

LLOYDS
BANKING GROUP



Financing a green future

Lloyds Banking Group Climate Report 2021





About Lloyds Banking Group

We are the largest UK retail and commercial financial services provider with around 26 million customers and a presence in nearly every community.

For over 320 years, with our unique family of brands, we have supported Britain through the good times and the bad. As the UK's largest retail and commercial financial services provider, and with a presence across the country, we have an important role to play in supporting the economy through lending, deposits, risk management and the efficient flow of funds, while working with others to help build an inclusive, greener and more resilient economy.

Our reporting

We take an integrated approach to reporting that reflects the way we operate. This report contains disclosures aligned to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures. TCFD-related disclosures can also be found in the Lloyds Banking Group 2021 Annual Report and Accounts. Supplementary information and disclosures are provided in the following documents, and referenced throughout this report.

See our 2021 performance reports at www.lloydsbankinggroup.com/investors.html

This report contains forward-looking statements relating to the Group's future financial condition, performance, results, strategic initiatives and objectives. For further details, please refer to page 72.

[Our 2021 ESG Report](#) ↗

[Our 2021 Annual Report and Accounts](#) ↗

[Scottish Widows TCFD Report¹](#) ↗

¹ Report to be published in March 2022 and will be available on the Scottish Widows website.





Statement from our Group Chief Executive

Supporting the transition to a low carbon economy



Climate change is one of the most urgent issues facing society today. We have an important role to play in supporting the transition to a low carbon economy.



Tackling climate change is fully aligned to our purpose of Helping Britain Prosper which forms the basis of our new strategy to profitably deliver for all of our stakeholders. Given our scale and leading position, we are well placed to achieve this.

I am pleased to share our first standalone Climate Report that focuses on the recommendations from the Task Force on Climate-related Financial Disclosures. Our ambition for this report is to provide insight into our net zero transition strategy, the progress we have made towards our ambitions and how we'll continue to embed climate considerations across our business.

The world keeps evolving and we have seen an increased focus and ambition in tackling climate change. We recognise that setting an ambition is just the first step, and we know people want less talk and more action.

We have made strong progress over the past few years in working with our customers, government and the market to support the UK's transition. Highlights include delivering more than £6.9 billion of green and ESG related finance in 2021, Scottish Widows' investment in the Climate Transition World Equity Fund (co-created with BlackRock) reaching more than £5 billion and our funding of one in ten new electric cars on the road today.

Our focus on sustainability is core to our new strategy. We are focused on building an inclusive society and supporting the transition to a low-carbon economy as this is where we can make the biggest difference, while creating new avenues for our future growth. It is only by doing right for our colleagues, customers and communities that we can achieve higher, more sustainable returns for investors, whilst meeting the needs of broader stakeholders.

We are reinforcing our prior commitments, targeting net zero for the activities we finance by 2050 or sooner, by working with our customers, the market and the Government. Our focus will also enable us to access fast growing areas linked to environmental sustainability such as infrastructure finance and electric vehicle financing.

Our strategy includes a number of stakeholder outcomes that will help finance the transition of our customers for green mortgages, electric vehicle financing, sustainable finance for businesses and investments in climate aware investment strategies through Scottish Widows. In addition, we aim that our own operations will be net zero by 2030. We have included specific measures tied to our environmental sustainability ambitions in our senior executive performance measures in our Group Balanced Scorecard.

The transition across many sectors will be complicated, and the full journey to net zero is not clear yet. To reach our ambitions we'll need new policies and technology. In the meantime we must act, financing the practical steps we can take now to reduce emissions. We won't get this right first time, every time. We will need to adjust our strategy in partnership with Government, the market and our customers as we progress together.

We support clients in all sectors and recognise that the challenges and trajectory of transition will look different for each sector, with certain sectors facing more significant challenges to decarbonise than others, such as agriculture and the built environment. We also believe that a divestment strategy can be one of the levers used to incentivise action. However, focusing solely on divestment is not in line with our purpose and we want to finance the changes needed to live and do business more sustainably, in line with a just transition.

Recognising our role in helping to finance the transition to net zero, we have outlined three of our immediate actions in this Climate Report: 1) publishing our sector ambitions and prioritised transition plans; 2) increasing our pace through increased investment; and 3) collaborating with partners to drive progress.

Firstly, we are publishing new ambitions for three of our highest emitting sectors: motor (Retail), oil and gas and thermal coal, which complement our existing ambition for the power sector. These will evolve and we will continue to refine them to reflect the latest methodology, data and processes. We will follow this up by publishing an additional set of sector ambitions in line with the Net-Zero Banking Alliance (NZBA) timelines, including ambitions for our automotive activity beyond Retail (motor), transportation and residential mortgage portfolios later in 2022.

To demonstrate our strategic efforts to achieve these targets, we will publish transition plans in line with the timelines stipulated by the NZBA and standards set by the UK Government. Alongside our banking activity, we are also making progress in our Insurance business and announced Scottish Widows' first Climate Action Plan earlier this year.

Secondly, we know we must also invest in our own skills and governance. This year we have enhanced our Group-wide governance structure, through establishing the Group Net Zero Committee, an executive level committee that meets monthly to oversee the Group's environmental sustainability strategy. We have rolled out Group-wide sustainability training, in collaboration with The Cambridge Institute of Sustainability Leadership, and provided 1,100 client facing colleagues with further training on climate and nature-related risks and opportunities.

Thirdly, we will play a key role in supporting public policy development in the UK, particularly for high emitting sectors where we see the greatest challenge and opportunity to help accelerate the transition, including agriculture, housing, energy and transportation. We partner with key players in the industries that need to lead the transition, helping to influence policies which will support society to transition at pace. Over the past year, we have joined several leading climate change initiatives such as the Paris Aligned Investment Initiative, NZBA and the Powering Past Coal Alliance, to demonstrate our commitment to work in partnership to tackle climate change.

We see the next few years as crucial for driving progress within our business and wider society. We will use our scale to drive change at pace, using the latest scientific understanding to guide our actions. This will enable us to support our customers through the transition to net zero, building a more inclusive and sustainable future.

Charlie Nunn
Group Chief Executive



About our 2021 Climate Report

This report is our fourth disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and is our inaugural stand-alone climate report that focuses on those recommendations.

We are making good progress in better understanding the risks and opportunities that climate change presents for our business and our customers, but there is still a lot of work to be done. Our 2021 report includes more information on our overall governance, strategic approach and net zero ambitions. It outlines our progress to date against our ambitions, along with the activities we are undertaking with our customers and stakeholders to help achieve them, in addition to the work we are doing to better understand and manage our climate-related risks.

Some of the climate-related financial disclosures in this report are also summarised in the Lloyds Banking Group 2021 Annual Report and Accounts and the Lloyds Banking Group 2021 ESG Report.



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Overview

Summary of TCFD recommendations and our progress against these

We have been continually making progress against the TCFD recommendations and enhancing our climate-related financial disclosures since our 2018 Annual Report and Accounts. We comply with the FCA's Listing Rule 9.8.6R(8) and make disclosures consistent with the 2017 TCFD recommendations and recommended disclosures across all four of the TCFD pillars: Strategy; Governance; Risk Management; and Metrics and Targets.

We will continue to assess and develop our disclosures against the TCFD recommendations and recommended disclosures in 2022, taking into account relevant TCFD guidance and materials and evolving best practice.

Key areas of focus in 2022 include the following.

Strategy

- We explored the resilience of our credit portfolios under three different climate scenarios as a result of our participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES), as well as undertaking other internal activity developing initial quantitative insight for key sectors. We will undertake further climate scenario analysis in 2022 that leverages learnings from the CBES exercise and access to improved data and analytical capabilities. This will allow us to better understand the resilience of the Group's business model to climate risks. In particular, the aim is to support the development of new business plans and sector ambitions to achieve the Group's net zero ambitions to examine the resilience of these to physical and transition risks.

Progress against TCFD recommendations

	Recommendation	Recommended disclosures	Reference	Summary of progress
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material	<p>A Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term</p> <p>B Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning</p> <p>C Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario</p>	<p>Pages 7 to 15</p> <p>Pages 13 to 15</p> <p>Pages 66 to 70</p>	<ul style="list-style-type: none"> • We have prioritised our activities around net zero ambitions associated with achieving net zero in our own operations by 2030 and for the activities of those we finance by 2050, with interim ambitions set for 2030 • We have defined four sustainability strategic pillars that will help us to achieve our ambitions in a manner that engages across the whole of our organisation and also across our wider stakeholder network • We have described the key climate-related risks and opportunities identified to date and defined our short, medium and long-term time horizons • In preparing the Group's financial statements, we have considered the impact of climate-related risks on our financial position and performance • In 2021, the Group started to incorporate initial consideration of the Group's key climate risks and opportunities as part of our financial planning process • We are continuing to develop climate modelling and scenario analysis capabilities to quantify climate risk • We participated in the Bank of England's Climate Biennial Exploratory Scenario, which created a foundation capability that we are extending further as we embed climate into risk management and other processes • We have developed initial climate scenario analysis quantitative insights for key sectors
Metrics & Targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	<p>A Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process</p> <p>B Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks</p> <p>C Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets</p>	<p>Pages 32 to 46</p> <p>Pages 35 to 40, 45 to 46</p> <p>Pages 32 to 34, 41 to 46</p>	<ul style="list-style-type: none"> • We have developed several initial metrics to measure our progress against our net zero ambitions, which include measures related to our financed emissions, sustainable finance and own operations • We have provided details of our Scope 1, 2 and 3 emissions for our own operations, calculated an initial 2019 financed emissions baseline for Scottish Widows and provided both an updated 2018 financed emissions baseline and 2019 financed emissions for our banking activity • We have specific sector ambitions for our banking activity related to power¹, oil & gas, thermal coal¹ and UK motor, and Scottish Widows has developed its first Climate Action Plan (published February 2022) • We have introduced new 2024 sustainable finance strategic outcomes across the Group² • More than £6.9 billion of green and ESG-related finance³ was delivered in 2021 • We also estimate that through Scottish Widows we will make discretionary investment of £20-25 billion into climate-aware investment strategies by 2025, with at least £1 billion invested in climate solutions investments • We developed three new operational climate pledges in 2021 that are designed to accelerate our plan to achieve net zero carbon operations and we continue to measure progress against those and our wider environmental ambitions for our own operations

¹ Our power sector ambition was set prior to us joining the NZBA and will be updated in 2022 to align with NZBA guidance. Our thermal coal ambition is a commitment to exit all entities that operate thermal coal facilities by 2030 (see page 32) and will currently be tracked through lending exposure to the sector as opposed to annual emissions estimates.
² See page 41 for more detail on our 2024 sustainable finance strategic outcomes.
³ Includes Clean Growth Finance Initiative, Commercial Real Estate Green Lending, Renewable Energy Financing, Sustainability Linked Loans and Green/ESG/Social Bond facilitation.



Overview

Metrics and targets

- We have developed metrics to assess climate-related risks and opportunities that include current and projected financed emissions, emissions intensity, sustainable finance and sectors with increased climate risk (exposure, limit, maturity). We have evolved our Group Balanced Scorecard so that it now includes two ESG measures that are aligned to climate change to reflect our net zero ambitions. The additional climate scenario analysis we will conduct in 2022 will lead to enhancements to the physical and transition risk assessment of our high carbon sectors and clients within these that will allow for improved management information and reporting to the Board as well as NZBA sector target setting.
- We have disclosed our Scope 1, 2 and 3 emissions for our own operations, along with our initial Scope 3 financed emissions for most of our banking and Scottish Widows activity. Our future focus will be on disclosing our Scope 3 supply chain emissions and extending the coverage of Scope 3 financed emissions by including additional asset classes where data and methodologies exist and engaging across the industry on calculation approaches for asset classes where methods do not exist.
- We have developed ambitions to achieve net zero for our own operations by 2030 and for the activities of those we finance by 2050, with interim ambitions set for 2030. We have also developed 2030 ambitions for our operational energy, water and waste and an initial set of our highest emitting sectors. We are on track to disclose further ambitions for high emitting sectors in line with our NZBA commitments, along with a net zero transition plan that further communicates our decarbonisation strategy.

