Sustainable Financing Framework

Lloyds Banking Group
Report 2023

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...

Inside this report

Executive summary

This document sets out the Lloyds Banking Group Sustainable Financing Framework (hereafter referred to as the 'Framework'). It has been designed as a methodology for classifying whether certain financial products and services offered by Lloyds Banking Group (hereafter referred to as the 'Group') may be described as sustainable for the purpose of tracking and disclosing the Group's progress against its sustainable financing targets.

The Framework will be used when developing sustainable finance products and to track the Group's progress against its sustainable financing targets. It will also act as a way to promote new environmental and social financing opportunities. Providing a structured and consistent framework enhances the Group's risk management and reporting, which can encourage innovation in financing and the development of new financial products and services that align with the Group's sustainability objectives and ambitions.

Eligible types of finance to which this Framework applies include lending and/or third-party bond issuances arranged by the Group which fall into one of the following categories:

- Use of Proceeds (UoP) products (finance and/or refinance provided exclusively for Eligible Green Activities and/or Eligible Social Activities)
- Sustainability-Linked products (finance that incentivises improved sustainability)
- Sustainable business financing products (finance and/or refinance provided to a business which has 90 per cent or more of its revenue generated from Eligible Green Activities, Eligible Social Activities or a mixture of Eligible Green Activities and Eligible Social Activities)

The Framework covers the Group's Retail lending, Business and Commercial Banking and Corporate and Institutional Banking eligible products. It sits alongside the Group's **Sustainability Bond Framework** ↗ and the Group's **Housebuilding Sustainability Finance Framework** ↗.

The Framework has been developed using references from a range of industry standards, market principles and good practice, including:

- **International Capital Markets Association (ICMA)**
  i. Green Bond Principles (GBP)
  ii. Social Bond Principles (SBP)
  iii. Sustainability Bond Guidelines (SBG)
  iv. Sustainability-Linked Bond Principles (SLBP)
- **Loan Markets Association (LMA)**
  v. Green Loan Principles (GLP)
  vi. Social Loan Principles (SLP)
  vii. Sustainability-Linked Loan Principles (SLLP)
- **The EU Sustainable Finance Taxonomy**
- **Climate Bonds Initiative (CBI)**
  viii. Climate Bonds Standard V4.0
  ix. CBI Taxonomy
- **UN Sustainable Development Goals (SDGs)**

The Group has also appointed DNV to provide an independent Second-Party Opinion (SPO) on the Framework's alignment to the GLP 2023, the SLP 2023 and the SLLP 2023, as published by the LMA.

An Operating Model Framework has been developed in parallel to this document to set out the controls and processes in the Group to ensure that the Framework is being adhered to, and the review process which explains how it will be kept up to date.

This Framework represents a go-forward methodology effective from 1 January 2024 and will support the Group's existing published targets for sustainable financing unless otherwise specified. The Group will review the Framework at least annually, especially considering emerging regulations such as the development of a UK Green Taxonomy.

Introduction

About Lloyds Banking Group

As a leading UK-based financial services group with 27 million customers we provide a wide range of banking and financial services, focused on personal and commercial customers with our purpose being Helping Britain Prosper. We do this through our three core divisions: Retail; Commercial Banking; and Insurance, Pensions and Investments. Our strategy is to become a truly purpose-driven organisation and we have an important role to play in creating a more sustainable and inclusive future for people and business, by shaping finance as a force for good. This is where we can make the biggest difference, while creating new opportunities for sustainable growth, profit and returns.

Our multiyear strategy will be a transformation requiring us to progressively build towards our ambition through embedding our purpose into decision-making, culture and capabilities. It is only by doing right by our customers, colleagues and communities that we can achieve higher, more sustainable profit for investors, while meeting the needs of our broader stakeholders.

We play our part in helping to meet the targets set by the UN Sustainable Development Goals (SDGs). The SDGs help us frame how we use our operating model, scale, resources and skillsets to respond to some of the most significant societal challenges faced by the UK today.

We considered the SDGs with the highest materiality to our business and sector. We reviewed our commercial exposure, considering both the potential for positive impact as well as risk mitigation, and considered the spheres of influence that the Group may feasibly have an impact on, as well as those of highest impact to our key stakeholders. Throughout this report we have demonstrated how our activities support the achievement of specific SDG sub-targets.

1 From a 2018 baseline, covering Scope 1 and 2 emissions.
2 From a 2021/22 baseline.
3 All from a 2018/19 baseline.

To deliver on our strategy, we have identified three strategic pillars where we are best placed to create an inclusive and sustainable impact through focusing on driving revenue growth and diversification, strengthening cost and capital efficiency, and maximising the potential of people, technology and data.

We have set several ambitions across the Group to support the decarbonisation of our business in line with limiting global warming to 1.5°C, including our new supply chain ambition which was developed in 2022.

- Work with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030 on the path to net zero by 2050 or sooner[1]
- Halve the carbon footprint of our investments by 2030 on the path to net zero by 2050
- Reduce the carbon emissions we generate through our supply chain by 50 per cent by 2030 on the path to net zero by 2050 or sooner[2]
- Achieve net zero carbon operations by 2030 and reduce our direct carbon emissions by at least 90 per cent, while also reducing energy consumption across our operations by 50 per cent, and limiting travel-related carbon emissions by 50 per cent compared to a pre-COVID 19 baseline[3]

To support our ambition, we set sustainable lending and investment targets in several areas and have made progress against each throughout the year. The Group's 2023 Sustainability Report outlines the steps we'll take to reduce emissions to net zero for our operations, supply chain and how we are addressing nature, just transition, engagement and data at the Group level.

You can read more about our purpose and strategy on the **Group's website** ↗ or our **Sustainability Report 2023** ↗, **Strategy and purpose – Lloyds Banking Group plc** ↗, **our download centre – Lloyds Banking Group plc** ↗.

Purpose of the Framework

This Framework has been designed as a methodology for classifying whether certain financial products and services offered by the Group may be described as sustainable.

The Framework will be used when developing sustainable finance products and to track the Group's progress against its' sustainable financing targets, with reference to all or some of the Eligibility Criteria outlined in this document while also acting as a way to promote new environmental and social financing opportunities. A structured and consistent framework will enhance the Group's risk management and reporting for Eligible Green Activities and Eligible Social Activities. It also seeks to encourage the innovation and development of new financial products and services that align with the Group's sustainability objectives and ambitions.

The Framework represents a go-forward methodology effective from 1 January 2024 and will support the Group's existing published targets for sustainable financing unless otherwise specified. Going forward, targets may be set with reference to all or some of the Eligibility Criteria outlined in the Framework.

The Framework does not prevent the Group offering and/or financing products that do not meet the Eligibility Criteria or constitute Eligible Green Activity or Eligible Social Activity.

Scope of the Framework

The Framework applies to the Group's Retail lending[4], Business and Commercial Banking and Corporate and Institutional Banking eligible products as specified in 'Product scope and reporting basis' on **page 27**.

Scottish Widows direct lending is not currently in scope of the Framework. This position is under review and it is anticipated that they will be included as part of the scheduled 2024 assessment.

Legal entities

The legal entities in scope for this Framework are set out below, in line with the eligible products specified in 'Product scope and reporting basis' on **page 27**.

Retail Lending:

- Bank of Scotland plc (Halifax, Bank of Scotland, Birmingham Midshires, Intelligent Finance)
- Lloyds Bank plc (Lloyds Bank, Scottish Widows Bank)
- Lex Autolease Ltd.
- Black Horse Ltd.
- Tusker Ltd.
- Lloyds Bank GmbH

Business and Commercial Banking and Corporate and Institutional Banking:

- Bank of Scotland plc
- Lloyds Bank plc
- Lloyds Bank Corporate Markets plc
- Lloyds Bank Corporate Markets Wertpapierhandelsbank GmbH
- Lloyds Bank GmbH
- The Agricultural Mortgage Corporation plc

Other Frameworks

The Framework sits alongside the Group's **Sustainability Bond Framework (SBF)** ↗ and the Group's **Housebuilding Sustainability Finance Framework (HSSF)** ↗.

Issuances by the Group are not within the scope of this Framework and are covered in the Group's SBF. The Eligibility Criteria of this Framework and the SBF are aligned where feasible.

However, the categories, sub-themes, eligible activities and exclusions may differ within each category due to the broader scope of products, and more extensive range of activities and exclusions to which this Framework relates.

In 2022 the Group published its HSFF which outlines the Group's sustainable finance products and propositions to support housebuilders and residential developers access to finance to build more homes with higher sustainability standards.

If a housebuilding activity does not fall within the scope of the HSFF (for example, if it is sustainable business financing or Retail Residential Financing), then when financing these activities reference should be made to the Framework to determine whether such financing is eligible as sustainable.

General exclusions

Any financing activity may be considered eligible as sustainable under the methodology set out in this Framework where it meets all of the following criteria:

a) The financing falls outside the general exclusions as described below as listed within the Group's external sector statements;

b) The financing falls within the eligible types of financing set out in 'Qualifying criteria', **pages 06 to 12** of the Framework; and

c) The financing is compliant with one or more of the Eligibility Criteria on **pages 14 to 26** of the Framework.

General exclusions will apply as listed within the Group's external sector statements, for example, thermal coal mining and direct financing of new greenfield oil and gas developments not previously approved prior to 2021. The Group's external sector statements are not unique to this Framework and apply to the specific entities and customers that have a direct lending relationship with the Group including direct loans within Scottish Widows.

These policies and statements are in the public domain and can be found on the Group's website: **our download centre** ↗.

4 The Framework currently applies to Homes and Motor lending but may cover a wider range of Retail products in the future.

Qualifying criteria

Approach

The Framework has been developed using references from a range of industry standards, market principles and good practice. Sources include, but are not limited to:

- International Capital Markets Association (ICMA)
  - Green Bond Principles (GBP)
  - Social Bond Principles (SBP)
  - Sustainability Bond Guidelines (SBG)
  - Sustainability-Linked Bond Principles (SLBP)
- Loan Market Association (LMA)
  - Green Loan Principles (GLP)
  - Social Loan Principles (SLP)
  - Sustainability-Linked Loan Principles (SLLP)
- The EU Sustainable Finance Taxonomy
- Climate Bonds Initiative (CBI)
  - Climate Bonds Standard V4.0
  - CBI Taxonomy
- UN Sustainable Development Goals (SDG)

While the Group is seeking alignment with the LMA Loan Principles, it has used the ICMA principles, EU Taxonomy, CBI and SDGs to inform and help construct the framework.

The Group will continue to monitor regulatory developments including in relation to the UK Sustainable Disclosure Requirements and Green Taxonomy and their implications on future iterations of this Framework. Given this is a rapidly advancing and evolving market, the Framework may be updated to ensure alignment with any regulatory changes.

Due to this rapidly evolving context there may be occasions that the Group's products are described as sustainable or social even if it does not meet the Group's Eligibility Criteria. Where this occurs the operating model and controls in place to monitor the context and review the Framework on a regular basis (at least annually) will ensure that, where they occur, these scenarios are addressed in the subsequent revision.

If the Group includes products within its sustainable finance reporting which do not meet the Group's eligibility criteria due to a timing difference between reporting and subsequent framework revision then the Group will disclose the financial value of this exception, provide a description of the technology and the environmental or social benefit, and commit to update the framework accordingly.

