropriate. CDP supply chain allocated data is considered the most accurate approach at this time.

The proportion of the spend data and corresponding emissions calculated using each approach for our annual disclosure is detailed in LBG's Sustainability Report.

Selection of data sets

We align the various source data sets used in the calculation of supply chain emissions to our reporting period. In restatement of our 2021/22 baseline emissions, we used the 2022 CDP Supply Chain Disclosure data as this was available during the re-calculation process and avoids over-stating our baseline emissions.

Source data set	Baseline period	Current period
Main spend data extract	1 Oct 21–30 Sept 22	1 Oct 22–30 Sept 23
Reporting year	2022	2023
CDP public disclosure data	2021	2022
CDP Supply Chain disclosure data	2022	2022
Currency conversion rates and inflation rates used to adjust CEDA factors.	Average 2021 (Jan–Dec)	Average 2022 (Jan–Dec)

Governance

The calculation, reporting and disclosure of LBG's scope 3 supply chain emissions is governed through the GS&SM Executive Committee following which LBG's existing Group Disclosure Governance process is applied as described in the Group's latest Sustainability Report.

Control framework

There is a defined control framework which is an integral part of our overall calculation and reporting process to ensure associated risks are monitored and controlled.

This includes alignment to the GHG Protocol Accounting and Reporting Principles and LBG's Climate Risk Policy, Climate Library Risk and associated controls (see **page 05**).

Reporting period

1 October 2022 to 30 September 2023.

Baseline period

1 October 2021 to 30 September 2022.

Data collection

Our reporting process includes a continuous review of our data collection practices; we aim to improve our data collection through primary and verified sources.

Data quality and control

LBG's scope 3 supply chain reporting aims to report data that is in line with the GHG Accounting and reporting principles.

We apply a robust set of controls to the spend data and emissions calculation to ensure that identified gaps and anomalies are analysed, understood and documented. These controls are applied throughout the calculation and disclosure process and include controls aligned to the principles of the GHG Protocol. This includes:

- Reconciliation of spend data to ensure emissions calculations are complete
- Review mapping of CDP supplier data to ensure accuracy
- Review application of material CEDA factors to ensure relevancy

This section outlines the reporting criteria to support our sustainable finance and investment targets. The categories of eligible sustainable finance are outlined below in accordance with our Sustainable Financing Framework. Our sustainable investments are categorised in accordance with our Responsible Investment Framework.

Further details can be found in the **Sustainable Financing Framework** and the **Responsible Investment Framework**.