Progress against TCFD recommendations

	Recommendation	Recommended disclosures	Reference	Summary of progress
Governance	Disclose the organisation's governance around climate-related risks and opportunities	<p>A Describe the board's oversight of climate-related risks and opportunities</p> <p>B Describe management's role in assessing and managing climate-related risks and opportunities</p>	<p>Pages 48 to 49</p> <p>Pages 50 to 51</p>	<ul style="list-style-type: none"> • Our governance structure provides clear oversight and ownership of the Group's sustainability strategy and management of climate risk at Board and Executive levels • The Board is engaged on a regular basis on our sustainability agenda and in 2021 received training to continue to develop understanding of climate risk • In 2021, we established the Group Net Zero Committee to provide Executive direction and oversight of the Group environmental sustainability strategy • Key committee decisions include approval of our sector ambitions and external sector statements
Risk Management	Disclose how the organisation identifies, assesses, and manages climate-related risks	<p>A Describe the organisation's process for identifying and assessing climate-related risks</p> <p>B Describe the organisation's process for managing climate-related risks</p> <p>C Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management</p>	<p>Pages 54 to 55</p> <p>Pages 56 to 64</p> <p>Page 53</p>	<ul style="list-style-type: none"> • We have continued to embed climate risk into our activities and Enterprise Risk Management Framework, through consideration of climate risk as its own principal risk, and integration into other principal risks materially impacted • In 2021 we introduced the Group Climate Risk Policy to provide an overarching framework for the management of climate risks and opportunities across the Group • We have undertaken detailed analysis of our portfolios and the pathways required to reduce emissions, including deep dives into sectors at increased risk from impacts of climate change • Ongoing development of climate risk assessment tools and methodologies, including our qualitative climate risk assessment tool in Commercial Banking



Our strategy

Supporting the transition to a low carbon economy is core to our Group strategy and purpose, as this is an area where we can make a big difference while also creating new avenues for our future growth.

A low carbon future

Our strategy

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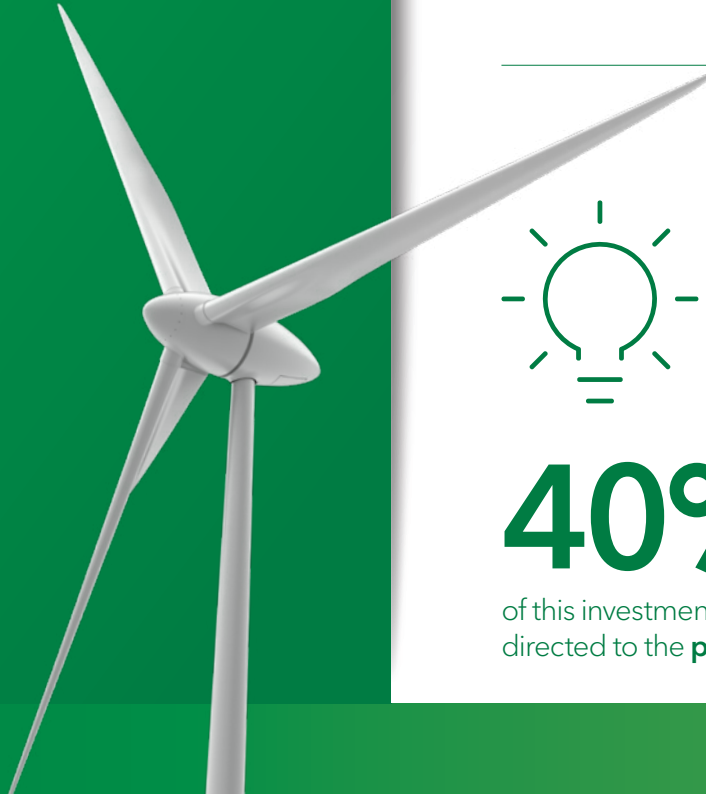
Our strategy

Helping Britain Prosper by supporting the transition to a **low carbon economy**

At Lloyds Banking Group we believe that the transition to a low carbon economy represents an opportunity to build a resilient future, creating new businesses and jobs for the UK.

The transition will require significant transformation of every sector at scale. According to the UK Climate Change Committee (CCC) recommendations for the UK's Sixth Carbon Budget, there is a requirement for sustainability-related investments in the UK to reach £50 billion annually by 2030.

We want to play our part as the UK's largest financial services provider in supporting the transition to net zero and we support the aims of the 2015 Paris Agreement, the UK Government's net zero target, the Ten Point Plan for the Green Industrial Revolution and the recommendations of the TCFD.



The need for **change**

The transition will require significant transformation of every sector at scale. Our research partnership with Oxford Economics collated existing research to highlight the biggest opportunities and challenges that the green economy presents for the UK. See the full report [here](#).

£1.4tn

The investment the **Climate Change Committee**¹ estimates will be needed between 2020 and 2050 to reach **net zero** by 2050



40%

of this investment will be directed to the **power sector**¹

2.5m

People could be needed to work in the green economy³



400,000

People already work in the UK's green economy²



£253bn

Needed to improve home insulation and install low carbon sources of heat and hot water¹



24%

of investment will be needed in land transport to **electrify the UK's vehicle fleet**¹

¹ Climate Change Committee, The Sixth Carbon Budget: The UK's Path to Net Zero, 2020.
² ONS, Environmental goods and services sector (EGSS) estimates, accessed April 2021.
³ McCullough, Alan, et al., UK business opportunities of moving to a low-carbon economy, 2017.

Our strategy

Prioritising our activities where it matters most – net zero ambitions

To outline how best we can support the decarbonisation of the UK economy, we have prioritised our activities around net zero ambitions associated with achieving net zero in our own operations by 2030 and for the activities of those we finance by 2050, with interim ambitions set for 2030.



Financed emissions

- Bank financed emissions
- Scottish Widows financed emissions



Work with customers, government and the market to help **reduce the carbon emissions we finance by more than 50% by 2030 on the path to net zero by 2050 or sooner¹**

See pages 32 to 34

- ¹ From a 2018 baseline.
- ² Carbon footprint is a measure of carbon intensity calculated as absolute value of emissions applicable to an investment divided by the value of investment.
- ³ From a 2019 baseline.



Target **halving the carbon footprint² of Scottish Widows investments by 2030 on the path to net zero by 2050³**

See page 32



Own operations⁴



Net zero carbon operations by 2030

See pages 42 to 44



Reduce total **energy consumption by 50% by 2030**

See pages 42 to 44



Maintain **travel carbon emissions below 50% of pre-COVID-19 levels**

See pages 42 to 44

⁴ All from a 2018/19 baseline.

Our net zero principles

There is an urgent need for clear, comprehensive and rapid action by all stakeholders to reduce emissions across the economy to align with the goals of the Paris Agreement – and financial institutions can play an important role in this transition to a net zero economy.

We are committed to working with our customers and clients to support their transition while we also address the emissions from our own operations and supply chain.

While the financial services sector is at the beginning of the net zero journey, we have developed a series of broad principles as the ‘lens’ which we will look to apply to our activities and build our aspirations in order to support our approach to achieving our net zero ambitions.

The principles include:

- Supporting our customers to achieve an effective, credible and just transition
- Laser focus on our priority areas to drive green growth opportunities
- Prioritising emissions reduction in line with science, across all scopes, before considering carbon offsetting in order to achieve net zero
- Embedding sustainability across the whole of our business model

Our strategy



Reducing our financed emissions

Central to our ambitions is the alignment of our lending and investment activities with the 2015 Paris Agreement. The need to reorient financial flows in line with a 1.5°C pathway means that we will have to fundamentally reshape our approach to the types of investments and lending we undertake across the Group.

Progress update

Net zero ambitions



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



2021 achievements

- Updated our 2018 financed emissions baseline and calculated 2019 financed emissions
- Completed initial analysis on the pathways required for the Group's portfolio to achieve the ambition of reducing the carbon emissions financed by more than 50% by 2030, focused on the key hard to abate sectors
- Expanded the funding available under the Group's discounted green finance initiatives¹ from £3 billion to £5 billion to support businesses as they transition to a low carbon economy
- More than £6.9 billion of green and ESG-related finance² was delivered in 2021
- Published a 2030 ambition for the power sector
- Engaged across leading industry initiatives to contribute to key thought leadership and public advocacy positions (see pages 27 to 30)

Key areas of focus

- We are developing a strategic portfolio alignment approach across our key sectors. It is clear that the challenges facing each of our sectors vary considerably and that each sector is at a differing scale of maturity in its transition journey
- Our immediate focus is to work closely with our most heavy-emitting sectors to support their progressive decarbonisation
- We believe that a pure divestment strategy is not in line with our purpose. We want to finance the changes needed to live and do business more sustainably, in line with a just transition
- The sectors where we have to focus the most to help ensure they can transition are agriculture, energy, housing and transportation. This has been informed by detailed sector reviews that have been conducted over the past 18 months on the carbon-intensive sectors where we have lending to customers that are likely to be higher carbon emitters or be exposed to higher levels of physical or transition risks (see Risk management section for more details)



Target halving the carbon footprint⁵ of Scottish Widows investments by 2030 on the path to net zero by 2050



- Calculated an initial 2019 financed emissions baseline for Scottish Widows
- Announced a 2025 target to invest between £20-25 billion in climate-aware investment strategies³, with at least £1 billion invested into climate solutions investments⁴
- In 2020 we collaborated with BlackRock to design and launch the Climate Transition World Equity Fund, which Scottish Widows seeded and has continued to invest in, reaching more than £5 billion by end 2021
- Overhauled the **Scottish Widows Environmental Fund** to become fossil fuel-free, not investing in any companies that derive revenue from fossil fuels and targeting a positive environmental impact by focusing on companies solving environmental challenges and establishing the infrastructure we need to support a lower carbon world⁶

Key areas of focus

- Scottish Widows' position as a large investor presents us with opportunities to participate in and influence the transition for the long-term benefit of our customers and society
- We are supporting investments that back climate solutions for real-world impact by incorporating climate objectives into our strategic asset allocation and increasing discretionary investment into climate-aware investment strategies
- We are also using our engagement and shareholder voting power to drive companies to make the changes necessary to align with a 1.5°C pathway and excluding high carbon investments that run the risk of becoming stranded assets through our Exclusions Policy

¹ Funding provided by Commercial Banking since 2016 under the Clean Growth Finance Initiative and Commercial Real Estate Green Lending.
² Includes Clean Growth Finance Initiative, Commercial Real Estate Green Lending, Renewable Energy Financing, Sustainability Linked Loans and Green/ESG/Social Bond facilitation.
³ Climate-aware investment strategies: we're working closely with our strategic fund management partners BlackRock and Schroders to develop and refine a range of funds that have a bias towards investing in companies that are adapting their businesses to be less carbon-intensive and/or developing climate solutions.
⁴ We will invest in climate solutions investments within climate-aware investment strategies or other funds. To define climate solutions investments, we look at the portion of company revenue associated with activities such as alternative energy, energy efficiency, green building, sustainable agriculture, sustainable water, and pollution prevention. We use MSCI Environmental Impact Revenue data to help with this classification.
⁵ Carbon footprint is a measure of carbon intensity calculated as absolute value of emissions applicable to an investment divided by the value of investment.
⁶ See page 44 of our 2021 ESG Report page for full description of the fund and its exclusions.