Eligible types of financing

This Framework describes the types of financing by the Group which are considered eligible for the purpose of classifying the Group's activities as 'sustainable'. This is for the purpose of tracking and disclosing progress against the Group's sustainable financing targets.

The reporting basis for each product type can be found on **page 27**.

There are three categories of sustainable finance products considered under this Framework:

- Use of Proceeds
- Sustainability-Linked
- Sustainable business financing

In respect of bond issuances for our clients, all Sustainability-Linked bonds and green/social Use of Proceeds bonds will have an SPO.

Eligible types of financing: Definitions

Dedicated Purpose: Use of Proceeds

Dedicated Purpose financing is eligible for classification as sustainable finance if:

- The Use of Proceeds are used exclusively to finance and/or refinance Eligible Green Activities and/or Eligible Social Activities comprising activities which meet the Green and/or Social Eligibility Criteria as set out in this Framework; or
- Labelled green, social or sustainability bonds where they have been reviewed and approved internally on a case-by-case basis against the relevant industry principles and criteria set out in 'Qualifying criteria – Approach' on **page 06**; or
- Labelled green, social or sustainability bonds that may not align with the above criteria, but where they have undergone a separate internal approval process to assess the criteria against other credible green, social or sustainability-recognised taxonomies or industry standards.

By way of exception we may include general purpose lending where there is an objective and robust deal transaction or sector specific rationale to justify this. One such clear example could be general purpose lending (term or revolving) to a registered social housing provider, recognising the clearly defined purpose of their activities and the social housing regulatory standards that they operate within, with the controls on business purpose that this entails.

In all cases, labelled financing is assessed by the Group's relevant functions to ensure they do not fall within the exclusions noted in the Framework.

For all other Use of Proceeds financing, GBP, GLP and SLP will be used as guidance where appropriate when assessing the inclusion of an activity as a Use of Proceeds financing under this Framework.

Sustainability-linked financing

Sustainability-linked financing is where the economic characteristics of the financing activity can vary depending on whether the borrower/issuer achieves ambitious, material and quantifiable predetermined sustainability performance objectives. These objectives are assessed by applying predefined Sustainability Performance Targets (SPTs) to predefined Key Performance Indicators (KPIs)[1], which are required to be ambitious and material to the business of the borrower/issuer. The Use of Proceeds in relation to sustainability-linked financing is not a determinant in its categorisation and, in most instances, the financing will be used for general purposes.

On an exceptions basis one or more KPIs and associated SPTs can be set post-closing, but this would always be subject to either majority or lender consent. For majority lender consent, if the Group were not supportive of the KPI then we would exclude the SLL from our SFF reported numbers. For the avoidance of doubt there would always be at least one KPI agreed prior to the transaction closing.

General purpose: sustainable business financing

This type of financing requires 90 per cent or more of a company's revenue to be generated from:

1. Eligible Green Activities; or
2. Eligible Social Activities; or
3. A mixture of Eligible Green Activities and Eligible Social Activities, as per the Eligibility Criteria set out in this Framework.

The 90 per cent revenues test will require some commercial interpretation by the Group as companies do not report on this basis[2].

To be classified as sustainable financing none of the Company's revenue can be generated from activities listed in the exclusions on **pages 14 to 26** outlined in the Eligibility Criteria within this Framework or within the Group's external sector statements as described in 'General exclusions' on **page 05**.

1 Predefined here means that the KPIs and SPTs are determined and agreed upon prior to the transaction closing.
2 Using social housing as an example, the sale of properties in any year by a Registered Provider of Social Housing could be >10 per cent of revenues. In such circumstances we would not exclude (as sustainable business financing) a loan to said Registered Provider of Social Housing providing revenues were otherwise >90 per cent generated from Eligible Social Activities.

Process for finance assessment and approval

For a finance transaction to be approved and considered as sustainable under this Framework, it must undergo both the Group's decision-making process (see 'Governance' on **page 12** of the Framework for details) and meet specific sustainable finance criteria. There are four key steps pertaining to this process:

01 Type of financing

An evaluation is conducted with reference to some of the elements as set out in the decision tree to determine whether the Finance transaction constitutes one of the three eligible types of financing under this Framework:

- Use of Proceeds
- Sustainability-linked
- Sustainable business financing

This is informed by market segment, and where appropriate for the Group's larger clients, by the Sustainability and Environmental, Social and Governance (ESG) Financing team.

02 Eligibility criteria

(i) To be considered a dedicated purpose Use of Proceeds financing (as defined on **page 06**), the proceeds must be used exclusively for Eligible Green Activities and/or Eligible Social Activities that align with the Eligibility Criteria as set out on **pages 14 to 26** of this Framework.

(ii) Sustainability-linked finance will be structured in line with the LMA SLLP.

(iii) Sustainable business financing must meet the eligibility criteria as set out on **page 06** of the Framework.

03 Approval process

All sustainability-linked loans are reviewed by the Group's Green Asset Eligibility Forum which is independent from the deal teams. All sustainability-linked bonds that fall within the scope of this Framework will have an independent external review.

All potential sustainable finance products that fall within the Use of Proceeds and sustainable business financing categories will be reviewed by central business teams and confirmed as eligible in accordance with the provisions of the Framework.

04 Identify financial mechanisms

For SLLs and SLBs, the financial benefits to incentivise the delivery of sustainability performance will be guided by market practice.

These are generally in the form of a margin or fee discount (although a penalty can also apply) which reduces the cost of debt to the client, if SPTs are achieved.

Overview
Qualifying Criteria
Environmental and Social Risk Management
Green Eligibility Criteria
Social Eligibility Criteria
Product Scope and Reporting Basis
Review Process
Reporting Overview

Qualifying criteria continued

Combination of categories

It is possible for a finance transaction to fall into more than one category of sustainable finance product as set out on **page 06**. In this instance, the Group will classify and report a transaction under only one of the three types of eligible financing to avoid double counting.

The decision tree set out on **page 08** of the Framework will aid the process for such classification: For example, a loan provided exclusively for financing green or social activities will be classed as 'Use of Proceeds' even if it also meets sustainability-linked criteria and/or is provided to an entity with over 90 per cent revenues from green and/or social activities.

Climate transition financing

While the Group recognises that climate transition financing plays a crucial role in the decarbonisation of high-emitting and hard-to-abate sectors, it is not currently included as a specific product category within the scope of this Framework or for reporting purposes[1] (i.e. beyond any transactions which may also be considered transitioning under sustainability-linked or Use of Proceeds financing). As the Group continues to develop and evolve this Framework, the Group will consider the inclusion of climate transition financing in the future, considering industry good practice and emerging sustainability standards.

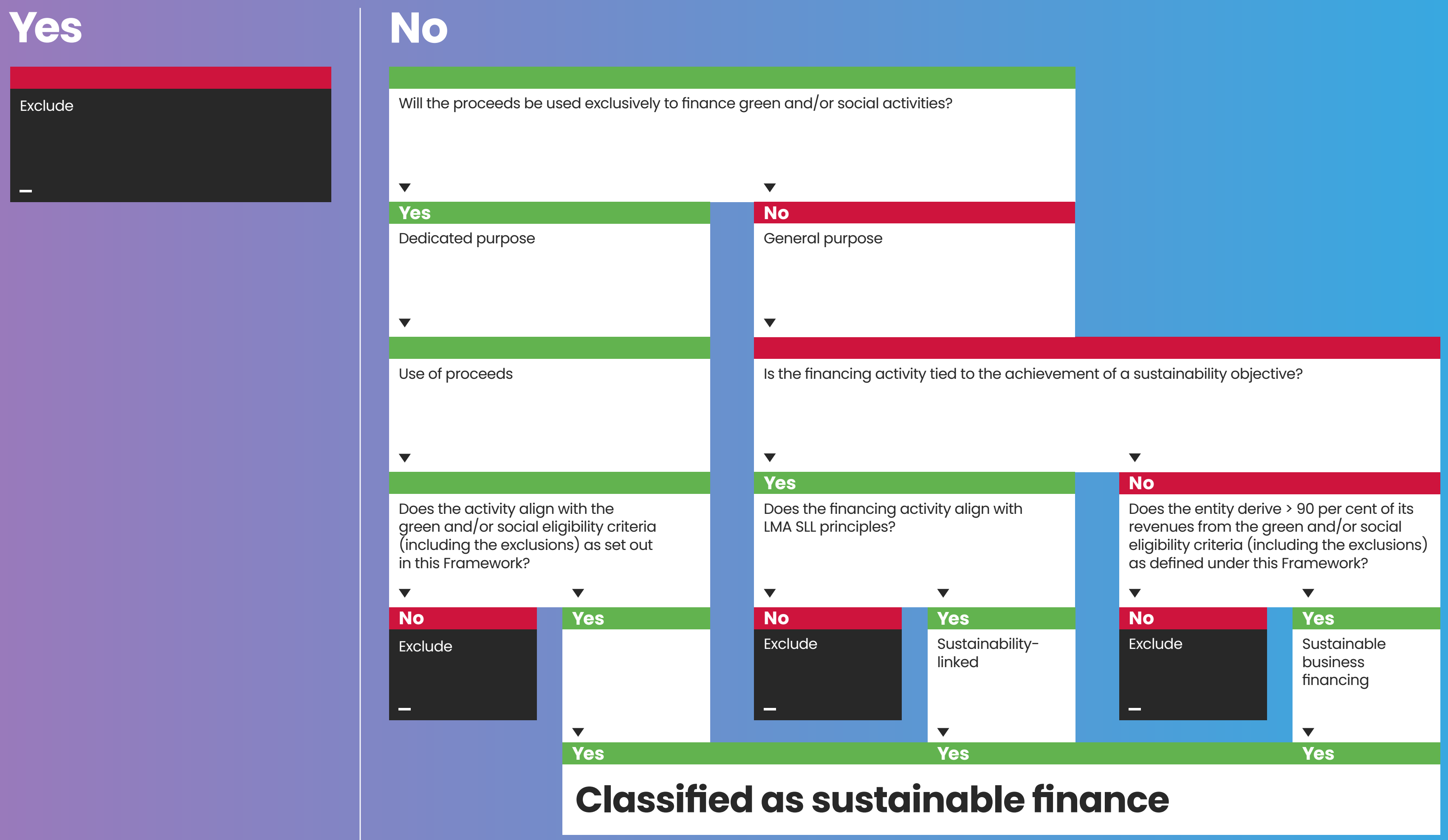
Nature financing

The Group recognises that there is an ever-increasing need to protect and restore our natural ecosystems and we continue to seek new ways of financing nature-related activities. The Group have therefore incorporated nature and/or biodiversity activities into the Green Eligibility Criteria under the 'Environmentally sustainable management of living natural resources and land use' and 'Terrestrial and aquatic biodiversity conservation' categories.

The Group's decision tree for Sustainable Financing activities

Does the financing fall under an exclusion in the Group's external sector statements?

The decision tree opposite sets out part of the methodology for determining Step 1 of the process for finance assessment and approval as to whether a financing activity can be considered as sustainable under this Framework. This will also be used to aid the classification and reporting of financing activities against the Group's sustainable finance targets. In addition, all requests for eligible funding will still be subject to the Group's usual credit processes and considerations.