Our sustainable finance and investments

Our sustainable finance and investments continued

Target	Period reported	The criteria for eligible sustainable finance and sustainable investments are outlined below
Commercial Banking £15bn sustainable finance for corporate and institutional customers[1] by 2024	Lending and facilitated lending[2] between 1 Jan 2022 and 31 December 2023	The following product types have been included in the metric as per the Group's Sustainable Financing Framework, Product Scope and Reporting Basis, page 26: • Green bonds (including private placements) • Social bonds • Sustainability bonds • Sustainability-linked bonds • Green lending and working capital – Use of Proceeds (this includes Clean Growth Finance Initiative (CGFI); Corporate and Institutional Banking (CIB) real estate green lending; and renewable energy financing) • Sustainability-linked lending and working capital Adhering to the eligibility criteria as detailed from page 13 of the Sustainable Financing Framework.
Motor £8bn financing for EVs and plug-in hybrid electric vehicles by end of 2024	Lending between 1 Jan 2022 and 31 December 2023	The following product type has been included in the metric as per the Group's Sustainable Financing Framework, Product Scope and Reporting Basis, page 26: • Retail Transport Green Lending – Use of Proceeds, adhering to the eligibility criteria as specified in the Sustainable Financing Framework, Clean Transportation Vehicles, on page 21. • Excluding any vehicles that does not meet the engine classification of being a battery EV or plug-in hybrid EV.
EPC A/B Mortgage lending £10bn of new mortgage lending for EPC A and B rated properties by end of 2024	Lending between 1 Jan 2022 and 30 September 2023	The following product type has been included in the metric as per the Group's Sustainable Financing Framework, Product Scope and Reporting Basis, page 26: • Retail Homes Green Lending – Use of Proceeds, adhering to the eligibility criteria as specified in the Sustainable Financing Framework, Commercial and Residential Buildings, Retail lending for Residential Buildings on page 15. This includes re-mortgages but excludes further advances.
Scottish Widows £20-£25bn discretionary investment in climate -aware strategies or climate solutions by 2025	Amount invested in Climate Aware strategies at 31 December 2023	Climate Aware strategies relates to Scottish Widows investing in funds that have a bias towards investing in companies that are adapting their businesses to be less carbon-intensive and/or developing climate solutions. Climate Aware strategies fit into two categories: emissions focussed and revenue focussed. 1) Emissions focused strategies must have explicit objectives to invest in companies that emit comparatively less carbon than the wider market in their region or asset class. A quantitative assessment is performed to ensure carbon footprint is at least 15 per cent less than the corresponding broader market index. 2) Revenue focused strategies must have explicit objectives to invest in companies that actively seek to improve the climate. The quantitative assessment is based on MSCI Environmental Impact categories, which measure the proportion of company revenues derived from addressing climate change. For a fund to meet the criteria, these revenues must be relatively 15 per cent greater than the corresponding broader market index. The value of the amount invested is measured as a point in time assessment of funds meeting the criteria at the balance sheet date
£1bn discretionary investment in Climate Solutions by 2025	Amount invested in Climate Solutions at 31 December 2023	Climate Solutions is a lens to view the exposure within our Climate Aware strategies. We take the amounted invested in Climate Aware Strategies, and multiply it by the proportion of revenues derived from the MSCI Environmental Impact categories.[3] This represents our investment in Climate Solutions. The value of the amount invested is measured as a point-in-time assessment of funds meeting the criteria at the balance sheet date.

1 Corporate and institutional customers are generally defined as customers with a turnover over £100m.
2 For facilitated financing, volumes are reported on a proportional share basis, representing the Group's share of the overall transaction value facilitated where the Group is acting as part of a syndicate. Direct lending is calculated as the total value for new commitments during the reporting period, including any undrawn commitments (i.e. the limit on the facility granted).
3 The MSCI Global Environment Index (the 'Index') is a free float-adjusted market capitalisation weighted index designed to maximize its exposure to environmental impact themes.

Our sustainable finance and investments continued

Reporting process and governance

Data is collated from divisional source systems and reviewed on a quarterly basis by the business to ensure qualifying criteria is met. This is then reviewed by Divisional finance (key investment stakeholders for Scottish Widows) to ensure alignment with expectations. Progress against the targets is tracked quarterly. Further details of reporting against each of the targets and the associated governance is given below.

Commercial Banking

Progress against the target is tracked quarterly and reviewed at business level forums ahead of review by the Group Net Zero Committee (GNZC)

The boundary for the products included within the CB target was locked down before publication of the target. If there is any ambiguity about whether a transaction meets the target criteria, a review will take place at a business-level forum (set up specifically to review and assess the target criteria and compliance). The qualifying green purpose criteria (which apply to CGFI lending, CIB real estate green lending and renewable energy financing) are fully reviewed annually (at a minimum); environmental resources management consultants have assisted with this review every year since CGFI launch in 2018. The target criteria can be extended between these annual reviews to close any gaps (e.g. hydrotreated vegetable oil) or new technologies (e.g. relating to hydrogen fuel) provided this is reviewed by the business forum mentioned above. Minor amendments, e.g. new published government standards, can be made without forum review. The annual review and in-year amendments are included within the terms of reference of the forum referred to above.