Our strategy




Reducing our own operations and supply chain emissions

Our own operations

In 2021, we announced a new set of operational climate pledges, including a commitment to achieve net zero carbon operations across Scope 1 and 2 by 2030, against a 2018/19 baseline, while at the same time halving our energy consumption and maintaining travel-related carbon emissions from business travel and commuting below 50% of a pre-COVID-19 baseline. We are also embedding our response to natural capital preservation as part of our approach to sustainable operations by protecting our operational green spaces, through restoring natural ecosystems, decreasing human intervention and encouraging native species.

Our supply chain

For our suppliers, we have focused our efforts on understanding the carbon emissions generated through our sourcing activities and how we can positively influence a sustainable supply chain. We know that we cannot achieve our net zero ambitions without the support of our suppliers and in 2021 we have been developing our methodology for measuring our supply chain emissions. We are building our programme to further enhance sustainability considerations in our sourcing approach and to engage those suppliers that have the biggest impact on our carbon emissions with the aim of developing specific ambitions for reducing supply chain emissions and working collaboratively to achieve them.

 For more on our own operations and supply chain see [pages 24 to 26](#)

Progress update

Net zero ambitions

Net zero carbon operations by 2030



2021 achievements

- Achieved a cumulative 22.5% reduction in Scope 1 and 2 carbon emissions to date compared to our 2018/19 baseline (measured using the market-based method)
- Continued to purchase 100% renewable electricity across our global operations, meeting our RE100 commitment
- Completed our first three net zero carbon operations branches and started the installation of a ground source heat pump at our largest gas consuming office
- Proudly remained Carbon Trust Standard certification holders for carbon reduction for the twelfth consecutive year¹

2022 plans

- Continue to purchase 100% renewable electricity and work towards our ambition to increase the percentage of our electricity sourced directly from additional renewable developments (via Power Purchase Agreements) or onsite generation, to at least 60% by 2025
- Invest in our buildings to keep eliminating the use of natural gas, replacing gas boilers with electric heating systems such as heat pumps
- Improve our air conditioning systems, switching to more energy efficient technology using less harmful refrigerant gases

Reduce total energy consumption by 50% by 2030



- Reduced total building energy consumption by 5.7% compared to 2019/20 and 14.8% compared to our 2018/19 baseline
- Continued our energy optimisation programme, resulting in a 101.5 GWh cumulative saving in 2021
- Worked with our supply chain to continue our LED lighting installation programme across our offices and branches. This year we have completed 170 installs, resulting in expected savings of 1,280 MWh, the equivalent to powering 360 UK homes
- Upgraded Building Management Systems at 101 of our branches, which are now remotely controlled so energy usage is optimised by a dedicated team, ensuring minimal energy wastage and resulting in savings of 610 MWh
- Continued our Climate Group EP100 campaign, confirming our commitment to improve energy productivity through our use of the UK Green Building Council's Net Zero Carbon Buildings Framework, reducing the direct emissions generated from our buildings and operations to net zero by 2030

- Continue our energy optimisation programme, which is being delivered by energy managers across our estate, ensuring savings are sustained for the future
- Continue to accelerate our investment in energy efficiency, installing LED lighting in our branches and offices as well as replacing and improving building management systems
- Build awareness with our colleagues and suppliers via energy management behaviour change campaigns
- Test new ideas and innovative technologies, collaborating with our partners and suppliers to deliver transformational clean energy solutions across our estate

Maintain travel carbon emissions below 50% of pre-COVID-19 levels



- Launched the 3Ps of sustainable travel as part of colleagues' new ways of working: Purpose, Planet and Planning
- Invested in sustainable travel facilities across 13 sites, investing in new cycle racks, bicycle maintenance stands, e-bike charging stations and electric vehicle (EV) charging points
- Installed 133 EV charging points at 34 of our sites, meaning over 36,000 of our colleagues have access to EV charging at work, at no cost to them
- Launched a carbon footprint calculator to support our colleagues to explore the environmental impact of both their business and personal travel choices and provide offers and engagement programmes to help them switch to greener modes of travel
- Achieved Cycling UK's Cycle Friendly Employer accreditation at 13 of our offices
- Launched a cycling mileage rate, enabling colleagues who cycle for business to claim cycling mileage just as they would for car mileage
- Launched a new Ultra-Low Emissions Vehicle (ULEV) salary sacrifice scheme for colleagues
- Created co-working hubs above our branches to minimise unnecessary business travel to further afield city hubs

- Continue our programme of work to improve cycling facilities for colleagues, seeking Cycle Friendly Employer accreditation from Cycling UK at each of our main offices
- Continue our commitment to The Climate Group's EV100 campaign, making a commitment to install charging points across all our colleague car parks by 2030. We currently have EV charging facilities at 60% of our office car parks
- Continue to embed new ways of working developed during the pandemic, having already launched the 3Ps of sustainable business travel where colleagues travel with purpose, to connect and collaborate, with the planet in mind, making trips that are worth the carbon, and planning ahead combining meetings and keeping journeys to a minimum

¹ The Carbon Trust Standard recognises organisations that follow best practice in measuring, managing, and reducing their environmental impact.

Our strategy

Carbon credits and offsetting on the journey to net zero

Net zero strategies should prioritise carbon reduction in line with science, ahead of considering the use of carbon credits to offset emissions. While carbon credits can be an important tool in combatting climate change if used responsibly, it is important that such credits are deployed as part of an ambitious, science-based decarbonisation plan.



Use of carbon credits in our **financed emissions**

Our financed emissions capture the emissions attributed to the Group from our lending and investment activities. We do not currently plan to use carbon credits to offset our financed emissions and we will monitor and contribute to emerging industry standards in this area as they develop. However, we will engage with our clients to encourage them to develop their own net zero plans, which may involve them using carbon credits for offsetting residual emissions for some of their activity, where applicable and in line with science.



Use of carbon credits in our **own operations**

Our priority as a Group remains focused on reducing our emissions, in a responsible way, before considering the use of carbon credits to offset emissions from our own operations. We have committed to achieve net zero carbon operations by 2030, reducing our direct Scope 1 and 2 emissions by at least 75 per cent (compared to 2018/19 levels). In 2030, we will purchase carbon credits to offset the remainder of our direct emissions. We intend to use certified neutralisation carbon credits from high-quality carbon removal projects.



Our strategy

Delivering our net zero ambitions across our key areas of focus, enabled by our sustainability strategic pillars

Net zero ambitions



Financed emissions



Work with customers, government and the market to help **reduce the carbon emissions we finance by more than 50% by 2030 on the path to net zero by 2050 or sooner¹**



Target halving the **carbon footprint of all of our investments by 2030 on the path to net zero by 2050²**

See [pages 32 to 34](#)

¹ From a 2018 baseline
² From a 2019 baseline.



Own operations³



Net zero carbon operations by 2030



Reduce total **energy consumption** by 50% by 2030



Maintain **travel carbon emissions** below 50% of pre-COVID-19 levels

See [page 32](#)

³ All from a 2018/19 baseline.

Key areas of focus

At Lloyds Banking Group we continue to progress towards our net zero ambitions across our business lines and our own operations. We have identified our priority areas of focus, which form a fundamental part of our overall approach to net zero and represent where we see the greatest challenge and opportunity to help accelerate the transition to a low carbon economy for the UK.

As signatories to the Net-Zero Banking Alliance (NZBA), which is part of the broader Glasgow Financial Alliance for Net Zero, we have committed to setting sector-based ambitions across our highest emitting sectors. In this report we have included our sector ambitions covering Power, Thermal Coal, Oil and Gas and Retail (Motor) vehicles.

We recognise that the process for measuring and establishing these targets is complex. Therefore, our targets represent an initial set of outcomes that we will continue to monitor and assess for enhancement.

We will look to report additional sector ambitions in 2022 for parts of our remaining carbon-intensive sectors, including residential mortgages, transportation and automotive activity beyond Retail (Motor). In addition, we will be developing further ambitions and a transition plan in accordance with the timelines stipulated by the NZBA. Our sector ambitions for our banking activities complement our Scottish Widows Climate Action Plan, which covers our approach for our Insurance business.



Greening the built environment



Supporting the energy transition



Low carbon transportation



Sustainable farming and natural capital



Sustainable investments and pensions

Enabled by our sustainability strategic pillars

Our net zero ambitions and key associated areas of focus are underpinned by four pillars of our environmental sustainability strategy that will help us to achieve our ambitions in a manner that engages the whole of our organisation and also our wider stakeholder network.

- 1 Identify, manage and disclose material sustainability and climate-related risks and opportunities**

See [pages 13 to 15](#)
- 2 Support our customers** with responding to the opportunities and risks associated with climate change and the transition to a low carbon economy

See [pages 16 to 23](#)
- 3 Embed sustainability into the way we do business** and manage our own operations in a more sustainable way

See [pages 24 to 26](#)
- 4 Use our scale and reach** to help drive progress towards a sustainable and resilient UK economy through engagement with customers, communities, industry, government and suppliers

See [pages 27 to 30](#)



Our strategy

1

Identify, manage and disclose material sustainability and climate-related risks and opportunities.

We recognise the importance of embedding climate-related risks and opportunities into our Group-wide strategy and business operations. As a UK-based financial institution, we have an important role to play in supporting the decarbonisation of the UK economy and in helping to mobilise the investment required to achieve our net zero ambitions. Our ambitions will not be achieved without significant government and regulatory intervention enabling an effective economic infrastructure and we will engage with government and market stakeholders to help ensure that infrastructure is developed.

Climate-related risks and related time horizons

The scale of the potential impact of climate-related risks and opportunities and the time horizons over which these will manifest will vary significantly across our business operations. The variability of impacts and the time horizons will be dependent on a number of different factors, some of which are in the control of our organisation and some of which are not.

We consider climate-related risks resulting from the following drivers:

Physical and transition risk drivers

Transition risk

- Policy and legal
- Technology
- Market
- Reputational

Physical risk

- Acute
- Chronic

The ability to identify, measure and manage the risks associated with climate change is integral to our Enterprise-wide Risk Management Framework (ERMF). This is consistent with other key risks that we manage; however, the time horizon to which climate risk will present itself may be a significantly longer time horizon than we have previously experienced. Initial quantitative analysis of climate risk impacts and the resilience of our business can be found in the Scenario Analysis section (pages 67 to 70).

The time horizon over which the Group categorises short, medium and long-term risks is as follows:

Time horizon for risk categories

Short-term 0-1 years

Medium-term 1-5 years

Long-term 5 years+

Additional details of the climate risks facing the Group, including integration into our ERMF, identification, assessment and management of climate risks including an analysis of our climate risk profile by key sectors can be found in the Risk Management section (pages 52 to 64).

The impact of climate risk on the Group's financial results

Climate risk includes the risk of financial loss associated with a changing climate and the related legislative and societal shifts that are taking place in response to that change. We are committed to understanding and assessing the risks associated with climate change and the impact on the Group's financial results.

In preparing the Group's financial statements, we have considered the impact of climate-related risks on our financial position and performance, and while the effects of climate change represent a source of uncertainty, there has not been a material impact on our financial judgements and estimates due to the physical and transition climate-related risks in the short to medium term.

We have considered the aggregation of our reported segments and taken into account the related economic risks, including those associated with climate change and we consider the level of aggregation reported to be reflective of the shared characteristics of the principal portfolios. In determining the disaggregation of our reported revenue streams, we have also considered how revenue flows are affected by economic factors, including those that are climate-related. We include in our Annual Report an analysis of our insurance claims, separately identifying those claims that are weather-related, which can be seen in the table 'Group non-life insurance claims' below.