1 Please note historic ESG financing reporting within the Group climate report has included a small £ million quantum of transition use of proceeds finance, e.g. for interconnectors (<1 per cent of the CIB 2022-2024 £15 billion target).

Use of Proceeds financing

Use of Proceeds loans
The GLP and SLP require that the following four core components should be present in a Use of Proceeds financing instrument. These are:

1. Use of Proceeds.
2. Process for project evaluation and selection.
3. Management of proceeds.
4. Reporting.

Use of Proceeds
As outlined on **page 06** of this Framework, to qualify as Use of Proceeds financing, the transaction must align with the Green Eligibility Criteria and/or Social Eligibility Criteria as set out on **pages 14 to 26** of this Framework[1]. These activities have been selected using guidance from industry standards, and market principles as set out on **page 06** (Approach).

For all borrowers using Use of Proceeds products, the specific use of the proceeds will either be clearly documented in an agreement or in a side letter which forms a part of a facility agreement. As a requirement, the activities for the use of the proceeds must correspond to activities in this Framework's eligibility criteria. In addition, alignment to borrower strategy will be considered by the Group's relationship manager/product sales colleague who will also cross-check with the Group's wider ESG policies and mandates as part of the wider credit approval process.

Process of project evaluation and selection
For Use of Proceeds financing, the process for project evaluation and selection will depend on the size of the transaction. For transactions undertaken by the Corporate and Institutional Banking division, the Group expects the Use of Proceed loans to follow the specific requirements within the GLP or SLP. For example, the borrower will need (as reasonably required by the Group) to:

1. Communicate clearly to the Group business units, the environmental sustainability objectives for an Eligible Green Activity and/or sustainability objectives for an Eligible Social Activity.
2. Share the processes by which the borrower determines how the activities to be financed fit within the Eligible Green Activities and/or Eligible Social Activities categories.
3. Provide any additional information on the processes by which the borrower identifies and manages perceived, actual or potential environmental and social risks associated with the relevant transactions.

These three points may be practically covered within the customer's business plan provided to the Group, or may be covered off through regular meetings and engagement between the borrower and the Group. Given the specific eligible activities within the Eligible Green Activities and Eligible Social Activities categories, each of the Group's business units will follow its own controls and processes for ensuring alignment of the relevant Use of Proceeds transaction with the eligibility criteria as set out in this Framework.

For the Group's Business and Commercial Banking and Retail Lending clients, due to the size of the loans, the Group instead sources data to validate the type of activity and its alignment with the eligibility criteria. This process is supported by the Group's Three Lines of Defence model (on **page 12** of the Framework on Governance).

Management of proceeds
In line with the Group's internal monitoring processes for Use of Proceeds financing, business teams will work with their clients to monitor loan proceeds.

The concept of proportionality will be applied in the Group's management of proceeds depending on the nature, sector and size of the borrower:

- For Asset Finance transactions, the Group will settle the invoice for the green capital expenditure
- For real estate transactions, loan drawdowns will be against development milestones or building certification
- Project finance transactions will have project accounts, and will be subject to project delivery milestones
- Corporate and Institutional Banking lending will typically have capital expenditure or investment milestones documented within the facility agreement or side letter
- Business and Commercial Banking lending will manage Use of Proceeds through client confirmation and tracking via the Group's regular relationship management engagement

1 Except for transactions which fall under the scope of the Group's Housebuilding Sustainability Finance Framework.

Each borrower in respect of a financial product to which this Framework applies will be required to hold the proceeds of the underlying loan in a sub-account or to otherwise track the funds. This will be managed practically through the Group's client relationship. For Asset Finance transactions the Group will send the Use of Proceeds to the supplier. For term loans the Group are reliant upon the terms and conditions of the loan, i.e. the facility letter and, in the case of Clean Growth Financing Initiative (CGFI), the side letter to the client which confirms Use of Proceeds.

Reporting
Reporting requirements for Use of Proceeds products will depend on the size of the loan, the type of customer and type of Eligible Green Activity and/or Eligible Social Activity. The Group's Corporate and Institutional Banking customers will provide required evidence that they have up to date information on the Use of Proceeds of the loan provided to them and keep this readily available.

Where practical, borrowers will be required to report on the Use of Proceeds from the loans. This will be reviewed annually until the relevant green loan or social loan is fully drawn (or until the loan maturity in the case of a revolving credit facility) and on a timely basis in the event of material developments.

For Corporate and Institutional Banking clients and deals, the Group will typically document ESG reporting requirements (e.g. generation capacity for renewables projects) within the wider financial reporting requirements within a facility letter.

Where certification (EPC rating, organic farming certification etc.) is key to determining green Use of Proceeds the Group will require completion certification to be provided to the Group. For Business and Commercial Banking the Group do not generally require formal reporting (although the Group do require certification evidence, e.g. EPC completion certificate where this is a determinant of Use of Proceeds) and instead this is practically reviewed between relationship manager and customer through their regular engagement. For Group Retail customers, for example with Homes and Motor financing, clients do not need to provide data to support a loan as the loan is provided for a specific purpose.

Qualifying criteria continued

Declassification
A declassification event (as defined in a financing agreement) may occur in relation to a Use of Proceeds product where, upon declassification, it will be treated as a conventional loan with any margin discount ceasing to apply. For the avoidance of doubt, declassification does not constitute an event of default under the relevant loan.

Sustainability-linked financing
Sustainability-linked financing is eligible for inclusion under this Framework if it has been assessed by the Group as aligning with the Sustainability-Linked Loan Principles (SLLP). These principles require compliance with the following core components:

1. Selection of the KPIs.
2. Calibration of the SPTs.
3. Loan characteristics.
4. Reporting.
5. Verification.

Selection of the key performance indicators
Sustainability-Linked Loans (SLLs) incentivise the borrower/issuer to improve its sustainability performance over the term of the finance aligning the loan or bond's economic and structural terms to the borrower or issuer's sustainability performance, which is measured using one or more sustainability KPIs.

The KPIs must be:

- Relevant, core and material to the borrower or the issuer's overall business and of high strategic significance to the borrower's/issuer's current and/or future operations and address relevant ESG challenges of its industry sector as outlined in the SLBPs and SLLPs
- Measurable or quantifiable on a consistent methodological basis
- Externally verifiable
- Clearly defined with a clear calculation methodology, a definition of a baseline and be benchmarked against an industry standard and/or industry peers where feasible

For SLLs the Group will engage directly with the borrower to understand the KPIs and how they meet this principle.

Calibration of the sustainability performance targets
The SPTs must be ambitious, represent a material improvement in the respective KPIs beyond a 'business as usual' trajectory and be consistent with the borrower/issuer's overall sustainability and business strategy.

They should also, where possible, be compared to a benchmark or external reference:

- The issuer's/borrower's own performance measurement over time is recommended on the selected KPI(s) for a minimum of three years (where feasible) and, when possible, including forward-looking guidance on the KPI The issuers'/borrowers' peers, i.e. the SPTs relative positioning versus its peers where available (average performance, best-in-class performance) and comparable, or versus current industry or sector standards where available
- Reference to science-based scenarios, or absolute levels (e.g. carbon budgets), or to official country/regional/international targets (Paris Agreement on Climate Change and net zero goals, Sustainable Development Goals (SDGs), etc.) or to recognised best available technologies or other proxies to determine relevant targets across environmental and social themes

For SLLs all SPTs set by the borrower will be reviewed by the Group's Green Asset Eligibility Forum (GAEF), where they are reviewed against the SLLPs, considering the factors as applicable:

- How the SPTs go beyond the 'business as usual' scenario and are ambitious and meaningful, objective and include a valid reference point for the SPT, e.g. using science-based scenarios such as the Science Based Target Initiative, Paris alignment or other recognised pathway
- Existence of a clear roadmap as to how the business will achieve SPTs, through highlighting the key levers/actions that are expected to drive the borrowers performance towards the SPTs as well as their expected impact, in quantitative terms wherever possible
- SPTs should be determined on a predefined timeline, set before (or concurrently with) the issuance of the loan as outlined in the SLLPs
- Timelines for the target achievement including target observation date(s)/period(s), the trigger event(s) and the frequency of review of the SPTs

- Where relevant, the verified baseline or science-based reference point selected for improvement, including the rationale for the baseline or reference point to be used where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place
- Any other key factors beyond the client's direct control that may affect the achievement of the SPTs

Loan characteristics
Each loan agreement will set out the terms including the financial and/or structural characteristics which vary depending on whether the selected KPIs do or do not reach the predefined SPTs.

These characteristics typically involve an interest margin ratchet. The specific ratchet structure will be dependent on various factors (e.g. size of the loan, number and type of KPIs) but will be assessed and checked by the GAEF (SLL) or the bond arranging banks (SLB) to ensure it is in line with market standards.

An SLL loan agreement will typically include a rider/rendezvous clause whereby if a KPI can no longer be calculated or is no longer (materially) applicable to the borrower, then the borrower and lenders will consult to replace or remove the KPI.

Qualifying criteria continued

Reporting
For both SLLs and SLBs the client will be responsible for reporting on the performance of the agreed KPIs against the SPTs. The KPIs, applicable ESG standards, calculation methodology and SPTs will be specified in the finance documentation. Reporting should be provided on an annual basis at a minimum and is typically required to feature the following information:

- Demonstration of achievement or not of the SPTs along with the external reviewer's assessment of the financing and related procedures outlining:
  - The selected KPIs, including the baseline where relevant
  - The performance against the SPT and the related impact, and timing of such impact, on a financial instrument performance
  - Any relevant information enabling the Group to monitor the progress of the KPI
- Information may also include when feasible and possible:
  - Illustration of the positive sustainability impacts of the performance improvement (qualitative or quantitative) and/or any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant
  - On a best endeavours basis, the client should publicly report information relating to their SPTs for transparency. This information will often be included in a client's integrated annual report, sustainability report or separate sustainability-linked impact report

Verification
For both SLLs and SLBs each client must obtain an independent and external verification of the client's performance against the SPT for each KPI, at least once a year. This will usually take the form of a sustainability compliance certificate being provided to the Group or Investors for SLBs by the client, together with third-party verification by a qualified external reviewer with relevant expertise, e.g. an auditor, environmental consultant and/or independent ratings agency. This should be provided at least annually and within the agreed time frames (as noted within the facility or finance agreement).

It is recommended that the verification of the performance against the SPTs should be made publicly available where appropriate. As opposed to any pre-signing external review such as a Second-Party Opinion (which is recommended for SLLs/SLBs), the post-signing verification is a necessary element of the SLLPs and SLBPs.

For SLLs, where a regulated entity (e.g. registered social housing provider or water/electricity/gas utilities) is using the same data for one or more KPIs that they/it submit to their/its regulator, the Group may accept this data submission in place of independent external verification. Where a KPI metric relates to a public certification, e.g. EPC rating or SAP score or other external formal audit or recognised certification, ratings or benchmarking process, then submitting that report or certification directly to the lender(s) may be accepted by the Group in place of independent external verification. In either case the Group may still request independent external verification or additional data if it has any data concerns.

Declassification
A declassification event (as defined in a financing agreement) occurs in relation to an SLL where, upon declassification, it will be treated as a conventional loan with any sustainability performance linked margin discount ceasing to apply. For the avoidance of doubt, declassification does not constitute an event of default under the relevant loan.