Homes

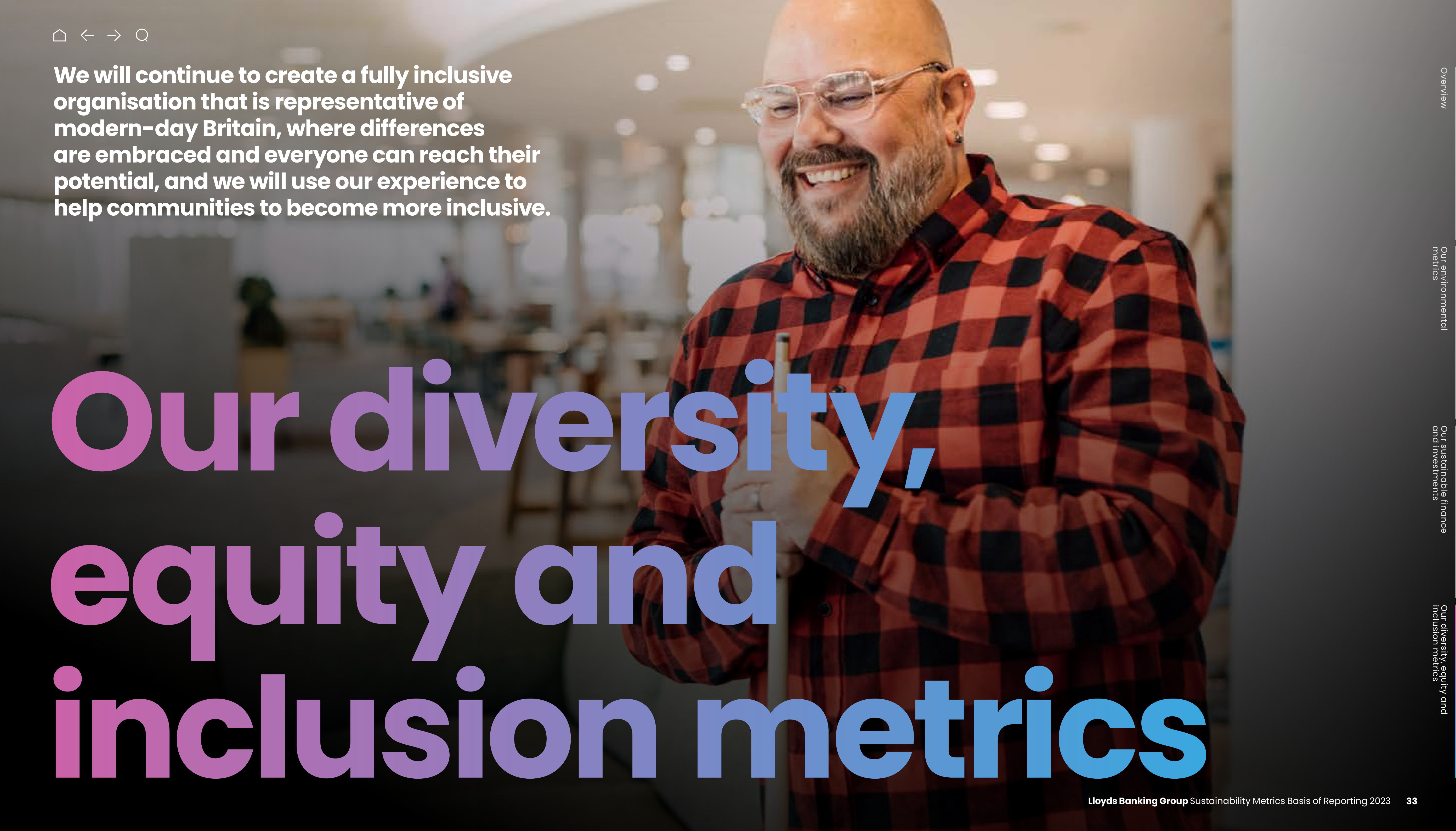
The Sustainable Lending position for Homes is prepared using EPC data and mortgage completion data, with lending balances reconciled to the finance ledger (SAP). Each quarter the position is shared through several divisional reviews and communicated at the Consumer Lending Executive Committee and GNZC. Due to the lag in updated EPC data the target is reported a quarter in arrears. For example, the 31 December 2023 reported position will cover lending completed in the period to 30 September 2023. The Sustainable Lending criteria and methodology for calculation for Homes remains consistent with the criteria and methodology set out when the target was set. The process for obtaining EPC data used for reporting relies on a third party matching addresses with the Government data base at a set point in time and is not infilled at a future date; there may be instances where we are unable to match and in this case these will be omitted.