We have taken into account our business plans, the Board-approved operating plan and the expected future economic outlook of the UK, as well as the risks associated with future regulatory, climate-related and other change, in order to forecast the profitability of the Group in the short to medium term.

In assessing the residual values, useful economic lives and recoverable amounts of the Group's non-financial assets, we have considered the effects of potential or actual changes in legislation, changing customer behaviour and other climate-related risks. One example of observed changes in customer behaviour has been the increase in the proportion of electric and hybrid vehicles leased to customers. The breakdown of our operating lease assets according to engine classification can be seen in the table 'Group operating lease assets' underneath.

As part of our Credit Risk Policy, we consider sustainability risk (which incorporates environmental (including climate), social and governance) in the assessment of Commercial Banking facilities.

We will continue to monitor and assess the impact of climate change on our financial performance and position, and appropriate disclosures will be given each year in our Annual Report and Accounts.

Group non-life insurance claims

The Group's non-life insurance claims, net of reinsurance are shown below split according to weather-related and non-weather-related claims:

	2021 £m	2020 £m
Weather-related claims, net of reinsurance	30	47
Other non-life claims, net of reinsurance	292	271
Total non-life insurance claims, net of reinsurance	322	318

Group operating lease assets

The Group's operating lease assets are shown below and are analysed according to those that are electric vehicles, internal combustion engine vehicles, hybrid vehicles and other operating lease assets:

	2021 £m	2020 £m
Electric vehicles	728	320
Internal combustion engine vehicles	2,531	2,979
Hybrid vehicles	928	660
Other	9	1
Total operating lease assets	4,196	3,960



Our strategy: Pillar 1

The impact of climate risk on the Group's risk profile

The following table outlines some examples of the different physical and transitional risks and how they may impact the Group, our customers and our suppliers. Additional details regarding the climate risks facing the Group, including the integration of these risks into our ERMF can be found in the Risk Management section (pages 52 to 64).

Examples of climate risks and potential impacts on Lloyds Banking Group

	Driver	Examples	Examples of key risks for Lloyds Banking Group	Time horizons
Transition risk	Policy & Legal	<ul style="list-style-type: none"> Regulations and legislation intended to support the transition, including bans and/or limitations on existing activities Increased pricing of GHG emissions Enhanced reporting requirements, for example, around emissions 	<ul style="list-style-type: none"> Impacts from new and existing government policies, for example, around energy efficiency standards or the transition to electric vehicles Evolving regulatory standards for the Group's operations The Group's climate-related disclosures are considered to be either insufficient or misleading, including potential 'greenwashing' in product communication 	<ul style="list-style-type: none"> Short, Medium, Long Medium, Long Short, Medium, Long
	Technology	<ul style="list-style-type: none"> Potential climate-related technology challenges including: current technologies becoming obsolete; new technologies not being adopted; or experiencing problems as they are adopted Costs to transition to lower emissions technology 	<ul style="list-style-type: none"> New technology and availability of electric vehicles reduce valuation of existing vehicles Unproven new technologies required across other sectors in order to reduce emissions 	<ul style="list-style-type: none"> Short, Medium, Long Medium, Long
	Market	<ul style="list-style-type: none"> Changing customer behaviour and shifts in consumer preferences Market evolution to more sustainable business models and investments, including potential 'sustainability bubbles' Increased costs of carbon-intensive and/or sustainable raw materials 	<ul style="list-style-type: none"> Reduction in asset and company valuations reflecting changes in customer demand, impacting the Group's lending, markets/trading business, investments and equities Increased costs from sustainable materials for Commercial Banking customers 	<ul style="list-style-type: none"> Short, Medium, Long Medium, Long
	Reputation	<ul style="list-style-type: none"> Increased stakeholder concern or negative stakeholder feedback around supporting the shift to a low carbon economy Increased scrutiny around activities relating to high emissions sectors and products 	<ul style="list-style-type: none"> Failure to deliver or sufficiently drive change through the Group's net zero strategy, relating to its financed activities and own operations Adverse coverage of the Group's exposure to high emissions sectors Conduct risk implications from the Group's role in the transition, including potential impacts on mortgage customers, specific sectors, insurance and investment products 	<ul style="list-style-type: none"> Short, Medium, Long Medium, Long Medium, Long
Physical risk	Acute	<ul style="list-style-type: none"> Increase in the frequency and severity of extreme weather events, such as floods and storms 	<ul style="list-style-type: none"> Damage to properties, impacting our Retail Mortgage business, Commercial Real Estate portfolio or General Insurance Damage to properties within the Group estate, resulting in disruption to the Group's services to customers Disruption to services provided by the Group's suppliers 	<ul style="list-style-type: none"> Short, Medium, Long Medium, Long Medium, Long
	Chronic	<ul style="list-style-type: none"> Long-term shifts in our climate, such as rising average temperatures, rising sea levels and extreme variability in weather patterns 	<ul style="list-style-type: none"> Coastal erosion and river inundation impacts our Retail Mortgage business, Commercial Real Estate portfolio or General Insurance Reduced production for Commercial Banking customers as a result of higher temperatures and/or changing weather patterns, for example, lower food or crop yields Changes in longevity of the Group's pension scheme members 	<ul style="list-style-type: none"> Long Long Medium, Long

Our strategy: Pillar 1

Climate-related opportunities

The efforts to mitigate and adapt to climate change risks will also lead towards significant opportunities for the Group, including efficiencies and cost savings. We have already seen the positive impact of low emissions energy sources through the decarbonisation of our own operations.

We continue to engage with our customers and our supply chain to realise the potential for a significant contribution in supporting the UK's transition to a low carbon economy. As part of our broader work to update our strategy and purpose, we are developing our approach to identifying, measuring and monitoring climate-related opportunities.

Climate-related opportunities ▼

The following is an indicative list of the climate-related opportunities that we are looking to incorporate across the Group as part of our strategic measurement and financial planning processes.

<p>Commercial Banking Financing the energy sector's transition to net zero</p> <hr/> <p>Supporting the transition in other strategic sectors, including agriculture, housing and transport</p> <hr/> <p>Supporting our clients in their investments in new sustainable technologies and structures and an increasing volume of Sustainability Linked Loans</p>	<p>Scottish Widows Offering a range of funds to our customers to help support causes that are close to their hearts while growing their savings for the future</p> <hr/> <p>Retail Supporting the transition to electric vehicles</p> <hr/> <p>Supporting customers to improve the energy efficiency of their homes</p> <hr/> <p>Own operations Improving our resource efficiency, including with our use of energy, water and waste</p>
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Resilience of our business - strategic planning

We have made positive progress in our key objective to embed sustainability into the way we do business and manage our own operations. In 2021, we ran an exercise to include climate within our Group-wide strategic and business planning process.

Through this exercise, we engaged all material carbon intensive businesses, finance and risk colleagues in a collaborative effort to support our initial steps to include financed emissions forecasting in the planning process and build awareness around climate risk and opportunity considerations across the Group.

This involved:

- A qualitative assessment of the climate-related physical and transition risks and opportunities across our plans, alongside identification of the key strategic, commercial and risk actions needed to support our customers and clients in the transition to a low carbon economy

- Piloting approaches to forecast quantitative financed emissions projections out to 2030, focused on our 11 most carbon-intensive sectors covering 90 per cent of the Group's 2018 financed emissions baseline by MtCO₂e. To understand the potential scale of emissions reductions required to achieve our net zero ambitions, we benchmarked to the UK Committee for Climate Change's 1.5°C aligned balanced net zero pathway

The exercise was a first step to enhancing our maturity towards embedding climate into our financial planning. It enhanced the Group's understanding and insights for certain high transition sectors, and helped to build internal capability.

There is still the need for a longer-term view to 2030 in response to climate risk and we will continue to consider our approach to strategic planning. Specifically, during 2022, we aim to mature and extend the scope of this activity to include further sector transition plans and ambitions, aligning to the Group's net zero ambition and our pledge through the NZBA.

Additional details can be found in the Risk management section on **pages 52 to 64**.

We have estimated the opportunities from resource efficiencies in our own operations, in particular energy efficiency initiatives, where the potential saving from all the energy efficiency opportunities highlighted from our Phase II ESOS energy assessment could save in the region of c.£71m over a 10-year period, if all opportunities were implemented.

Our strategy

2

Support our customers by responding to the opportunities and risks associated with climate change and the transition to a low carbon economy.

Commercial Banking

Through our Commercial Banking brands Lloyds Bank, Bank of Scotland, and the Agricultural Mortgage Corporation (AMC), we support clients in all sectors of the UK economy. Our focus is on helping our clients to transition to net zero, which presents varied challenges and opportunities for each sector.

Some parts of the economy, such as agriculture and housing, will need to **adapt** their products, processes or assets to reduce their emissions footprint. While some existing activity may need to **scale up**, such as low carbon energy and transport, in other areas, transition will mean **doing less** of some things, for example, activities linked to fossil fuels. The transition may also drive **completely new activities**, such as carbon capture and storage, to help extract and contain carbon emissions.

From a sectoral perspective, the accelerated shift to renewables represents a significant opportunity for us to continue to finance the power sector's transition to net zero. Our exposure to the agriculture sector poses opportunities to support the sector with transition to low carbon farming practices as well as risks relating to shifting consumer demand.

See the **Risk management** section for more detail on risks and opportunities associated with our exposure to high-carbon sectors

How we are responding to support our customers

Within Commercial Banking, our strategy has evolved to include four priorities:

1. Actively managing our portfolio towards net zero.
2. Developing and implementing green finance tools and propositions.
3. Supporting the transition to net zero in strategic sectors and segments.
4. Shaping the market for sustainable finance through thought leadership and innovation.



Managing our portfolio towards net zero

In 2021, we developed and implemented an **ESG Risk Assessment tool** to aid decision-making. We also set a new oil and gas sector ambition and enhanced our coal statement, confirming a full exit from thermal coal by 2030.

More detail is located within the **Metrics and targets** section (pages 31 to 34) and the **ESG lending and investment** section of our **2021 ESG Report**

¹ Funding provided by Commercial Banking since 2016 under the Clean Growth Finance Initiative and Commercial Real Estate Green Lending.
² Includes Clean Growth Finance Initiative, Commercial Real Estate Green Lending, Renewable Energy Financing, Sustainability Linked Loans and Green/ESG/Social Bond facilitation.