Sustainable business financing
Where 90 per cent or more of a client's revenues are considered Eligible Green Activities or Eligible Social Activities as per the tables set out on **pages 14 to 26** of the Framework, the Group will consider tagging these transactions as sustainable business financing. These are typically general purpose loans but can also be a combination of Use of Proceeds and Sustainability-Linked Financing[1]. In circumstances where a sustainable business financing loan is also a Sustainability-Linked Loan, such loan will need to adhere to 'Sustainability-lInked financing' on **page 10** of the Framework.

Evaluation and selection
The Group will review a client's revenues against the Eligible Green Activities and Eligible Social Activities within this Framework to determine if 90 per cent or more of their revenues 'map to' the Framework. This will be done practically through reviewing the client's annual reporting and accounts together with any additional information on client revenues that the Group has through its client relationship.

The Group will regularly review continuing achievement of the sustainable business financing thresholds through its ongoing relationship management with the client. This review will be independent and reviewed by the Group as well as by the relationship management and/or deal teams.

1 For reporting purposes, please see Eligible types of financing: Definitions on **page 06** and Combination of categories on **page 08**.

Governance

The Group have established governance to support the Group's ability to deliver against this Framework, leveraging established roles and responsibilities and committees for the management of risk, and integrating the Group's Framework criteria into the management and oversight of the Group's sustainable financing activities.

To ensure management actions are aligned to the Framework, the Group follow the principles of the Group's Three Lines of Defence ('3LOD') model, in particular:

- Structured oversight by BAU governance bodies at the Executive and Board level
- First Line of Defence accountability at the Executive level for compliance and reporting in accordance with the Framework criteria along with annual review of Framework suitability
- Independent review, challenge and assurance provided by second and third Line of Defence

The Group's Three Lines of Defence

Business lines and functional areas (first line) have primary responsibility for sustainable financing decisions as well as the capabilities to identify, measure, monitor and control the application of the Framework within their areas of accountability. They are required to establish effective governance and control frameworks for their business to be compliant with the Framework requirements, to maintain appropriate capabilities, mechanisms and toolkits, and to act within the Group risk appetite parameters set and approved by the Board.

Risk division (second line) is a centralised function, headed by Group's Chief Risk Officer, engaging with the first line, providing oversight and constructive challenge to the effectiveness of risk decisions taken by business management, providing proactive advice and guidance, reviewing, challenging and reporting on the risk profile of the Group and ensuring that mitigating actions are appropriate.

It also has a key role in promoting the implementation of a strategic approach to risk management reflecting the risk appetite and Enterprise Risk Management Framework (ERMF) agreed by the Board that encompasses:

- Overseeing embedding of effective risk management processes
- Transparent, focused risk monitoring and reporting
- Provision of expert and high-quality advice and guidance to the Board, executives and management on strategic issues and horizon scanning, including pending regulatory changes
- A constructive dialogue with the first line through provision of advice, development of common methodologies, understanding, education, training, and development of new risk management tools

The primary role of the Group Internal Audit (third line) in respect of this Framework is to help the Board and executive management protect the assets, reputation and sustainability of the Group.

Group Internal Audit provides independent assurance to the Audit Committee and the Board through performing reviews and engaging with committees and executive management, providing opinion, challenge and informal advice on risk and the state of the control environment.

Group Internal Audit is a single independent internal audit function, reporting to the Group Audit Committee, and the Board or Board Audit Committees of the sub-groups, subsidiaries and legal entities where applicable.

The primary role of the Group Internal Audit (third line) in respect of this Framework is to help the Board and executive management protect the assets, reputation and sustainability of the Group.

Environmental and social risk management

The Group have identified relevant risks and controls to ensure that the Group are correctly classifying and reporting sustainable finance products and propositions.

Risks are managed in established risk systems, ensuring that controls are embedded into the Group's existing Risk Management Framework and are regularly reviewed and attested to by risk owners. These controls are embedded within existing documented business processes, including appropriate allocation of roles and responsibilities for reviewing and validating sustainable financing.

The Group has published external sector statements and regularly reviews all of its customers with whom the Group has a direct lending relationship including direct loans within Scottish Widows.

Where such customers appear to be operating outside of the Group's risk parameters, the Group will work with its customers to understand how they plan to transition to meet the Group's risk parameters. If a customer does not transition to meet these parameters, the Group will exit the relationship at the earliest opportunity.

Risks are managed in established risk systems, ensuring that controls are embedded into the Group's existing Risk Management Framework and are regularly reviewed and attested to by risk owners.

Green Eligibility Criteria

Eligible Green Activities under this Framework are those activities that should provide clear environmental benefits. The section below sets out the criteria for classifying an activity as green, the related exclusions for the activity as well as the primary SDG contribution from each activity.

The list of Eligible Green Activities is expected to evolve over time. Additional activities that are subsequently added will have the same level of diligence applied to them to ensure consistency and the eligibility criteria will be reviewed on at least an annual basis.

For activities to comply they cannot be in contradiction with the rest of the eligibility and exclusionary criteria outlined in this Framework, nor can they be in contradiction with our external sector statements.

The Group also ensure that ESG-related risks are considered and reviewed for all Commercial Banking customers that bank with us, with specific commentary in new and renewal credit applications where total aggregated hard limits exceed (currently) £500,000 (excluding automated decisioning processes for smaller counterparties).

For Retail Lending the Group uses source data to validate the type of activity and its alignment with the eligibility criteria.

Energy generation, transmission, distribution and storage

Sub-theme	Eligible activities	Exclusions	SDG
Electricity generation	Renewable energy generation from the following technologies: • Wind power (onshore and offshore) • Solar photovoltaic (PV) • Concentrated solar heat and power generation (CSP), and other solar thermals where the large majority[1] of the electricity generated from the facility is derived from solar energy sources • Geothermal: Lifecycle GHG emissions from the generation of electricity from geothermal energy are lower than 100g CO_2e/kWh • Ocean energy (wave and tidal) • Electricity generation from waste biomass certified as being from sustainable sources[2] (e.g. FSC Forest Management Certification, ISCC, RSPO[3]). Lifecycle GHG emissions should be at least 80 per cent[4] lower for electricity generation from biomass when compared to a fossil-fuel baseline[5] • Hydropower/hydroelectric generation that complies with either of the following criteria: – The electricity generation facility is a run-of-river plant – **Operation before 2020:** 1) The power density of the electricity generation facility is above $5W/m^2$; 2) The life cycle GHG emissions from the generation of electricity from hydropower is less than 100g CO_2e/kWh – **Operation on or after 2020:** 1) The power density of the electricity generation facility is above $10W/m^2$; 2) The life cycle GHG emissions from the generation of electricity from hydropower is less than 50g CO_2e/kWh – The construction and operation of facilities used for cogeneration of heating/cooling and power from renewable energy, in line with the eligibility criteria as defined in this Framework – Any generation from an artificial reservoir would be subject to Lloyds Banking Group's criteria for hydrogeneration above • Improvements to output of existing renewable energy assets, e.g. larger turbines for old wind farms	• Biomass or biogas from peat and non-sustainably produced crops • In dedicated bio-waste treatment plants, the share of food and feed crops used as input feedstock cannot be more than 10 per cent of the input feedstock[6] • New biomass electricity generation with a total rated thermal input exceeding 20MW without carbon capture and storage or credible transition plans to fit it[7] • Large-scale hydropower (>25MW installed capacity) subject to review in terms of the Equator Principles	**SDG 7:** Affordable and clean energy **SDG 9:** Industry innovation and infrastructure **SDG 13:** Climate action

1 Facilities shall have no more than 15 per cent of electricity generated from non-renewable sources.
2 The Group may consider additional certification schemes so long as such schemes are considered to be equivalent to internationally-recognised certification schemes.
3 Forest Stewardship Council, International Sustainability and Carbon Certification, Roundtable on Sustainable Palm Oil, Sustainable Biomass Programme.
4 The GHG savings from the use of biomass are at least 80 per cent in relation to the GHG saving methodology and the relative fossil fuel comparator.
5 Fossil fuel baselines for biofuel production facilities: (1) Biofuels (for transportation) – 94 gCO_2e/MJ; (2) Bioliquids (production of electricity) – 183 CO_2e/MJ; and (3) Bioliquids (production of heat) – 80 CO_2e/MJ as per the EU Renewable Energy Directive II. For outermost regions and non-EU countries, the following baseline is applicable for electricity generation: 212 gCO_2eq/MJ.
6 Measured in weight, as an annual average.
7 Credible transition plan which is in line with science-based pathways.

Green Eligibility Criteria continued

Energy generation, transmission, distribution, and storage continued

Sub-theme	Eligible activities	Exclusions	SDG
Manufacture of biogas, biofuels, hydrogen and other low carbon gases	• Production of bioenergy (biogas and biofuels). Chain of custody is required if not already captured as part of certification requirements. Lifecycle GHG emissions should be at least 65 per cent[8] lower for the production of biofuels and biogas when compared to a fossil-fuel baseline[9] • Production of hydrogen with an emissions intensity of no more than 20g CO_2e/MJLHV of produced hydrogen up to the point of production • Production of sustainable transport fuel, e.g. SAF where this meets national or international input standards	• Any manufacture of fossil fuel gases • In dedicated bio-waste treatment plants, the share of food and feed crops used as input feedstock, measured in weight, as an annual average, is less than or equal to 10 per cent of the input feedstock • Food and feed crops are not to be used for the manufacture of biofuels for use in transport and for the manufacture of bioliquids	**SDG 7:** Affordable and clean energy
Electricity transmission and distribution	• Infrastructure directly connecting renewable energy or integrating renewable energy into existing transmission networks Assets supporting electricity transmission and distribution projects which facilitate the development of renewable energy projects by connecting them to the UK National Grid or European grid system • Installation of voltage/optimisation equipment/systems intended to reduce the curtailment of renewable energy from the grid • Activities that replace equipment or assets containing SF6 for a cleaner alternative	• Transmission and distribution lines directly connected or dedicated to unabated (without Carbon Capture Usage and Storage (CCUS) fossil fuel power)	**SDG 7:** Affordable and clean energy
Gas transmission and distribution (hydrogen)	The following transmission and distribution activities only where 0 per cent fossil fuel gas is being transported through the networks: • Construction or operation of new transmission and distribution networks dedicated to hydrogen, biogases or other low-carbon gases • Retrofit of existing natural gas transmission and distribution networks to 100 per cent low carbon hydrogen (no more than 20 gCO_2e/MJLHV)	• Gas network infrastructure associated with the transportation of fossil fuels gases • Infrastructure that connects to high-carbon sources of hydrogen and other gases (e.g. hydrogen produced from natural gas without CCUS)	**SDG 7:** Affordable and clean energy
Energy storage	• Energy storage technologies connected to renewable energy projects • Manufacturing of EV batteries and battery technology • Green energy storage options include: – Batteries – Thermal – Mechanical – Pumped hydro	• Energy storage connected or dedicated to unabated (without CCUS) fossil fuel power	**SDG 7:** Affordable and clean energy
Renewable energy technologies supply chain	• Development and/or manufacture of renewable energy technologies, including equipment for renewable energy generation and energy storage connected to renewables as defined under the 'Electricity Generation' sub-theme		**SDG 7:** Affordable and clean energy

9 Fossil fuel baselines for biofuel production facilities: (1) Biofuels (for transportation) – 94 gCO_2e/MJ; (2) Bioliquids (production of electricity) – 183 CO_2e/MJ; and (3) Bioliquids (production of heat) – 80 CO_2e/MJ as per the EU Renewable Energy Directive II. For outermost regions and non-EU countries, the following baseline is applicable for electricity generation: 212 g CO_2eq/MJ.