Motor

The Sustainable Lending position for Motor is prepared using the source system vehicle data in line with financed emissions methodology with new lending balances reconciled on a quarterly basis to the finance ledger. Each quarter the position is communicated through divisional committees ahead of review by GNZC. The Sustainable Lending eligibility criteria remain consistent with the criteria set out when the target was set. No changes to the criteria are expected in 2024.

Scottish Widows

Each quarter funds are assessed to ensure they continue to meet the criteria of being Climate Aware or Climate-Solutions, as defined in the table above. Where a fund fails to meet the relevant criteria for two consecutive quarters the fund is removed from the categorisation. This is reviewed by key investment stakeholders and reported quarterly through Responsible Business Executive Committee (IRBEC) and GNZC.



We will continue to create a fully inclusive organisation that is representative of modern-day Britain, where differences are embraced and everyone can reach their potential, and we will use our experience to help communities to become more inclusive.

Our diversity, equity and inclusion metrics

Our diversity, equity and inclusion metrics continued

Introduction
The Group aims to create a more inclusive future for our customers, colleagues and communities. We report diversity, equity and inclusion metrics in our annual report and accounts, our Sustainability Report and within the Sustainability Metrics Datasheet. Our data is collated and reported in compliance with the provisions of section 414C(8)(c) Companies Act 2006.

In the table we have detailed all our reported diversity, equity and inclusion metrics, not just the metrics which are subject to Limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2023 Annual Responsible Business Reporting.

Source
Data is sourced from the HR system, Workday. All data as at 31 December 2023. All diversity information for ethnicity, disability, sexual orientation and gender identity is based on voluntary self-declaration by colleagues. In order to be classified as Black Heritage colleagues, a colleague must have positively selected a relevant option (e.g. Black African). For Ethnicity metrics the in-scope population for the calculation includes all colleagues, irrespective of whether they have completed the ethnicity data field.

Diversity calculations are based on headcount, not full-time employee values (FTE).

Scope
The HR system, Workday contains details of all permanent and fixed–term colleagues. Our systems do not record diversity data for colleagues who have not declared this information and includes colleagues on the UK payroll only. International colleague data is not held as colleague records in Workday, it is manually uploaded by the People Insights team to the Workday system at month end). Metrics include international colleagues, those on parental/maternity leave, absent without leave and long-term sick and exclude contractors, Group non-executive directors, temporary and agency staff. Ethnicity metrics exclude non-UK colleagues.

Entities in scope
The acquired entities Embark, Tusker and Cavendish are included in our metrics this year.

Where entities are acquired, colleague data will be loaded into Workday to create colleague records. When this process is complete, we will then be able to include within the reported metrics. The timescale for inclusion or exclusion of colleagues from reported metrics (following acquisition or divestment) will depend on the complexity of the agreement which will be dependent on the Terms and Conditions of the transaction. The delivery approach will vary from a baseline approach (all colleagues move to full LBG Terms and Conditions) to a more complex approach (e.g. colleagues with protected terms). The time scale can vary from four to eight months, starting after the full agreement of the Terms and Conditions of the transaction and the associated legal review.