Green finance tools and propositions

We have developed a range of green finance tools and propositions to support our clients to transition to net zero:

- We have expanded the funding available under the Group's discounted green finance initiatives¹ from £3 billion to £5 billion to support businesses as they transition to a low carbon economy. More than £6.9 billion of green and ESG-related finance² was delivered in 2021

- We are **supporting our clients in their investments** in new sustainable technologies and structures, such as Gresham House's investment in utility-scale battery storage systems, and financing the first subsidy-free installation of renewable power generation at GSK's Irvine facility
- Our Sustainability & ESG Financing team, created in 2021, is supporting clients with an increasing volume of **Sustainability and ESG-linked loan** transactions, having contributed £3.4 billion of finance across 42 clients in 2021, a four-fold increase in clients supported from 2020
- We are supporting our real estate clients to re-finance their existing green assets through our new **Green Commercial Mortgage** and are using our **Green Buildings Tool** to assess the energy efficiency of our clients in the social housing sector

More detail on our work with the **social housing** sector can be located in our **2021 ESG Report**

Our strategy: Pillar 2

Supporting the transition in strategic sectors:

While all sectors play an important role in the transition to a low carbon economy, we have identified the strategic sectors which are most material to our transition to net zero:

Agriculture: To support our clients in the agriculture sector to transition to net zero, our package of measures includes the following:

- Discounted lending through our Clean Growth Financing Initiative
- Relationship Managers equipped with the skills to provide practical support to clients, having received specialist training from the Cambridge Institute for Sustainability Leadership (CISL)
- Through our partnership with the Woodland Trust, we have been able to guarantee subsidised rates for tree and hedge planting for clients
- Support for clients to measure their carbon footprint, through the UK's three leading carbon calculator tool providers
- Regular Sustainability Information Sessions providing practical information on the net zero transition, bringing insights from leading experts in sustainable agriculture to our clients



Housing: In 2021 we have met a series of sustainability commitments in the real estate and housing sector:

- In the social housing sector, this has included £2.4 billion of new ESG-linked financing, becoming a Board member of the sector's sustainability reporting standards as well as assessing the energy efficiency of around 240,000 homes
- In the real estate and housing sector, we have supported the creation of national sustainability standards for housebuilding finance through becoming a member of the NextGeneration Executive Committee alongside Homes England and the UK Green Building Council, and we are contributing to the development of a checklist and further benchmark to support the delivery of sustainable finance tailored towards the scale of the housebuilder
- The real estate green proposition now includes sustainable development loans to support the development of new green buildings and Green Commercial Mortgages to finance existing green buildings

[More information on how we are supporting the transition in the housing sector can be found in our 2021 ESG Report](#)



Transport: For the past three years, Lloyds Bank and Lex Autolease have been in partnership with the Innovation and Technology in Transport Hub (ITT Hub).

Reducing emissions in this sector is vital to delivering a wealth of broader benefits including improved air quality, better health and wellbeing, reduced noise pollution, job creation - to name but a few. As a leading UK provider of greener fleets for businesses and through our partnership with ITT Hub, we are confident that we can help meet the challenge of keeping the nation moving in a more sustainable way.

Our strategy: Pillar 2

Shaping the market for sustainable finance through thought leadership and innovation

The landscape of environmental sustainability is moving at pace. To support our clients with the latest insights we have worked with leading experts to publish reports and host events.



In 2021, we surveyed over 1,000 SME businesses and published our report, 'From Now to Net Zero: A Practical Guide for SMEs' (see case study on page 27).



Our research, 'Shaping Agriculture's Transition to a Net Zero Future', has been followed by a programme of supporting activities to help our clients transition to net zero.



We are supporting innovation in supply chain solutions by joining Coriolis, a consortium of trade and ESG experts, to develop standard ESG scoring, and partnering with Resilinc to support clients in tracing the ESG risks of their supply chain.



Partnering with the British Chambers of Commerce (BCC): BCC represents and campaigns for over 80,000 businesses globally with 53 Chambers of Commerce in the UK. BCC hosted a significant presence at COP26, with the Bank of Scotland partnering with the BCC as its official sponsor. This partnership included events at COP26 as well as a longer-term programme to support engagement and collaboration with businesses across different sectors and sizes.



We brought together a panel of Scottish industry and business leaders to discuss how Scotland can make the most of the transition to the green economy. On the live broadcast, **By the side of Scottish Business: Building a Sustainable Future Together**, the panel discussed key topics including collaboration throughout the supply chain, access to green finance, required government support and the importance of educating businesses on the benefits of the transition to net zero.

In focus

Supporting our corporate and financial service clients with specialist expertise

Across Commercial Banking we have increased our investment in dedicated ESG expertise, expanding our divisional Sustainability team and increasing the number of ESG specialists directly supporting our clients of all sizes, from corporates through to SMEs. A new Sustainability & ESG Finance team has been created to support our large corporate clients as they transition their businesses to net zero, combining deep experience in structuring sustainable finance products across many sectors with expertise and insights to help our clients make the right decisions for themselves and the environment.

The team has successfully coordinated and executed a range of ESG transactions across our client segments. For example, we have provided Sustainability Linked Loans for Balfour Beatty (see case study for further detail) and an ESG linked Revolving Credit Facility for EY in relation to its progress on carbon reduction, diversity and social mobility. The team also worked with SEGRO to coordinate and establish its inaugural Green Finance Framework to be used across ongoing capital market issuances.



Our strategy: Pillar 2

In focus

Sustainability Linked Loans

In 2017, we executed our first Sustainability Linked Loan (SLL) and ESG linked loan transactions to support general term lending in line with our ESG principles. Through these transactions, businesses are incentivised to make sustainable improvements over the term of the loan and in return receive a reduced margin. Set up in 2020, transactions are carefully reviewed by our Green Asset Eligibility Forum, for alignment to the Loan Markets Association (LMA) SLL principles. In 2021, we supported clients with an increasing volume of Sustainability and ESG-linked loan transactions, having contributed £3.4 billion of finance across 42 clients, a four-fold increase in clients supported from 2020.

Balfour Beatty

Lloyds Bank acted as the sustainability coordinator and facility agent for Balfour Beatty's sustainability-linked loan, the largest in the UK construction sector.

The existing £375 million revolving credit facility was converted into a sustainability linked loan, signalling Balfour Beatty's commitment to ESG. The cost of borrowing is dependent on the following performance metrics: a reduction in carbon emissions, generating social value and Balfour Beatty's score on the independent Sustainalytics index, in line with Balfour Beatty's New Futures ESG strategy.

Performance in these three areas will be monitored during the lifetime of the facility and depending on the outcomes achieved, a credit margin reduction or increase will be applicable. Given the construction sector's critical role to play in achieving the UK's net zero ambitions, it is vital we support businesses like Balfour Beatty to make the transition.

In focus

Greening SMEs

Mackie's of Scotland makes one of the nation's favourite ice creams. Two decades ago, Mackie's family business started on its quest to be the nation's greenest SME. Through its 'sky to scoop' approach, the company makes all the ice cream on their Aberdeenshire farm, along with several ingredients and the packaging, and they power the business with their own renewable energy.

This year the company is about to complete their biggest project yet, a £4.5 million project to create a new low carbon refrigeration system. The new system is projected to cut energy use and carbon emissions by up to 80 per cent. With support from the Bank of Scotland's Clean Growth Finance Initiative and a grant from the Scottish Government's Low Carbon Infrastructure Programme, Mackie's will replace its existing freezing equipment with low carbon, energy efficient units run on ammonia. Mackie's hopes its success will inspire the Scottish fish, meat and dairy processing sectors to adopt similar energy efficient technology.



Our strategy: Pillar 2 Retail

In the Retail business, our two largest areas of activity are mortgage lending and motor vehicle loans. Activity in both areas will need to significantly change in the next decade to decarbonise homes and switch to low emission vehicles. Facilitating change in residential properties will be particularly challenging given the costs and invasiveness of some energy efficiency solutions.

The transition to zero emission vehicles, while rapidly gaining traction, will still rely on both the availability of vehicles and charging points to ease range anxiety. The decarbonisation of the UK's energy grid will also be critical to achieve significant emission reductions in housing and motor vehicles.

How we are responding to support our customers

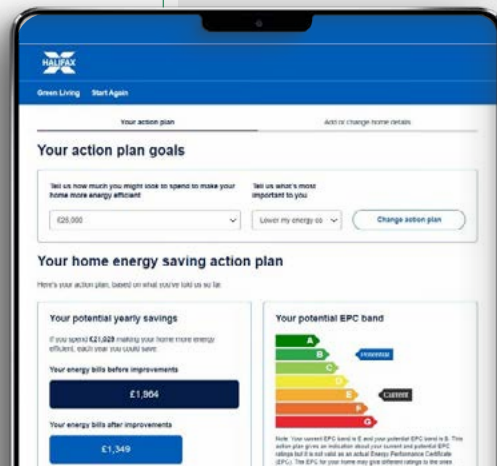
Homes

As the largest UK mortgage lender, improving the energy efficiency of homes is one of our key priorities. Our strategy is focused on helping customers understand what energy efficiency improvements they can make to their home and offering incentives for them to take action. To support and educate our customers we have the Halifax Green Living and Lloyds Bank Eco Home Hubs, which include an online tool that provides a tailored action plan on energy efficiency improvements that customers can make. This was complemented by our customer events programme for 2021, delivered in partnership with the Energy Saving Trust, which explored simple steps to save energy as well as making larger retrofit upgrades that reduce the carbon footprint of customers' properties. To incentivise customers to take action, we also launched our Green Living Reward and Green Mortgage offers (see In focus details).

Homes: In focus

Green Mortgage

In 2021 Halifax launched a cashback incentive (£250) for customers purchasing an eligible property with an A or B Energy Performance Certificate with the aim of increasing awareness of energy efficiency when customers are making their purchasing decisions.



Homes: In focus Supporting customers to improve the energy efficiency of their homes

Home energy savings tools

To help customers understand what energy efficiency improvements they can make to their home, we launched our Halifax Green Living and Lloyds Bank Eco Home Hubs. These include the Halifax Home Energy Saving Tool and Lloyds Bank Eco Home Tool, developed in collaboration with the Energy Saving Trust. First in market among lenders, the tool helps individuals find out just how green their home is and shows them how a few changes could make their home more energy efficient. It is very quick and easy to use. Customers answer a few questions about their home and it produces a personalised action plan with estimates of their home's EPC rating, energy costs, CO₂ emissions and improvements that could make their home more sustainable.

Green Living Reward

The Green Living Reward, recently relaunched in the first quarter of 2022, was an output of the UK Department for Business, Energy and Industrial Strategy (BEIS) Green Home Finance Innovation Fund where Halifax customers were offered a cashback incentive to support the cost of making energy enhancing retrofits to their home. The project offered significant insight into the challenges facing customers making efficiency improvements to their homes and enabled us to share key learnings with the UK Government as well as refine the proposition for 2022. The relaunched Green Living Reward includes cashback incentives of up to £1,000.

Green Home events

Together with the Energy Saving Trust, the Group launched a series of Green Home events to help customers tackle barriers associated with sustainable action within the home, including lack of awareness around both how to act and the associated savings that can be made.



Our strategy: Pillar 2

How we are responding to support our customers

Motor

Through our motor finance and leasing subsidiaries, Black Horse and Lex Autolease, we have the largest vehicle fleet in the UK. In 2021, we grew the number of battery electric vehicles in our fleet by almost 90 per cent, closely mirroring our 2020 performance, and we have plans to work towards a low emission fleet with an interim goal to be net zero by 2030. Our strategy is focused on providing tools and custom advice to customers to help determine the most appropriate low emission vehicle for their activity, along with incentives for uptake where appropriate. Our Sustainability Curve Policy tool allows our Relationship Managers to have discussions with clients on ways to potentially reduce costs, provide better vehicles to their employees and provide environmental benefits, while our Green Salary Sacrifice proposition enables employees to take advantage of significant tax benefits when leasing an EV.

Motor: In focus

Consumer:

Supporting the switch to EVs: Zoom EV

Helping to support our Lloyds Bank and Halifax customers by making the switch to an EV an easy and affordable experience, we have partnered with Zoom EV to provide access to key services customers need to run an EV, to save money and to have a positive impact on the environment. The packages offer discounts and benefits with leading EV brands, giving an EV driver everything they need to have a great experience with their electric vehicle.