Green Eligibility Criteria continued

Built environment

Sub-theme

Commercial and Residential Buildings[1]

Eligible activities

Construction, acquisition or retrofitting of buildings:

Retail lending for residential buildings:
- Energy performance certificate (EPC) of B or better

Commercial lending for residential or commercial buildings:
- EPC Rating B or better
- Buildings identified as being in the top 15 per cent for primary energy demand
- Buildings certified to an acceptable level under an internationally-recognised green building certification scheme, such as:
  - BREEAM: Excellent or higher
  - LEED: Gold or higher
  - EDGE: Certified or higher
  - Home quality mark 4 or higher (residential buildings only)
  - NABERS 5 or above (commercial buildings only)
- Data centres: Alignment to the Climate Neutral Data Centre Pact (CNDCP) commitment targets for 2030[2]

Retrofitting (commercial lending for residential or commercial property only):
Retrofit of existing buildings (residential and commercial) which results in a 30 per cent reduction in energy use[3] or carbon emissions or to EPC B or better[4].

Loans or other credit provisions, the use of which is to deliver one or multiple eligible retrofitting activities. Retrofitting activities include, but are not limited to:

- LED lighting
- Heat pumps
- Solar water heating
- Water source heating
- Replacement or refurbishment of existing heating/cooling systems in buildings with more efficient, non-fossil fuel powered systems
- Refurbishment of heating, ventilation and air conditioning systems
- Installation, maintenance and repair of insulation
- Maintenance and repair of energy efficiency equipment
- Devices or technology for measuring, regulation and controlling energy performance of buildings (e.g. installation of voltage optimisation equipment/systems)
- Installation of energy management systems
- Installation, maintenance and repair of on-site renewable energy technologies
- Water efficiency improvements, e.g. water efficient toilets (dual flush devices/water displacement devices)
- Double/triple glazing
- Battery storage
- Resilience measures, e.g. products to enhance resistance to flooding such as flood doors and windows or demountable barriers

Exclusions

- Activities related to buildings directly involved in the exploration, extraction, refining and distribution of fossil fuels or unabated (without CCUS) use of thermal coal

SDG

SDG 7: Affordable and clean energy

SDG 9: Industry innovation and infrastructure

SDG 11: Sustainable cities and communities

SDG 13: Climate action

1 The Group's pricing discount propositions may require higher standards than those listed in the eligibility criteria.
2 This must be supported by external verification for the alignment to CNDCP.
3 Measurement can be calculated using a SAP score.
4 For the avoidance of doubt, this also includes retrofitting activities that move a rating from an EPC B to an EPC A.

Green Eligibility Criteria continued

Energy efficiency

Sub-theme	Eligible activities	Exclusions	SDG
Transmission and distribution systems	• The development, manufacture, installation of technologies or components designed for efficient transmission and distribution • Infrastructure for bioenergy sources as listed in 'Energy Generation, Distribution and Storage', which includes the refining of eligible biofuels and transportation/pipelines	• Energy efficiency improvements to transmission lines connected or dedicated to fossil fuel unabated power • Biofuel blending facilities	**SDG 7:** Affordable and clean energy
Industrial processes and supply chains	• Upgrades, improvement and installation of technologies and equipment which increases energy efficiency by 40 per cent for industrial and manufacturing processes and 50 per cent for agricultural processes • Development, manufacture and distribution of technology, equipment and software that are specifically designed to increase the energy efficiency of industrial and manufacturing processes such as demand management technologies • Industrial/utility energy efficiency improvements involving changes in processes, reduction of heat losses and/or increased waste heat recovery	• Projects to improve energy efficiency of equipment or technologies used in fossil fuel production and/or distribution • Projects using waste heat from fossil fuel production/operation • Operations linked to deforestation, peatland degradation, or damage of high-nature-value habitats such as wildflower meadows	**SDG 7:** Affordable and clean energy **SDG 9:** Industry innovation and infrastructure
Buildings and other infrastructure	• Development of ICT[1] solutions where the activities are predominantly aimed at the provision of data and analytics enabling GHG emission reductions • Deployment of fibre broadband to households and commercial premises	• Projects that improve the energy efficiency of fossil fuel-based energy generation (coal-fired power plants, oil, natural gas) • Energy efficiency projects in non-energy sectors which are considered carbon-intensive/high emitters (e.g. steel, cement) and do not have credible decarbonisation strategies in place	**SDG 7:** Affordable and clean energy **SDG 9:** Industry innovation and infrastructure
Energy efficiency technology	Development, manufacture, repair, maintenance or installation of energy efficiency technologies, products and systems including: • Smart meters for electricity • Energy efficient lighting • Highly efficient heating, ventilation and air conditioning (HVAC) systems • Distributed generation • Peak demand management • Devices measuring, regulating or controlling energy performance of buildings • Deployment of fibre broadband to households and commercial premises	• Projects that improve the energy efficiency of fossil fuel-based energy generation (coal-fired power plants, oil, natural gas) • Energy efficiency projects in non-energy sectors which are considered carbon-intensive/high emitters (e.g. steel, cement) and do not have credible decarbonisation strategies in place	**SDG 7:** Affordable and clean energy **SDG 9:** Industry innovation and infrastructure

1 Information and Communications Technology.

Green Eligibility Criteria continued

Energy efficiency continued

Sub-theme	Eligible activities	Exclusions	SDG
Equipment	Renewable powered (electric, biogas or hydrogen fuelled) equipment, access equipment or construction equipment (e.g. fork-lift trucks, scissor lifts and excavation machinery)		**SDG 7:** Affordable and clean energy

Environmentally sustainable management of living natural resources and land use

Sub-theme	Eligible activities	Exclusions	SDG
Sustainable agriculture	Investment in activities which support: • Agricultural activities and/or technology that results in the reduction of energy, water use and/or greenhouse gas emissions during operations. Examples include: the promotion or implementation of sustainable agricultural techniques and practices including no-till farming systems, hydroponics, soil recovery and restoration of degraded pasture, agricultural practices that use no synthetic fertilisers and pesticides, crop rotation for carbon sequestration, slurry management, hedgerow planting and nitrogen accumulation purpose • Certified sustainable farming (e.g. LEAF Marque certified) • Regenerative farming as evidenced by certification or following recognised principles and practices (e.g. minimal soil disturbance, maintaining living ground over, implementing livestock in arable systems) • Assets supporting sustainable agriculture which are compliant with organic farming legislation. These must be certified by 'approved control bodies' appointed by the UK government such as Organic Farmers & Growers, Organic Food Federation, Soil Association Certification, Biodynamic Association Certification, Quality Welsh Food Certification and OF&G Scotland[1] • Wildlife habitat management and restoration of degraded lands, including improving and restoring soil health • The protection of nature through the collection and use of agricultural waste and/or the management of wastewater and pollution • Sourcing and growing of alternative protein crops to replace non-certified soy for animal feed • Research and development of lab grown proteins and alternative proteins • Activities which enhance carbon sequestration and long-term storage of carbon from the atmosphere • Finance contributing to practices or projects eligible for environmentally-based subsidies or grants (e.g. ELMs, Countryside Stewardship, Higher Level Stewardship and devolved nations equivalents)	• Systems powered by fossil fuel including diesel except where there are no alternative options available at scale • Conversion from prime agricultural land and conversion from a natural landscape • Investment into machinery powered by any type of fossil fuel except where there are no alternative options available at scale • Livestock management projects for non-pasture-based meat production • Manufacture, purchase or distribution of inorganic, synthetic fertilisers, pesticides or herbicides	**SDG 12:** Responsible consumption and production **SDG 13:** Climate action **SDG 15:** Life on land
Sustainable fisheries	• Investment in activities which support Sustainable fisheries with certification under the Marine Stewardship Council (MSC), the Aquaculture Stewardship Council (ASC) or the Global G.A.P Standards		**SDG 12:** Responsible consumption and production **SDG 14:** Life below water

1 The Group may consider additional certification schemes so long as such schemes are considered to be equivalent to internationally-recognised certification schemes.

Green Eligibility Criteria continued

Environmentally sustainable management of living natural resources and land use continued

Sub-theme	Eligible activities	Exclusions	SDG
Sustainable forestry	Investment in activities which support: • Afforestation of previously non-forested land in compliance with Sustainable Forest Management requirements. This includes using tree species that are suitable for the specific site • Rehabilitation and restoration of forests, including reforestation and natural forest regeneration • Forestry systems and agroforestry systems targeted at smallholder farmers with sustainable forestry management plan in place • Sustainable forest management certified as meeting the UK Forestry Standard or UK Woodland Assurance Standard (UKWAS) • Sustainable certified Forest products produced in compliance with UK Woodland Assurance Standard (UKWAS), Forest Stewardship Council (FSC), Programme for Endorsement of Forest Certification (PEFC) or Woodland Carbon Code, or equivalent certifications or audits	• Conversion from prime agricultural land (Grade 1 and Grade 2 per Agricultural Land Classification System) and conversion from a natural landscape – no biodiversity degradation in conversion to forest • Monocrop plantations that do not produce a sustainable end product • Any forestry activities primarily related to production of biomass for power generation, unless deemed acceptable under the 'Energy generation, distribution and storage' category	**SDG 15:** Life on land

Sustainable water and wastewater management

Sub-theme	Eligible activities	Exclusions	SDG
Sustainable water management	Activities that improve water scarcity and water quality issues. For example: • Water treatment facilities • Desalination plants where the average carbon intensity of the energy used to power the plant must be at or below 100g CO_2/kWh over the remaining lifetime of the asset • Construction and operation of water reservoirs • Natural wetlands for water purification Activities that improve water efficiency. For example, technologies and products that reduce, reuse or recycle water, such as: • Smart irrigation systems (to reduce water usage), efficient irrigation (i.e. sprinkler and drip irrigation systems), rain water harvesting, creating or extending farm reservoirs • Development, manufacture, purchase and deployment of products and technologies that reduce and/or monitor water use • The front-to-end water collection, treatment and supply system is eligible provided that its performance in terms of energy consumption per cubic meter of final water supply is high or substantially improved	• Water projects that increase GHG emissions, water stress or water pollution from a business-as-usual baseline over the operational lifetime of the water asset or project	**SDG 6:** Clean water and sanitation
Sustainable wastewater management	Development, expansion, upgrade or maintenance of infrastructure related to: • Treatment of wastewater on a large scale • Construction or extension of centralised wastewater systems • Solutions to remove process emissions created from the treatment of wastewater • Products, services and projects that attempt to resolve water scarcity and water quality issues • Processes that facilitate treatment of wastewater on a significantly large scale, i.e. beyond compliance with legal requirements	• Wastewater treatment for fossil fuel operations and/or carbon-intensive sectors	**SDG 6:** Clean water and sanitation

Green Eligibility Criteria continued

Climate change adaptation

Sub-theme

Climate change adaptation

Eligible activities

Activities which support climate change adaptation, including nature-based solutions. Each must substantially reduce climate physical risks that are material to that activity. For example:

- Expenditures relating to the refurbishment or maintenance of existing infrastructure, which increases resilience against the physical impacts of climate change, e.g. extreme weather events such as floods and wildfires
- Data-driven climate monitoring solutions, such as climate observation, early warning systems for natural disasters and monitoring GHG emissions
- Development and/or use of Information Communication Technology solutions for collecting, transmitting, storing and using data and analytics to facilitate GHG emission reductions

Exclusions

- The adaptation solutions implemented do not adversely affect the adaptation efforts or the level of resilience to physical climate risks[1] of other people, of nature, of cultural heritage, of assets and of other economic activities; are consistent with local, sectoral, regional or national adaptation strategies and plans; and consider the use of nature-based solutions or rely on blue (water-based) or green (trees, hedges etc.) infrastructure, i.e. do something that deals with the problem while simultaneously enhancing nature and with much lower embedded emissions

SDG

SDG 13: Climate action

Terrestrial and aquatic biodiversity conservation

Sub-theme

Conservation, restoration and protection of land and aquatic environments and biodiversity

Eligible activities

- Activities dedicated to supporting conservation and protection of terrestrial, freshwater and marine environments
- Activities dedicated to the restoration of terrestrial, freshwater and marine environments. Examples of terrestrial, freshwater and marine environments include:
  – Salt marshes
  – Seagrasses
  – Peatlands
  – Forests
  – Woodlands
  – Rainforests
  – Grasslands
  – Coral reefs
- Activities which enhance carbon sequestration and long-term storage of carbon from the atmosphere
- Eliminate, minimise, reduce and or mitigate the impacts of invasive alien species on biodiversity and ecosystem services

Exclusions

- Activities which cause significant harm to any other environment

SDG

SDG 6: Clean water and sanitation

SDG 14: Life below water

SDG 15: Life on land

1 As defined by the **UK Climate Change Risk Assessment 2022**.

Green Eligibility Criteria continued

Circular economy adapted products, production technologies and processes and/or certified eco-efficient products

Sub-theme	Eligible activities	Exclusions	SDG
Circular economy adapted products, production technologies and processes	• Production of resource-efficient or low carbon products that are RSB[1]-certified (in case of bio-based materials) • Manufacture of aluminium through secondary aluminium recycling • Facilities which are used to increase the lifespan of existing products (e.g. repair, refurbish, recondition or predictive maintenance) • Sustainable and responsible sourcing of different raw materials and goods from certified sustainable sources (which may include Round Table for Responsible Soy, ISCC Europe, US SSAP)	• Equipment and technologies designed or intended for processes that are inherently carbon intensive, primarily driven or powered by fossil fuels • Facilities increasing the lifespan of existing products should not require pre-processing to put products back together to their original use • Where goods cannot be traced back to source, e.g. mass balance or credits	**SDG 11:** Sustainable cities and communities **SDG 12:** Responsible consumption and production

Pollution, prevention and control

Sub-theme	Eligible activities	Exclusions	SDG
Emissions management	• Activities which contribute to reduction of air pollutant emissions, for example NO_x and SO_x	• Projects that are applied in fossil fuel production and/or distribution and/or unabated use (without CCUS)	**SDG 13:** Climate action
Carbon capture and storage	• Carbon capture applied to electricity generation (with a life-cycle emissions intensity lower than 100g CO_2e/kWh), to industrial facilities, for production of blue hydrogen or for CO_2 removal, for example, through direct air capture • Transport and storage infrastructure for CCUS[2]	• Facilities where CCUS is only applied to part of the facility, or where the share of emissions captured and permanently stored is below 90 per cent • Projects that are applied in fossil fuel production or to use of coal or fossil gas for electricity generation • Projects that are applied in fossil fuel production and/or distribution and/or unabated use (without CCUS)	**SDG 13:** Climate action
Sustainable waste management	• Infrastructure to support more sustainable waste management, disposal, reuse and recycling of waste. This includes, but is not limited to: – Substituting virgin materials with recycled materials – Increasing the capacity utilisation of products or assets that encourages reuse of materials and therefore reduces waste, such as those encouraged by a sharing economy – Installation of recycling facilities • Facilities processing bio-waste (e.g. biodegradable food and garden waste) to produce compost for agriculture, municipal or Retail applications • Activities involving the treatment of bio-waste (anaerobic digestion and composting) with the resulting production of biogas and digestate, as listed in 'Energy Generation, Distribution and Storage'	• Chemical recycling of plastic • Any expenditures related to fossil fuels • In dedicated bio-waste treatment plants, the share of food and feed crops used as input feedstock cannot be more than 10 per cent of the input feedstock[3]	**SDG 12:** Responsible consumption and production

1 Roundtable on Sustainable Biomaterials.
2 CO_2 must be permanently stored, with appropriate leakage prevention and monitoring in place. Exploration and storage must comply with ISO 27914:2017 for geological storage of CO_2.
3 Measured in weight, as an annual average.

Green Eligibility Criteria continued

Clean transportation

Sub-theme	Eligible activities	Exclusions	SDG
Vehicles	Development, sale, leasing[1], operation and upgrade of low carbon transportation for people (excluding freight), which includes: • Vehicles (including electric motorbikes) and commercial vans with zero direct (tailpipe) CO_2 emissions, or plug-in hybrids (PHEV) until 31 December 2024 (with only zero direct CO_2 emissions thereafter) • Trains and passenger coaches with zero direct (tailpipe) CO_2 emissions, or trains with zero direct (tailpipe) CO_2 emission when operated on a track with the necessary infrastructure, but use a conventional engine where such infrastructure is not available (bi-mode) • Buses and coaches: Any zero-direct (tailpipe) CO_2 emission vehicles[2] or biogas buses which meet Renewable Transport Fuel Obligation (RTFO) or European Union Renewable Energy Directive certification • Sea and coastal passenger water transport[3]: – Any zero-direct (tailpipe) emission vehicles, or – Where it is not technologically and economically feasible to comply with the zero emission threshold, until 31 December 2024, vessels derive at least 25 per cent of their energy from zero (tailpipe) CO_2 emission fuels or plug-in power for their normal operation at sea and in ports	• Efficiency improvements involving conventional fossil fuel combustion engines • Vehicles dedicated to transportation of fossil fuels	**SDG 11:** Sustainable cities and communities
Infrastructure	• Infrastructure for personal mobility and cycle logistics (e.g. footpaths and bike paths) • Infrastructure dedicated to the operation of vehicles with zero tailpipe CO_2 emissions, e.g. electric charging points and hydrogen fuelling stations or biogas which meets RTFO or RED	• Infrastructure used for the transportation or storage of fossil fuels • Development and improvement of transport links to airports • New construction and existing road infrastructure retrofits, including roads, road bridges and parking facilities	**SDG 9:** Industry innovation and infrastructure **SDG 11:** Sustainable cities and communities
Freight transport	Development, sale, leasing, operation and upgrade of low carbon transportation for freight, which includes: Rail freight: • Trains and wagons with zero direct (tailpipe) CO_2 emissions • Trains and wagons with zero direct (tailpipe) CO_2 emission when operated on a track with the necessary infrastructure, but use a conventional engine where such infrastructure is not available (bi-mode) Road freight: • Vehicles with zero direct (tailpipe) CO_2 emissions • Low-emission[4] heavy duty vehicles[5] where it is not technologically and economically feasible to comply with zero direct (tailpipe) CO_2 emissions	• Efficiency improvements involving conventional fossil fuel combustion engines • Vehicles dedicated to transportation of fossil fuels	**SDG 9:** Industry innovation and infrastructure **SDG 11:** Sustainable cities and communities

1 Or other asset-specific financing.
2 All buses require a Zero Emission Bus (ZEB) certification.
3 Vessels designed and equipped for performing passenger transport, on sea or coastal waters, whether scheduled or not. This includes operation of ferries, water taxis and excursions, cruise or sightseeing boats.
4 A vehicle is considered a Low Emission Vehicle (LEV) if its CO_2 emissions are less than half of the baseline CO_2 emissions of its respective sub-group or comply with the Renewable Transport Fuel Obligation (RTFO) or European Union Renewable Energy Directive.
5 Vehicles that have a permissible maximum laden mass exceeding 7.5 tonnes must meet one of the following: i) Zero-emissions heavy-duty vehicles, or 2) where technologically and economically not feasible to comply with the criterion in point (i), 'low-emission heavy-duty vehicles' as defined in Article 3, point (12), of that Regulation.

Social Eligibility Criteria

Eligible Social Activities under this Framework are those activities that aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes for a target population(s).

Target populations include but are not limited to:

- Living below the poverty line
- Excluded and/or marginalised populations and/or communities
- People with disabilities
- Migrants and/or displaced persons
- Undereducated (including illiteracy/digital illiteracy)
- Underserved, owing to a lack of quality access to essential goods and services
- Unemployed
- Women and/or sexual and gender minorities
- Aging populations and/or vulnerable youths
- Other vulnerable groups, including as a result of natural disasters

This section sets out the criteria for classifying an activity as 'social', the related exclusions for the activity as well as the primary SDG contribution for each activity. The list of eligible activities is illustrative and not exhaustive.

Affordable housing

Sub-theme	Eligible activities	Exclusions	SDG
Affordable housing	Eligible assets to UK accredited or registered Housing Associations, which support the provision of affordable housing in the UK and contribute to enhanced access for low-income residents or marginalised communities. The Housing Associations, and not-for-profit organisations offer social rented, affordable rented and intermediate housing to specified eligible households whose needs are not met by the private market. To be classified as an Eligible Social Asset, the Housing Associations must be involved in the construction, management, or refurbishment of properties for at least one of the following: • Social Rent[1] • Affordable Rent[2] • Shared Ownership[3] • Supported Housing[4] In addition to lending directly to UK accredited and registered Housing Associations, Eligible Social Assets also includes mortgages to individuals/families purchasing their home under government backed schemes: • Shared Ownership, with an annual household income less than the national median[5] • Right to Buy[6] schemes Social benefit and target population: Supports universal access to decent housing which ultimately benefits individuals or families needing sheltered housing, individuals or families on low income and/or on income allowances or benefits, and homeless individuals.	• Shared ownership is capped at market value of the property	**SDG 1:** No poverty **SDG 10:** Reduced inequalities **SDG 11:** Sustainable cities and communities

1 Social Rent – Involves homes are provided by local authorities and housing associations. Rent levels are around 50-60 per cent of market rents for the local area and rent increases are limited by government. This usually results in a more secure, long-term tenancy than private renting.
2 A scheme open to a broader range of household incomes than social rent and involves homes provided by local authorities and Housing Associations with controls that ensure rents charged are no high than 80 per cent of local market rent. This scheme is also sometimes known as Intermediate Rent.
3 A scheme which allows applicants to purchase a share of a property (between 25 per cent and 75 per cent) from a Housing Association, paying an affordable rent on the part still owned by the Housing Association. An individual's eligibility to access shared ownership housing is subject to certain criteria and conditions including household income cap.
4 A scheme where housing, support and sometimes care services are provided to help people to live as independently as possible in the community. Examples include care, nursing, and sheltered housing.
5 The median (5th decile) annual house income in the UK was £44,663 for 2020/2021. Source: Office of National Statistics (Table 14: Average household incomes, taxes and benefits of ALL individuals by decile group, 2020/2021) 30 A scheme designed to allow long-standing tenants of Housing Association-owned property to purchase the property at a discount to the market.
6 A scheme designed to allow long-standing tenants of Housing Association-owned property to purchase the property at a discount to the market.

