Carbon offsetting principles

Lloyds Banking Group
Report 2023

Urgent decarbonisation is required, in line with science, to limit the world to 1.5°C of warming above pre-industrial levels by 2050 and this should be the priority ahead of any mitigation activity.

However, as the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report notes, the current policies and level of ambition being put forward by governments falls short of what is needed to keep this goal within reach.

Although not the only solution, and with both known and unknown challenges, the Voluntary Carbon Market (VCM) can help to mobilise finance for projects that support the deployment of climate solutions to avoid, reduce and remove carbon emissions. This aims to act as an important tool in supporting the low carbon transition at the pace and scale required.

As noted by the Voluntary Carbon Markets Integrity Initiative[2] (VCMI) carbon credits, if used responsibly, can be an important tool in combatting climate change and can also support the financing of climate resilient development.

VCM projects can benefit people and communities, nature and biodiversity and they can also play a role in speeding up the development and commercialisation of the new technologies that are needed to further accelerate progress toward net zero emissions, including those that offer the removals and long-lived storage needed as noted by The Oxford Offsetting Principles[3].

For organisations, it is important that any VCM activity they are involved in, or carbon credits they acquire, are deployed as part of science-aligned decarbonisation strategies and are not used as an alternative for abatement.

Organisations can use credits to mitigate remaining residual emissions and to support emissions mitigation activities beyond their value chain to improve the scale and pace of the transition.

Lloyds Banking Group's strategy remains focused on reducing emissions before considering the use of carbon credits, acknowledging the benefit of parallel progress to develop the VCM in a way that drives broader positive impacts.

The VCM market and ecosystem is complex and fast evolving, with a range of issues which the industry is working to address. We realise that due to this complexity and the associated risks we need to provide clarity and transparency on our current approach to carbon offsetting. As such we have set out a series of nine principles relating to carbon offsetting that the Group[4] seeks to follow.

We have used existing and emerging guidance from organisations such as the Science Based Targets Initiative (SBTi)[5], the Integrity Council for the Voluntary Carbon Market (ICVCM)[6], Voluntary Carbon Markets Integrity Initiative (VCMI), The Oxford Offsetting Principles, and others, to develop these principles.

We seek to ensure good practice by the Group through using these principles and to allow the opportunity to support innovation and improvements in the market to develop and enhance standards. Reflecting the iterative nature of these developments, we will reassess the principles and guidance regularly and update them if we deem that there is a material change needed.

1 AR6 Climate Change 2022: Mitigation of Climate Change — IPCC
2 https://vcmintegrity.org
3 https://www.smithschool.ox.ac.uk/research/oxford-offsetting-principles
4 Group means the group of companies including Lloyds Banking Group plc and all of its direct and indirect subsidiaries
5 https://sciencebasedtargets.org/
6 https://icvcm.org

The principles

1 When we use credits

1.1
We prioritise science-aligned emission reductions across our Group to support the decarbonisation of our business in line with the goal of limiting global warming to 1.5°C, before allocating internal investment and resources towards purchase of carbon credits for use in offsetting such emissions.

1.2
Financed emissions ambition: We do not currently plan to use carbon credits to offset our financed emissions, but we will monitor and seek to contribute to emerging industry standards in this area as they develop.
Own operations ambition: We will use carbon credits to offset residual emissions from our operations for 2030 and beyond.
Supply chain: We do not currently plan to use carbon credits to offset our supply chain emissions, recognising that we are still in the early stages of our supplier engagement activity. We will continue to evolve and adapt our approach as we learn through supplier engagement.

1.3
We may use carbon credits for mitigation beyond our value chain for propositions, customer benefit or for relevant projects that support wider emissions reductions. Where such activity overlaps with Lloyds Banking Group Scope 1, 2 and 3 emissions, this will not be accounted for as per principles 1.1 and 1.2 and we will seek to capture and report the benefit on behalf of our customers or the project.

2 Who we engage with

2.1
We will only engage with parties in relation to the development, sourcing or management of carbon credits where we are satisfied that those parties are acting in line with the International Carbon Reduction and Offsetting Alliance (ICROA)[1] Code of Best Practice for accredited organisations and the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles.

1 https://icroa.org

3 Credit characteristics

3.1
We will aim to ensure all carbon credits bought or sold by Lloyds Banking Group align with the International Carbon Reduction and Offsetting Alliance (ICROA) Standards Endorsement and align with the recommendations of the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles and Assessment Framework. Further, independent third-party verification will be utilised as necessary to confirm project delivery and quality.