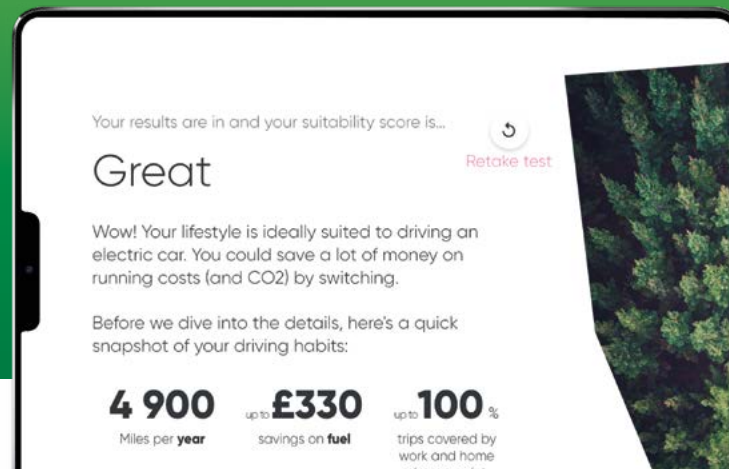


Motor: In focus

Consumer:

Electric Vehicle Suitability Tool: elmo

Working with electric vehicle experts elmo, who have built a fun way for customers to decide if they are suitable for driving an electric vehicle, our Lloyds Bank and Halifax customers can now use our Electric Vehicle Suitability Tool on our websites to understand the practicalities of owning an EV.



Motor: In focus

Corporate:

Supporting the transition to low emission transport

Corporate lease clients have sustainability commitments relating to transport. We help our clients achieve these commitments while also reducing the financed emissions associated with our leasing activity.

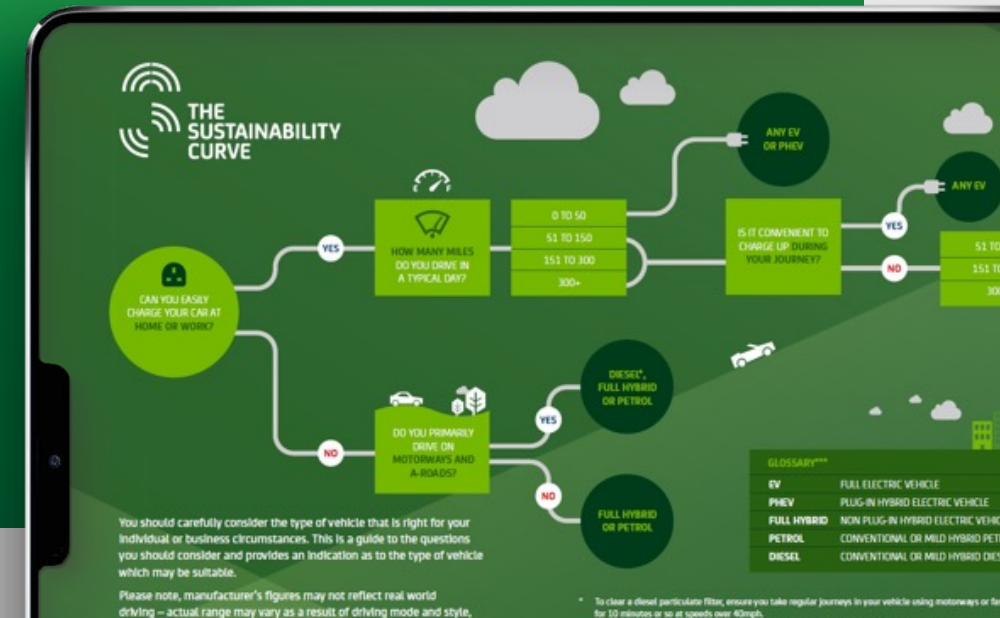
Our Sustainability Curve Policy Tool, and supporting analysis, is used to support bespoke engagement with clients to help identify the most suitable vehicles to transition to low emission transport, based on their fleet and usage. Engagement also includes advice on how to change their car policies for employees to incentivise low emission vehicle use and to enable the transition of their specialist fleets to lower emission alternatives. In addition, we have collaborated with manufacturer partners on their electrification strategy and how they can support our fleet clients in their transition to electric vehicles.

Corporate:

Green salary sacrifice

Lex Autolease implemented a green salary sacrifice scheme offering in 2021, enabling Corporate employers to provide their employees with access to new ultra-low emission vehicles at no upfront cost.

The scheme provides an all inclusive package comprising maintenance, tyres, insurance, road tax and breakdown cover all for one monthly payment and access to a more sustainable way to travel.



Our strategy: Pillar 2

SW Scottish Widows

The two core business areas exposed to climate risk are Pensions & Investments and Home Insurance. Within the investments portfolio, there is a significant risk of loss of value of shareholder or customer assets due to inadequate transition from companies we invest in; there will be winners and losers during the transition, with an impact on assets deemed to be less valuable in the new economy.

Under Home Insurance there is a potential for increased levels of claims due to damage to property caused by changes to weather patterns and climate (e.g. flood or storm).

How we are responding to support our customers

► Pensions & Investments

By committing to gradually reduce the overall emissions contained in our investment portfolios to net zero, we'll be assisting and incentivising companies we invest in to embark on decarbonisation pathways of a scale and pace needed to meet the 1.5°C global warming objective of the Paris Agreement.

The Responsible Investment (RI) Framework will help Scottish Widows achieve our ambitions. The framework is embedded into our overarching Insurance Investment Policy and guides our decisions on asset allocation, manager selection and fund additions.

We are taking a series of steps over time to fully integrate this framework across our investments.

1 We will be a responsible investor. We will strive to protect our investments from material ESG-related risks and seek to capitalise on ESG-related opportunities.

2 To help us manage downside risk, we will take a position on the companies we will not support and will implement exclusions throughout funds managed or mandated by us.

3 We target halving the carbon footprint¹ of Scottish Widows investments by 2030 and to achieve net zero by 2050.

4 We will aim to offer an industry-leading fund range to our customers to help support causes that are close to their hearts while growing their savings for the future.

5 We will seek to extend our responsible investment principles into all asset classes over time.

6 We will work with policymakers and industry participants to promote direct investment opportunities required to successfully transition to a lower carbon economy.

Further detail can be found in the Scottish Widows Climate Action Plan which outlines Scottish Widows' current plans for action on climate change with regard to its overall portfolio. As best practice evolves, so too will this Climate Action Plan and Scottish Widows' actions to implement it.

 See our **Climate Action Plan**

¹ Carbon footprint is a measure of carbon intensity calculated as absolute value of emissions applicable to an investment divided by the value of investment.

Pensions & Investments: In focus

Examples of tangible action in 2021

We collaborated with BlackRock to design and launch the Climate Transition World Equity Fund in 2020 and have invested more than £5 billion in the fund by the end of 2021. The fund uses a new data-driven investment approach from BlackRock which measures a company's exposure to transition risks and opportunities, providing investors with the opportunity to invest in the transition to a greener economy. BlackRock's approach scores companies on energy production, clean technology, energy management, water management, and waste management. The fund is tilted in favour of companies that rank more favourably on these measures while retaining diversification across sectors, regions, and business maturities.

In November 2021 we launched the Find Your Impact (FYI) feature on the Scottish Widows app. It assesses the carbon footprint, waste to landfill, and Board diversity of the companies within a member's pension and then provides this information at portfolio, fund, or holding level. This allows members to see where their money is invested and the impact these companies have on the world around them. Additionally it will allow members to give their views on a range of issues, telling Scottish Widows (and their scheme trustees where applicable) what matters to them; we will use this to inform our stewardship activity.

In 2021 we launched our refreshed Scottish Widows Environmental Fund. The fund, which dates back to 1989, is now fossil fuel-free. It has a dual approach: invest in companies which make a positive impact on the environment through their products and services, and invest in environmental leaders - companies making a difference with their progressive policies.

 Read more on **pages 44 to 45** of our **2021 ESG Report**



Our strategy: Pillar 2



Home insurance

Our ambition is to be a leading UK insurer in improving the resilience of customers' lives against extreme weather caused by climate change. In order to support our customers and Lloyds Banking Group's net zero commitment, our strategy is split into three separate, yet interlinked strands.

1. Propositions to improve flood resilience

The increasing occurrence and devastating impacts that flooding is having on our customers have resulted in us making flood resilience a priority. We recognise our responsibility to improve the future flood resilience amongst those customers worst affected. Our approach to achieve this involves investigating what we can do to reduce susceptibility to flooding, changing our approach to claims and ensuring the technology used by external partners is appropriate.

2. Reducing carbon emissions

To achieve our ambition of reducing the carbon emissions of the Insurance business, we believe that while much of this is in our control through our claims process, there is also the potential to encourage our customers to think about the changes they can make to reduce their own carbon footprint. Our hope is that by developing a green home insurance proposition that we can achieve this. Assessments of our existing suppliers' environmental impact, considering sustainability in our procurement process and exploring the potential to incentivise our customers to repair rather than replace where possible, will improve the sustainability of our claim's fulfilment.

Secondly, we will be piloting our app, My Carbon Manager, which will allow our customers to identify home improvements that will reduce the carbon emissions of their home.

Other ways we will reduce our carbon footprint is by employing sustainable infrastructure, reinstating properties to best practice sustainability levels (e.g. heat pumps and solar panels) and working with our colleagues to minimise the carbon footprint of the Insurance and Protection business.

3. Advocating change internally & externally

In order to make a real difference, we believe that everyone has a responsibility to change their approach towards sustainability. Externally, we are building lasting relationships with environmental groups and experts, who are supporting us by delivering training and embedding sustainability into our leadership roles. We have also identified the need to advocate change within policymaking, leveraging our relationships with government and industry to influence policy in the areas of flood resilience and sustainability.

Home insurance: In focus

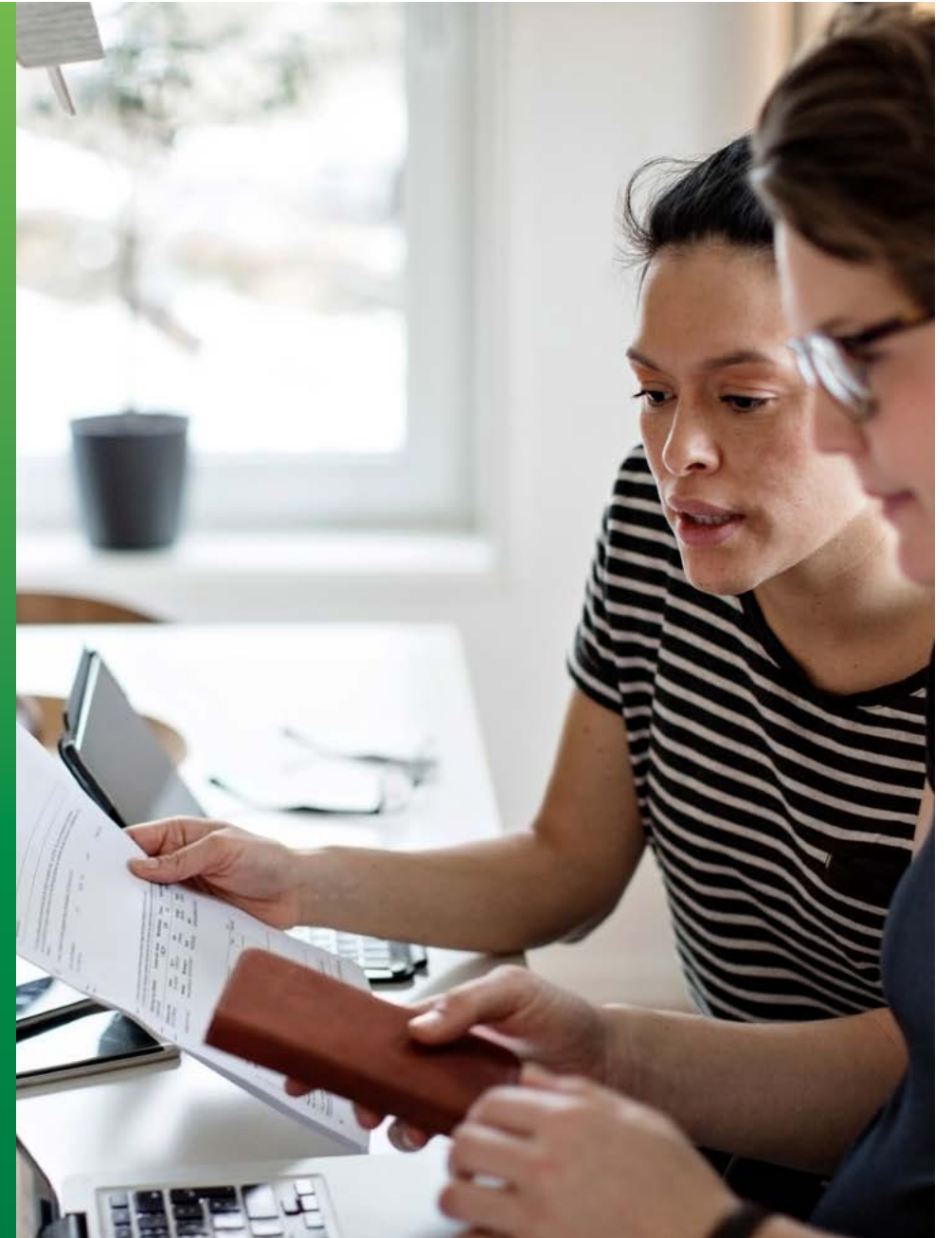
Making it easier to go green with home insurance

Customers making a claim for a large leak or significant water damage where home renovations are needed will be given the option of accessing an app called My Carbon Manager, which shows people how to make their lives more energy efficient.