Social Eligibility Criteria continued

Affordable basic infrastructure

Sub-theme	Eligible activities	Exclusions	SDG
Telecommunication infrastructure and services	• Development of information and communications technology (i.e. telecommunication services and related infrastructure) that improves connectivity for an underserved target population • Activities which support digital inclusion for target populations		**SDG 9:** Industry innovation and infrastructure
Transportation and transport infrastructure	• Development and maintenance of transportation and transport infrastructure that improves connectivity and/or accessibility in underdeveloped, low or middle income markets • This includes development and maintenance of rural roads to enable access to essential services, e.g. education/health/food/water	• Development of highways in urban areas • Upgrade of highways and major roads, including in rural areas • Development of airports • Privatisation of highways • Construction of toll booths • Infrastructure which falls under the Group's general exclusions/external sector statements	**SDG 11:** Sustainable cities and communities
Energy infrastructure	• Development and expansion of transmission and distribution infrastructure that provides access to clean energy in underserved and emerging markets		**SDG 7:** Affordable and clean energy
Water and sanitation infrastructure	• Development, operation, refurbishment and maintenance of water, sewer and sanitation-related infrastructure to ensure access to safe and affordable drinking water and equitable sanitation and hygiene to the target population	• Desalination projects without appropriate waste management plan for brine disposal or with dedicated on-site fossil fuel power	**SDG 6:** Clean water and sanitation

Access to essential services

Sub-theme	Eligible activities	Exclusions	SDG
Healthcare	• Development, expansion or acquisition of any buildings or facilities at any hospital, clinic, mental health facility or healthcare facility, including community-based healthcare that improves access to safe and affordable healthcare to the target population • Research and development of new medicines, treatments, vaccines or health equipment to provide access to medicines that will be affordably priced or subsidised to the target population • Development, provision or distribution of medical equipment that improves access to safe and affordable healthcare to the target population • Provision of affordably priced or subsidised medicines on the World Health Organisation (WHO) essential medicines list to target populations • Infrastructure, equipment, training or financing to address a public health crisis emergency response (including COVID-19)	• Private healthcare facilities that are for-profit	**SDG 3:** Good health and well being

Social Eligibility Criteria continued

Access to essential services continued

Sub-theme	Eligible activities	Exclusions	SDG
Education	• Construction, development, expansion or operation of education facilities (including public universities, schools, colleges, training centres) to promote access to affordable and quality education to the target population • Projects to train educational professionals, for example sponsorship or apprenticeship programmes, in skills which are currently/expected to be in demand in the UK	• Private schools that are for-profit	**SDG 4:** Quality education
Access to financing	• Financing/advisory services for micro, small, and medium-sized enterprises, for example, community banking programmes which provide wholesale finance to community lenders to deprived regions	• Payday loans • High interest Monetary Financial Institution (MFI) loans • Loans to businesses involved in weapons or ammunition	**SDG 8:** Decent work and economic growth

Employment generation

Sub-theme	Eligible activities	Exclusions	SDG
Employment generation	• Capability building and services aimed at improving the employability and upskilling a target population to achieve productive employment and decent work for occupations that are currently/expected to be in shortage in the UK • Support micro, small and medium-sized enterprises that qualify on the basis of credible job creation, entrepreneurship and innovation programmes for target populations and which will provide real economy impacts for the region in which they operate	• Payday loans • High interest MFI loans • Loans to businesses involved in weapons or ammunition • Commercial development and private sector projects for carbon-intensive industries	**SDG 8:** Decent work and economic growth

Food security and sustainable food systems

Sub-theme	Eligible activities	Exclusions	SDG
Food and water security	• Investment in the manufacture, logistics, provision and distribution of nutrition (food and potable water) that address malnutrition and food security for a target population	• Promotion of agricultural products that are forbidden under WHO Class I and II hazardous products • Projects involving livestock for industrial-scale meat processors or producers	**SDG 2:** Zero hunger
Sustainable food systems	• Investment in infrastructure to reduce food losses along the production and supply lines including efficient farming practices, adequate storage facilities and improved food conservation and connectivity, provided such infrastructure does not meet any of the exclusions outlined in this Framework	• Promotion of agricultural products that are forbidden under WHO Class I and II hazardous products • Projects involving livestock for industrial-scale meat processors or producers • Projects involving livestock for industrial-scale meat processors or producers	**SDG 2:** Zero hunger

Social Eligibility Criteria continued

Socioeconomic advancement and empowerment

Sub-theme	Eligible activities	Exclusions	SDG
Socioeconomic advancement and empowerment	• Financing to organisations that enable socioeconomic advancement and empowerment to minority ethnic background and female-led businesses • Provision of technology to target social populations	• Businesses cannot be in contradiction with the rest of the eligibility and exclusionary criteria outlined in this document	**SDG 5:** Gender equality **SDG 10:** Reduced inequalities
Community development financial institutions	• Financial support to small regional community banks who lend to MSMEs, including minority ethnic and female-led entrepreneurs in deprived regions	• Religious and political institutions • Businesses that fall under the Group's general exclusions/ external sector statements	**SDG 17:** Partnerships for the goals

Financing charities and non-profit institutions

Sub-theme	Eligible charities and non-profit institutions	Exclusions	SDG
Financing charities and non-profit institutions	Financial support for the activities of registered charities, and other philanthropic organisations with the specific purpose of supporting programmes aimed at benefitting vulnerable populations including: • Beneficiaries living below the poverty line • People with disabilities • Migrants/displaced persons • The undereducated • The unemployed • The homeless and access to housing • Victims of financial and domestic abuse • Victims of modern slavery and human trafficking • Vulnerable groups as a result of natural disasters • Have the specific purpose to advance the green/social activities defined in this Framework	• Religious and political institutions • Private schools registered as charities	**SDG 17:** Partnerships for the goals

Product scope and reporting basis

The table on this page captures the list of products within the scope of this Framework and those which contribute towards the sustainable financing targets as set out on page 04 as at the date of the most recent review.

Although the Group currently offer Use of Proceeds and sustainability-linked derivative products (Rates and FX), these are not included in the product scope table and will not therefore contribute towards the Group's sustainable financing targets under this Framework. The Group will, however, continue to develop these products in line with market standards and consider including them in future iterations of the Framework. These products are also required to undergo the same assessment process as set out in the Governance section of this Framework.

Product scope and reporting basis

Business entity	Division	Product	Product description	Reporting basis
Commercial	Capital markets	Green bonds	See definition for Use of Proceeds as per **page 09**	Where the Group is the Bookrunner the Group will include our pro-rata share of the bond size £ million[1].
		Social bonds		
		Sustainability bonds		
		Sustainability-linked bonds	See definition for sustainability-linked financing on **page 10**	
	Lending	Green lending and working capital – Use of Proceeds	See definition as per Use of Proceeds on **page 09**	• The Group will include gross lending (limits) of new lending. Lending includes Term Loans, Revolving Credit Facilities, Overdrafts, Invoice Financing/Factoring and Committed Contingent Liabilities • The Group include re-finance lending to clients where the maturity date is extended (but would not include within reported numbers again if a loan was only extended by 12 months) • The Group include the incremental lending amount where an existing loan/facility is being increased • The Group include the day one limit booked for loan underwriting • Where the Group have structured, arranged and 'placed' lending for a third-party non-bank (a private placement) the Group include the Day 1 commitment **Exclusions** • The Group will exclude uncommitted facilities until they become committed/issued/drawn • For loans with ESG KPIs: 1.) the Group will exclude oil and gas upstream and super-major clients on a sector exclusion basis; 2.) The Group will exclude loans with ESG KPIs, where in the Group's opinion, these do not fully meet the LMA Sustainability-Linked Loan Principles • Exceptions will be reviewed via the Group's Green Asset Eligibility Forum and noted as exceptions for year-end Divisional and/or Group governance sign-off and explicitly flagged for review to the Group's limited assurance provider. Derivatives are excluded
		Social lending and working capital – Use of Proceeds	See definition as per Use of Proceeds on **page 09**	
		Sustainability-linked lending and working capital	See definition for sustainability-linked financing on **page 10**	
		Sustainable business financing lending and working capital	See descriptions for sustainable business financing on **page 11**	
Retail	Homes	Green lending – Use of Proceeds	See definition as per Use of Proceeds on **page 09**	New mortgage lending on new and existing residential property that meets an Energy Performance Certificate (EPC) rating of B or higher, reported as £ billion.
	Transport	Green lending – Use of Proceeds	See definition as per Use of Proceeds on **page 09**	New lending advances for Black Horse and operating leases for Lex Autolease (gross); includes cars and vans and Tusker.

1 We do not include deals in our reporting where the Group is acting as co-manager.

Review process

Framework review process

The Framework will be reviewed at least annually to ensure it stays aligned with industry standards, regulatory requirements and good practice. Any updates to the Framework will be applicable to transactions entered into after the date that such updates take effect unless otherwise stated.

The Group will endeavour to keep up to date with any changes via internal 'horizon scanning' activities. In addition to this the Group will engage with external partners to assist in an annual assessment to ensure that the Group stays up to date in respect of external activity including any changes to taxonomy or regulation.

Materiality of any changes will be assessed, and recommendations made, to the Group's established Group Net Zero Committee who will be responsible for deciding whether an update to the Framework is required.

The Group's externally reported sustainable finance progress at each year end will be subject to limited assurance as part of the annual external auditor engagement.

Given that this is an evolving market, the Group business units, which are responsible for approving transactions to be eligible under this Framework, have the right to exclude a transaction from the sustainable finance reporting figures, should regulatory requirements change prior to the Framework being updated. Any such changes will be documented and referenced as part of future versions of this Framework.

External review

For certain transactions, the Group may decide to use an external provider to support a review process. This will be carried out on a case-by-case basis when deemed appropriate.

Second-Party Opinion

The Group appointed DNV to provide an independent Second-Party Opinion (SPO) on the Framework. The SPO confirms the Framework's alignment to the GLP 2023, the SLP 2023 and the SLLP 2023, as published by the LMA. A copy of the SPO can be found on the Group's website **our download centre**.

Materiality of any changes will be assessed, and recommendations made, to the Group's established Group Net Zero Committee.

Reporting overview

Framework reporting

Each transaction will be assessed to ensure there is accurate reporting of eligible activities as documented under this Framework. Tracking of this information will be actioned using the Group's internal systems and external data where appropriate (e.g. for public capital market transactions).

The Group's sustainable financing is tracked and monitored regularly with quarterly updates provided to the Group Executive Committee and Group Net Zero Committee.

The Group's current sustainable finance targets are set with reference to various sectors based on the definitions set out in this Framework and these may be subject to change over time. Should these be materially revised the Group will consider the implications for the Group's targets, while ensuring the implied level of ambition is either maintained or increased.

The Group has committed to the principle to report to the best of our ability at all times using the best available data. It is likely that, over time, this will mean that the Group may need to restate targets as new data becomes available and processes and systems are updated to ensure more reliable data capture. The Group's ambition is to periodically review the Group's ability to collect data and report on allocations, green and social impacts from the financing under the Framework on an aggregated basis.