3.2
We will aim to ensure all carbon credits bought or sold by Lloyds Banking Group will be supported by the appropriate safeguards to support benefits and manage impacts on indigenous groups, local communities and biodiversity. Further, third party verification will be utilised where we deem this necessary to confirm delivery of co-benefits and quality.

3.3
We recognise the importance in particular of sequestration (removal) projects and aim to preferentially support these.

4 Reporting and disclosures

4.1
Carbon credits retired in our name will be separately accounted for in our external reporting in line with Greenhouse Gas Protocol (GHGP) standard and Voluntary Carbon Markets Integrity Initiative (VCMI) guidance.

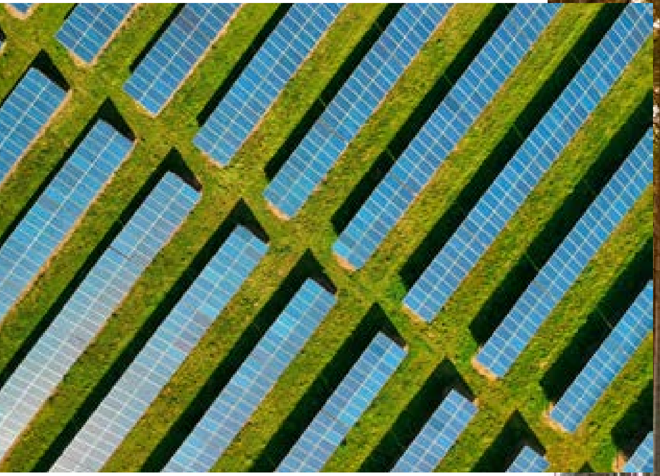
4.2
Analysis and disclosure of any client or investee use of carbon credits may be considered once these disclosures are made and further guidance from standard setters is available.

Second party opinion

The Group has appointed ERM CVS to provide an independent second party opinion (SPO) on the above principles.

The SPO confirms the alignment of the principles with the guidance issued by leading bodies. ERM CVS has identified The Oxford Principles for Net Zero Aligned Carbon Offsetting together with the ICVCM's Core Carbon Principles as the most relevant standards and guidelines, and has also considered principles laid out by the SBTi, the VCMI Claims Code of Practice, and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), among others.

A copy of the **SPO can be found on the Group's website**.



Disclaimer

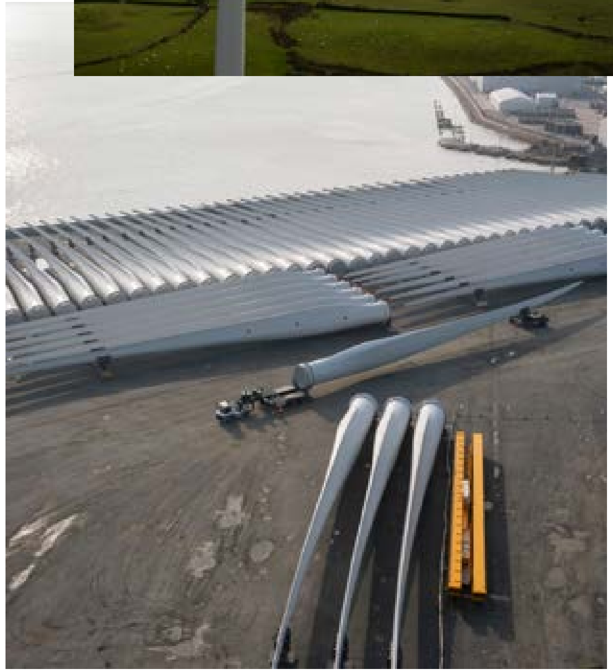
These principles are intended to assist customers, potential customers, and other third parties to understand how Lloyds Banking Group approaches and manages its position in the context of the voluntary carbon market for its own offsetting activity. The principles are intended to be non-exhaustive and indicative, and are intended for general information purposes only. Please note that the principles are likely to change and develop over time due to the continued evolution and improvement of the VCM and the guidance bodies and standards associated with it. Accordingly, the principles will be assessed from time to time.

These principles will apply to newly acquired businesses from the second full year following acquisition in order to allow for the integration and, as necessary, alignment of legacy activity in this context.

These principles represent our policy positions under normal business conditions as at the date of publication and their application may be affected by a wide range of circumstances beyond our control, including, but not limited to, changes in government policy, the overall regulatory environment, and/or customer behaviour.

The principles may vary and/or be replaced from time to time and without notice and no assurance or representation is given that the principles will meet any present or future expectations or requirements. We accept no obligation or duty to update these principles.

These principles are not binding (contractually or otherwise). Lloyds Banking Group shall owe no liability or obligation to third parties in relation to them. Specifically, we do not accept any duty of care or liability in relation to the interpretation and application of the principles.



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