The tool provides personalised suggestions and estimates on how to reduce their home's carbon footprint.

Customers can use the app to see estimates for costs and savings and how carbon dioxide equivalent emissions could potentially be reduced. The tool is a one-stop guide on how to make their homes more environmentally friendly before looking for suppliers for repair work. All suggestions will depend on the type of property and claim, but could include options such as insulating walls or having solar panels fitted.

The app has been created by Ideavate, as part of a programme to support start-up insurtech companies. The service was piloted for six months from July 2021 and is now being rolled out more widely for other types of large home insurance claims that need home renovation to be done, such as a large fire or flood.





Our strategy

3

Embed sustainability into the way we do business and manage our own operations in a more sustainable way.

Explaining Scope 1, 2 and 3 emissions

We use the global Greenhouse gas (GHG) Protocol Corporate Accounting and Reporting Standard to measure our carbon emissions. It identifies three scopes of emissions. Scope 1 emissions represent the direct emissions we create from gas and oil used in buildings, fuels used in company owned vehicles, etc. Scope 2 emissions are generated from the use of electricity. Scope 3 emissions are indirect emissions from upstream and downstream activities. Our upstream activities include business travel; colleague commuting; emissions from working from home and supply chain purchases; operational waste; and the extraction and distribution of each of our energy sources - electricity, gas and oil. Our downstream activities include investments and financed emissions.

See diagram opposite for example of our scope

Own operations

There is an urgent need to transition to a low carbon future due to climate change and our own ambition to achieve net zero operations by 2030 aligns to the global Paris Agreement and the UK's net zero goal.

Reducing the carbon footprint of our own operations is a vital element of our Group environmental sustainability strategy, which also gives us credibility when talking to our customers and clients about the net zero transition through leading by example. Our own operations activity focuses on the Group's Scope 1 and 2 emissions, as well as Scope 3 upstream emissions from employee travel and homeworking. Activity on broader Scope 3 upstream emissions is captured under Supply Chain activity (see page 26) and activity on Scope 3 downstream emissions is primarily focused on financed emissions, which is covered by our engagement with clients covered previously and quantified on page 36.

How we are responding

To accelerate our plan to tackle climate change we have developed three new operational climate pledges that focus on our operational emissions, energy use and travel-related emissions (see page 42 for details on the specific targets).

To achieve our ambitions on operational emissions and energy use, we will continue to source and consume 100 per cent renewable electricity while we also invest in our buildings, deploying energy efficiency technology, including LED lighting and improved building controls. We will remove all use of natural gas from our estate, replacing gas boilers with low carbon heating solutions, and create sustainable branches in communities across the UK. Many of the technologies we will need to use are still new, and we will work closely with our supply chain to innovate.

To reduce travel-related carbon emissions, we have launched the 3Ps of sustainable travel - Purpose, Planet and Planning - as part of our new ways of working. We will travel only when there is a real purpose to connect and collaborate with customers and colleagues. We will travel with the planet in mind, making trips that are worth the carbon and plan ahead to combine meetings and keep journeys to a minimum. We will support colleagues in the transition towards sustainable commuting by deploying cycling facilities and electric vehicle charging points across our buildings, while improving colleague offers such as the ULEV salary sacrifice scheme and the cycle to work scheme.

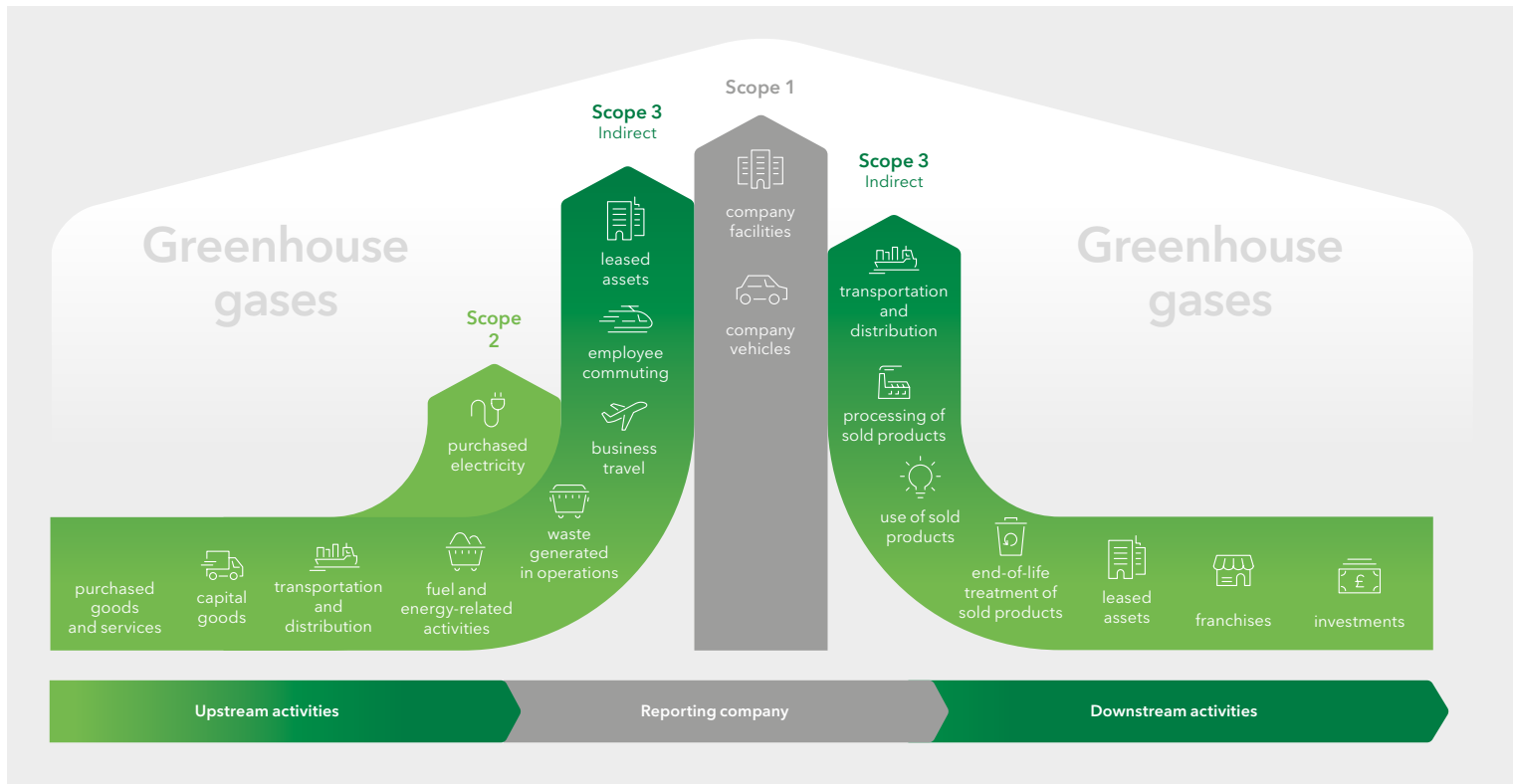
We also have broader environmental ambitions for our own operations, which focus on reducing waste and improving water efficiency.

To improve water efficiency, we will install technology that reduces our water consumption in offices and branches, such as ultra-low and dual flush WC, waterless and low-water urinals and automatic taps in toilets and kitchens.

Reducing the volume of waste we produce and minimising what we send to landfill is also a key part of our strategy. We will continue to build awareness and support colleagues with communication and engagement activities to help reduce our operational waste, focusing on embedding the paper-free behaviours adopted during the pandemic and completing the implementation of the Colleague Recycling Campaign in branches.

The Group also aims to protect operational green spaces and biodiversity. We aim to make a big difference by managing our large number of small spaces differently. We are working with key partners, such as The Wildlife Trusts, to support the re-establishment of resilient UK wildlife habitats to benefit diverse local flora and fauna by adopting a more sustainable approach to the management of our property estate.

Further details about our own operations environmental ambitions and plans can be found on pages 42 to 44 and more detail on how we are managing green spaces and biodiversity can be found on pages 36 to 38 of our 2021 ESG Report



Our strategy: Pillar 3

In focus

Carbon emissions from new ways of working

With around two-thirds of our colleagues working from home during the pandemic, our travel-related carbon emissions reduced by 62.1 per cent in the 2021 reporting year compared to the previous year, and by 80.2 per cent compared to our 2018/19 baseline. There was a need to balance this reduction against the additional household emissions generated by colleagues working from home, which is why we calculated and reported these emissions as part of our operational footprint in our annual environmental reporting in our 2020 disclosure.

Further to measurement and disclosure of the emissions associated with our colleagues working from home and our travel-related emissions, we have introduced several initiatives to support the understanding and management of these emissions:

- We launched a programme to help colleagues make more sustainable choices at home including a collection of Sustainable Living offers. These deals included subsidised offers on renewable electricity tariffs and smart heating thermostats, to help colleagues reduce their household carbon emissions
- We have developed an internal dashboard and reporting mechanism to increase the visibility of travel-related carbon emissions, by type of travel and by division, leveraging the power of data to support long-term sustainable travel options



In focus

Net zero carbon operations branches - Bank of Scotland in Kyle, Lloyds Bank in Glossop, and Halifax in Brighouse

Throughout 2021, we have developed three net zero carbon operation pilot branches across our estate. This project is an accelerator for the Group's journey to net zero carbon operations across our property network, and an enabler for deeper conversations on the challenges that we will face in the years to come.

The net zero carbon operations branches provide highly visible examples of how low and zero carbon technology can be applied to high street banks.

This pilot is an enabler to identify the most appropriate solutions to reduce Scope 1 and 2 carbon emissions and reduce energy consumption across our branch network.

As part of the project, we built a thermal model to ensure the correct sized heating and cooling system was installed, improving efficiency and minimising energy waste. The lighting has been upgraded to LED, providing the lowest possible energy consumption and longer life. A new building management system has been installed to ensure performance can be closely monitored, and the energy consumption can be optimised over time. All gas equipment has been removed from the branches, replacing heating systems with heat pumps and other electric-powered technologies. Carbon emissions associated with refrigerant gas leakage from cooling equipment have been drastically reduced (close to zero) through the adoption of alternative low global warming

potential gases, heat recovery technology, and sensors to enable early identification of leaks. A total of £500,000 has been invested in the pilot and is estimated to save 130 MWh of energy consumption across the three branches, the equivalent of powering nine average UK homes.