The Group will externally report progress of sustainable financing under this Framework as part of the annual sustainability reporting alongside its annual report & accounts, available on the Group's website. Reporting against sustainable financing targets will be subject to external assurance as detailed within the annual report. Where possible, the Group may publish case studies on green and social impact of our sustainable financing under the Framework as part of the annual sustainability reporting.

Disclaimer

The Group notes that there is currently no global framework or taxonomy, or consistently applied legal or regulatory definition, as to what constitutes an 'ESG' (Environmental, Social, or Governance), 'Green', 'Social', 'Sustainable' or equivalent labelled product, or as to what precise attributes are required for a particular product, investment, or asset to be defined as 'ESG', 'Green', 'Social', Sustainable, or with an equivalent label, nor can any assurance be given that such a clear global definition or consensus will develop over time.

The Group is providing this Framework to assist its customers, potential customers, and other third parties regarding Group's own current position in view of the possibility of different interpretations of these terms, as they develop over time.

Any information contained or referred to herein, in relation to any actual or potential ESG objective, issue or consideration is not intended to be relied upon for the classification purposes of the EU Sustainable Finance Disclosures Regulation, EU Taxonomy Regulation, or equivalent classification regimes (Classification Regimes).

While the Group has obtained information from sources considered to be reliable, the Group provides no representation that any third-party ESG information or data is accurate or complete, or that it has (itself or via a third party) taken any steps to verify such information or data. Accordingly, the Group does not accept any liability whatsoever for any direct, indirect, or consequential loss arising from any actions or inactions undertaken in reliance on third-party information or any other content contained herein or in relation to determinations made under the Classification Regimes by investors, users and other relevant persons.

Investors, users, and other relevant persons are reminded that differences in interpretation are possible. Different persons (including third-party data providers, investors and other financial institutions) may apply different interpretations, standards and criteria, including through use of internal methodologies, and arrive at different conclusions. Investors, users and other relevant persons are advised to obtain their own independent financial, legal, regulatory, tax or other advice as necessary to make their own investment decision as to whether a product, investment or asset meets their ESG needs, including ESG performance, ESG alignment and alignment to or compliance with any regulatory regime (including, without limitation, the Classification Regimes).

No offer of securities or investments

The information, statements and disclosure herein do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments, or any advice or recommendation with respect to such securities or other financial instruments.

This Framework, the information, statements and disclosure included in this Framework are not formally part of any offering documents and are not contractually binding. The Framework is not intended to form part of any communication of any offering issued under this Framework and it is not intended to be an advertisement for the purposes of the UK Prospectus Regulation and investors should not make any investment decisions based on the information included in this Framework.

Glossary of terms

Glossary of terms

Term	Description
Business and Commercial Banking (BCB)	Business and Commercial Banking serves the financial needs of small and medium-sized businesses that support the Group's ability to help Britain prosper. This is achieved through a portfolio of specialised products that cover business loans, transactional banking and working capital.
Carbon Capture, Usage and Storage (CCUS)	A technology that can capture and make effective use of the high concentrations of CO_2 emitted by industrial activities.
Clean Growth Financing Initiative (CGFI)	CGFI is an initiative within the BCB and CIB businesses within the Group to provide discounted lending for new/additional green investment and capital expenditure and help British businesses reduce environmental impacts including water, waste and energy usage/greenhouse gas emissions.
Climate Bonds Initiative (CBI)	Climate Bonds Initiative (CBI) is an international organisation working to mobilise global capital for climate action through the development of the Climate Bonds Standard and Certification Scheme, policy engagement and market intelligence work.
Climate Bonds Standard (CBS)	The Climate Bonds Standard (CBS) is a Paris-aligned certification of debt instruments, entities and assets designed for bond issuers, governments, investors and the financial markets to prioritise investments which genuinely contribute to addressing climate change.
Corporate and Institutional Banking (CIB)	This is one of the business units within the Group which looks after clients with a turnover of £100 million or higher.
Eligibility Criteria	The criteria for classifying financial transactions as sustainable finance as outlined on **page 06**.
Eligible Green Activity	A development activity where the activity meets the relevant eligibility criteria as detailed on **pages 06** and **14 to 22**.
Eligible Social Activity	A development activity where the activity meets the relevant eligibility criteria as detailed on **pages 06** and **23 to 26**.
Energy Performance Certificate (EPC)	An EPC measures how energy efficient a property is on a scale of A-G (with 'A' being the most efficient grade). A Commercial EPC is required for a commercial building when it is constructed, sold, or let. The EPC Certificate gives information about the energy efficiency of the building to owners, prospective buyers, and tenants.
Environmental, Social and Governance (ESG)	ESG stands for Environmental, Social and Governance and form a set of standards for a company's behaviour used by socially conscious investors to screen potential investments: • Environmental factors consider the quality and functioning of the natural environment • Social factors consider the rights, wellbeing and interests of people and communities • Governance factors consider the policies or practices by which a company is directed or controlled
External sector statements	The Group's risk appetite for managing climate risk is outlined in its published external sector statements, and forms one of the ways in which the Group seeks to manage and control climate risk. These sector statements outline what types of activities the Group will and will not support and reflect the approach the Group takes to the risk assessment of the Group's customers. They are publicly available on the Responsible Business downloads centre: **our downloads centre**.
Framework	This document which sets out Lloyds Banking Group's Sustainable Financing Framework. It has been designed as a methodology for classifying whether certain financial products and services offered by the Group may be described as sustainable for the purpose of tracking and disclosing the Group's progress against its sustainable financing targets.
Green Asset Eligibility Forum (GAEF)	The Green Asset Eligibility Forum is a forum comprised of senior colleagues from across the Business and Commercial Banking and Corporate and Institutional Banking business units including Portfolio Analytics, Lending products, Risk, Coverage and Sustainability & Responsible business. This forum sets the eligibility criteria for loans propositions with these business units and convenes meetings to consider client transactions.

Glossary of terms continued

Term	Description
Green Bond Principles (GBP)	The Green Bond Principles (GBP), defined by the International Capital Markets Association (ICMA) in the link below, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. **Green Bond Principles (icmagroup.org)**
Green Bonds (GBs)	Green Bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible green projects and which are aligned with the four core components of the GBP.
Green Eligibility Criteria	The criteria for classifying an eligible activity as green as set out on **pages 14 to 22**.
Green Loan Principles (GLP)	Green Loan Principles are a high-level framework of market standards and guidelines, published by the LMA together with the Asia Pacific Loan Market Association and the Loan Syndications and Trading Association and with the support of the International Capital Markets Association, providing a consistent methodology for use across the green loan market.
Group	Group means the group of companies including Lloyds Banking Group plc and all of its direct and indirect subsidiaries.
International Capital Markets Association (ICMA)	The International Capital Markets Association (ICMA) is a trade association for the international capital market with over 600 member firms from 66 jurisdictions globally, including issuers, banks, asset managers, central banks, infrastructure providers and law firms.
Key Performance Indicator (KPI)	Key performance indicators (KPIs) are quantifiable measures that gauge a product, individual or company's performance against a set of targets, objectives or industry peers. To differentiate these from an SPT a KPI is the metric we're choosing to measure.
Limited Assurance	Limited assurance is the baseline level of assurance, wherein the independent auditor obtains 'sufficient and appropriate evidence', limiting assurance to specific aspects of the sustainability report. Limited assurance provides a lower level of assurance than reasonable assurance, is usually less costly, and is the most common type of assurance that large companies voluntarily get for ESG data, including climate-related information. Limited assurance is most appropriate in situations where the risk of a material misstatement would be low and the cost of obtaining reasonable assurance too high.
Loan Market Association (LMA)	The Loan Market Association aims to improve liquidity, efficiency and transparency in the primary and secondary syndicated loan markets in Europe, the Middle East and Africa.
Operating Model Framework	Internal document outlining roles, responsibilities and controls supporting the operation and use of the Framework.
Second-Party Opinion (SPO)	A Second-Party Opinion (SPO) is an independent, point-in-time analysis of a sustainable finance instrument, programme, or framework which provides investors with assurance that the instrument is aligned to accepted market principles and standards.
Social Bond Principles (SBP)	The Social Bond Principles (SBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market by clarifying the approach for issuance of a Social Bond. **Social Bond Principles (icmagroup.org)**
Social Bonds (SBs)	Social Bonds (SBs) are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects and which are aligned with the four core components of the SBP.
Social Eligibility Criteria	The criteria for classifying an eligible activity as social as set out on **pages 23 to 26**.
Social Loan Principles (SLP)	The Social Loan Principles (SLP), developed by the Loan Market Association (LMA), are voluntary recommended guidelines which aim to promote the development of the social loan product by providing a framework of market standards and guidelines for use across the social loan market, while allowing the loan product to retain its flexibility and preserving the integrity of the social loan market while it develops.
Standard Assessment Procedure (SAP)	Refers to the process of calculating and determining the energy performance of buildings and homes.

Reporting overview continued

Glossary of terms continued

Term	Description
Sustainability Bond Guidelines (SBG)	The Sustainability Bond Guidelines (SBG) are voluntary process guidelines for issuance of Sustainability Bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects. **Sustainability Bond Guidelines (icmagroup.org)**
Sustainability Bonds	Sustainability Bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance a combination of both green and social projects. Sustainability Bonds are aligned with the four core components of both the GBP and SBP with the former being especially relevant to underlying green projects and the latter to underlying social projects.
Sustainability-Linked Bonds (SLBs)	Sustainability-Linked Bonds (SLBs) are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives.
Sustainability-Linked Loan Principles (SLLP)	The Sustainability-Linked Loan Principles (SLLP) are voluntary recommended guidelines which aim to promote the development of the sustainability-linked loan product by providing a recommended framework to articulate the fundamental characteristics of SLLs.
Sustainability-Linked Loans (SLLs)	Sustainability-Linked Loans are types of loan instruments which incentivise the borrower's achievement of ambitious, predetermined sustainability performance objectives.
Sustainability Performance Targets (SPTs)	Sustainability Performance Targets are the objectives (described in terms of KPIs) to be met by a client under an SLL.
Sustainability-Linked Bond Principles (SLBP)	The Sustainability-Linked Bond Principles (SLBP), developed by the International Capital Markets Association (ICMA), are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance of SLBs.
Sustainability Bond Framework	The Group's Bond Framework is a separate document which defines the eligibility criteria for bonds issued by the Group to be described and reported as sustainable on the Group's website **our download centre**.
Sustainable Business Financing	Sustainable business financing products are products that provide financing and/or refinancing to a business which has 90 per cent or more of its revenue generated from Eligible Green Activities, Eligible Social Activities or a mixture of Eligible Green Activities and Eligible Social Activities. Alternatively known in the industry as 'Pure-Play'.
Sustainable Development Goals (SDG)	Collection of 17 interlinked objectives designed to serves as a shared blueprint for peace and prosperity for people and the planet created by the United Nations General Assembly in 2015.
Sustainable Financing Targets	Targets set by Lloyds Banking Group in relation to Sustainable Lending and Investments.
Use of Proceeds (UoP)	Financing exclusively for projects and activities focused on an Eligible Green Activity and Eligible Social Activity.

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