Our diversity, equity and inclusion metrics continued

Target	Metric	Unit
Gender	Board members – men	Number Percentage
	Board members – women	Number Percentage
	Senior positions on the Board – men[1]	Number Percentage
	Senior positions on the Board – women[1]	Number Percentage
	GEC – men[2]	Number Percentage
	GEC – women[2]	Number Percentage
	GEC and GEC direct reports – men[3]	Number Percentage
	GEC and GEC direct reports – women[3]	Number Percentage
	Senior manager – men	Number Percentage
	Senior managers – women	Number **Percentage** ✓
	All colleagues – men	Number Percentage
	All colleagues – women	Number Percentage

Target	Metric	Unit
Ethnicity	Board members ethnicity (three metrics: White British or other White, Other Ethnic Group, Asian)[4]	Number Percentage
	Senior positions on the Board ethnicity (3 metrics: White British or other White, Other Ethnic Group, Asian)	Number Percentage
	GEC ethnicity (two metrics: White British or other White, Asian)[4]	Number Percentage
	Senior managers from a Minority Ethnic background	Number **Percentage** ✓
	Senior managers from a Black Heritage background	Number **Percentage** ✓
	All colleagues from a Minority Ethnic background	Number Percentage
Disability	Colleagues who disclose that they have a disability	Number Percentage
	Senior colleagues who disclose that they have a disability	Number Percentage
Sexual orientation and gender identity	Colleagues who disclose their sexual orientation	Number Percentage
	Colleagues who disclose they are LGBT+	Number Percentage
	Colleagues who disclose their gender identity	Number Percentage

All of the metrics above can be found in our **annual report and accounts**, **sustainability report** and **sustainability metrics datasheet**.

Notes and definitions

1 Senior positions on the Board refer to the roles of the Chief Executive Officer, Chief Financial Officer, Senior Independent Director and Chair of the Board.

2 The Group Executive Committee (GEC) assists the Group Chief Executive in strategic, cross-business or Group-wide matters and inputs to the Board. GEC includes the Group Chief Executive and excludes colleagues who report to a member or attendee of the GEC, including administrative or executive support roles (personal assistant, executive assistant).

3 GEC and GEC direct reports include the Group Chief Executive and colleagues who report to a member or attendee of the GEC, including administrative or executive support roles (personal assistant, executive assistant).

4 In the current year, there is no reported data for the categories of Black/ African/Caribbean/Black British, Mixed/Multiple ethnic groups, including Arab and Not specified/prefer not to say.

A colleague is an individual who is paid via the Group's payroll and employed on a permanent or fixed-term contract (employed for a limited period)
A senior manager is a colleague at Grades F+. Grades at F+ are F, G, X (F being the lowest of these).
Percentage metrics are calculated as the relevant absolute metric divided by the total number of colleagues in the relevant population under consideration (e.g. senior managers from a Minority Ethnic background will be calculated as the total number of senior managers from a Minority Ethnic background divided by the total number of senior managers)
LGBT+ includes Asexual / Ace Spectrum, Bisexual / Bi, Gay Man, Lesbian / Gay Woman, Pansexual, Other Sexual Orientation and includes Transgender.

✓ Indicator is subject to Limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2023 Annual Responsible Business Reporting. Deloitte's 2023 assurance statement is available online at **our downloads centre**.

Forward-looking statements

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Where the Group has used the methodology and tools developed by a third party, the application of the methodology (or consequences of its application) shall not be interpreted as conflicting with any legal or contractual obligations and such legal or contractual obligations shall take precedence over the application of the methodology. Where the Group has used underlying data provided or sourced by a third party, the use of the data shall not be interpreted as conflicting with any legal or contractual obligations and such legal or contractual obligations shall take precedence over the use of the data. Further development of reporting or other standards could impact the metrics, data and targets contained in this document. From one reporting period to another, direct comparisons of each statement of information or data may not always be possible, and information may be updated from time to time.

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Factors that could cause actual business, strategy, targets, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward-looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks affecting insurance business and defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks including risks as a result of the failure of third party suppliers; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

Head office
25 Gresham Street
London EC2V 7HN
+44 (0)20 7626 1500
www.lloydsbankinggroup.com

Registered office
The Mound
Edinburgh EH1 1YZ
Registered in Scotland no. SC095000