As well as including solutions that reduce energy and minimise Scope 1 and 2 carbon emissions, the project looked at all aspects of environmental sustainability in the built environment, such as travel and colleague engagement. Additional works undertaken also included the installation of EV charging points (which are accessible to both customers and colleagues), water saving taps and toilets, improved insulation, new windows and glazing, and low carbon paint.



Our strategy: Pillar 3

Supply chain

As with our own operations, given the urgent need for the economy to transition to a low carbon future due to climate change and the desire to have credibility when talking to our customers and clients about their net zero transition, reducing the carbon footprint of our supply chain is an important area of focus for the Group.

Engaging the supply chain to ensure they are developing robust plans for decarbonisation will help to reduce the transition risks of climate change on our suppliers and support the reduction of our supply chain emissions.

How we are responding to the environmental impact of our suppliers

Our suppliers and supply chains are integral to how we fulfil our customer needs. We have approximately 2,600 active suppliers, the majority of which are in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communications. In 2021, our addressable supplier expenditure was c.£4.6 billion and the majority of our third-party spend was with suppliers incorporated in the UK.

2,600

active suppliers

It is important to us that our suppliers adhere to the same set of rigorous environmental standards we do, including making efforts to reduce their environmental impact. Our Code of Supplier Responsibility ("Code") defines what we expect from our suppliers to ensure responsible sourcing is integral to the way we do business. We expect all suppliers to conform to the Code and provide us with evidence to demonstrate their approach to responsible business issues, including environmental sustainability. For this reason, our supply chain strategy has evolved to request and where appropriate assure key environmental details from our suppliers through our sourcing and supply chain management process. Environmental practices are addressed through:

- Our Code of Supplier Responsibility
- Request for Proposal questions in our sourcing process where applicable
- Detailed compliance questionnaire across c.1,100 managed suppliers through the Financial Supplier Qualification System (FSQS)
- Risk-based assurance assessments across our most critical suppliers

In 2021, we have taken steps to develop our approach to estimating our Scope 3 supply chain emissions (purchased goods and services, capital goods and upstream transportation and distribution). At the same time, we also looked to understand those suppliers that report carbon emissions via CDP and/or have set (or committed to set) science-based targets. In 2022, this will enable us to target those suppliers that have the biggest impact on our carbon emissions with the aim of working collaboratively to reduce them. Additionally, we have completed a review of our sourcing process to identify further opportunities to drive sustainability through our supply chain.

We have piloted a specialist third-party sustainability tool with a small selection of suppliers which includes insights into supplier environmental management practices. More widely we have used predictive sustainability analysis to help further understand the inherent sustainability risks across our supply chain which will also be used in 2022 to inform our supplier engagement approach on environmental matters.

Group pension

The Group has 97 per cent of our employees participating in the in-house pension schemes. The Lloyds Banking Group Pensions Trustees Limited, which is responsible for managing the largest Group pension schemes, also shares the commitment to reduce carbon emissions by at least 50 per cent of its c.£50 billion investments by 2030, and to be net zero by 2050. As part of this, and in response to member feedback, the Lloyds Banking Group Pensions Trustees Limited recently integrated ESG considerations into its investment strategy, allowing our colleagues to opt to participate in an ESG aligned pension investment.

More than

45,500

of the Group's employees have completed our core sustainability e-learning training

Education and training

We are serious about embedding environmental sustainability into our culture and for all colleagues to understand the role they can play in managing climate risks, helping our customers and making a positive contribution individually to the transition to net zero. To support this in 2021, we have delivered:

- Board training on climate change, climate-related risks and what this means in respect of our strategy; this was developed and delivered in conjunction with the Cambridge Institute for Sustainability Leadership (CISL) and Baringa Partners
- A series of training workshops on climate risk and sustainability for leadership teams across the organisation supported by CISL, to deepen knowledge and drive forward activity to embed sustainability into our day-to-day decision-making and strategic delivery; in addition, the University of Edinburgh's Centre for Business, Climate Change and Sustainability led training for 30 Scottish Widows investment and supporting function colleagues, who undertook their multi-week programme in Climate Change Risk in Finance

- Over 1,350 colleagues have participated in the Sustainability Essentials Course accredited by CISL, including all SMC client facing colleagues. Of these colleagues, 1,100 have pursued further training via a bespoke programme developed in collaboration with CISL which specifically focuses on climate and nature-related risks and opportunities and their implications for the finance sector and Commercial Banking clients
- A new Group-wide colleague e-learning course on sustainability. This course introduces the topic of climate change and includes a series of core and optional modules covering climate risk, our strategy, what we are doing across our business to support the transition to net zero and what colleagues can do to live and work more sustainably. It pulls together a range of internal and external resources that are available for our colleagues. As at the end of 2021, more than 45,500 employees have completed the core training





Our strategy

4

Use our scale and reach to help drive progress towards a sustainable and resilient UK economy.

Our Group-wide climate-related engagement and communications play a critical role in our climate strategy. We maintain an active dialogue with our clients across all parts of the organisation, relevant trade associations, investors, public advocacy groups and public sector officials. We believe that through this open communication we can better understand the necessary efforts we need to undertake as an organisation to manage the response to climate risks and opportunities.

Our clients

In 2021, Lloyds Bank Commercial Banking created a specialist Sustainability & ESG Finance team to support our large corporate clients as they transition their businesses to become more sustainable. The new team combines deep experience in structuring sustainable finance products across many sectors with expertise and insights to help clients make the right decisions for their firms and the environment (more detail is located in the case study on page 18).

We routinely host interactive sessions with our key clients and discussions with our C-suite and Board members on our climate response strategy and key challenges facing our customers.

Our investors

The Group has a pro-active investor stakeholder engagement programme. We engage extensively with investors and other stakeholders (e.g. proxy advisors and NGOs) on a range of ESG topics, including our climate commitments and plans. The Investor Relations team also has a dedicated resource to focus on ESG engagement with investors.

Over the past year, various ESG topics were covered in our meetings with investors. The Group also undertook a number of climate-focused one-on-one meetings and Group presentations, and participated in several ESG investor conferences. In addition, we continue to disclose comprehensively on ESG and climate change impacts, through our annual ESG Report and this inaugural Climate Report.

In focus

From Now to Net Zero: A Practical Guide for SMEs

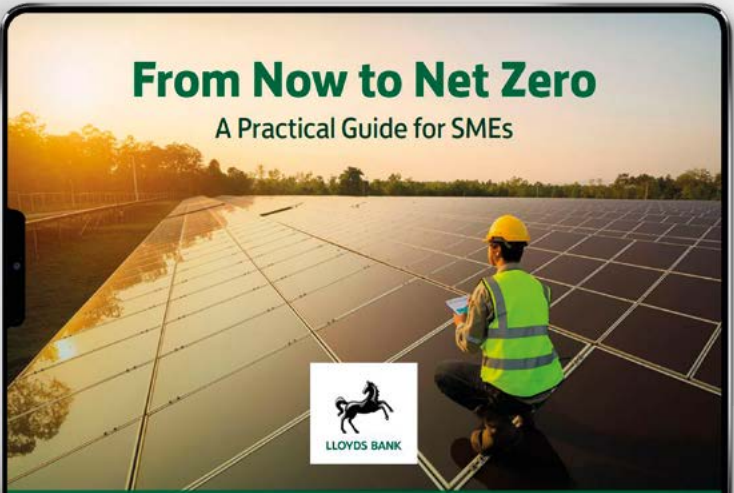
SMEs are the heart of the UK economy, representing 99 per cent of all UK businesses and accounting for almost half of all business-related carbon emissions¹. In 2021, we surveyed over 1,000 SME businesses and published our report, 'From Now to Net Zero: A Practical Guide for SMEs'.

We found that while 89 per cent of SMEs say sustainability is important to their business and 74 per cent are aware of the Government's net zero target, 40 per cent say they do not know what this means for their business. Many businesses have set targets and are on their journey to net zero; however, many more say they are daunted by how to get started or are finding it difficult to mobilise from siloed actions to a full business plan.

Challenges identified by SMEs include the longer time horizons involved with net zero plans, the cost of investment, and lack of knowledge and resources. Our report provides a practical five-step guide for SMEs to help them address the risks and embrace the opportunities of net zero:

- **Getting Started** - taking your first steps on the journey
- **Short-Term Wins and Employee Engagement** - implementing sustainability initiatives
- **Measure, Mobilise, Monitor** - drawing up a strategic roadmap for net zero
- **Navigating the Road Ahead** - how to keep an eye on the road ahead
- **Heroes of Net Zero** - an insight into SMEs that are leading the way

¹ UK Small Business Statistics | FSB, The Federation of Small Businesses.



Government and public policy advocacy

We maintain strong engagement with the UK Government on key public policy positions that are material to our position in the banking and investment sector. This includes actively supporting public policy interventions and working with our peers and key advocacy groups to help shape critical policies and frameworks to support the decarbonisation of the UK economy.

Examples include:

- Supporting the Green Finance Institute's letter to the Chancellor of the Exchequer calling for an energy-adjusted Stamp Duty Land Tax (SDLT) to drive demand for energy efficiency works and further support the UK's green home finance market
- Providing input into the Department for Transport Green Paper on a New Road Vehicle CO₂ Emissions Regulatory Framework for the UK in September to support the development of a robust framework for road vehicles and to ensure the 2030 and 2035 phase-out deadlines are delivered
- Engaging with Members of Parliament during the party conference season to raise awareness of the challenges associated with retrofitting homes and the role that mortgage lenders can play in financing energy efficiency improvements by home owners
- Submitting ideas to HM Treasury ahead of the Budget Statement on how policy can evolve to support the transition to net zero by facilitating long-term productive finance, incentivising the take-up of electric vehicles and improving the energy efficiency of homes
- Supporting the 2021 Global Investor Statement to Governments on the Climate Crisis, ahead of COP26, asking governments to take specific and immediate actions to meet the Paris Agreement goals

Our strategy: Pillar 4

Industry initiatives and thought leadership

In order to drive progress and action against climate change and broader environmental matters, we also participate in several industry initiatives and seek to provide thought leadership where appropriate.

In 2021, we joined several new climate change initiatives, including:



Net zero

- **Net-Zero Banking Alliance (NZBA):** We became founding members of the NZBA in April 2021, to reinforce our ambition of aligning our financing activities to have net zero emissions by 2050 or sooner and committing to develop sector-based 2030 targets. The initial set of guidelines for setting targets and disclosing progress against them will help to drive more consistency in the industry. We will look to engage where we can make meaningful contributions as the NZBA work tracks develop on sector-specific issues, implementing the guidelines, and recruitment.
- **Glasgow Financial Alliance for Net Zero (GFANZ):** We became members of GFANZ in 2021 through our participation in the NZBA and Scottish Widows' membership in the Paris Aligned Investment Initiative (PAII). GFANZ is a global coalition of financial institutions committed to accelerating the decarbonisation of the economy and brings together leading sub-sectoral net zero initiatives that are in the UN's Race to Zero campaign. We contributed to the GFANZ Policy Call to Action workstream ahead of COP26 and will stay actively involved to monitor future GFANZ activity that may be appropriate for us to engage on.
- **Race to Zero:** The Race to Zero is a United Nations-backed global campaign to rally leadership and support from businesses, cities, regions and investors for a healthy, resilient, zero carbon recovery. We are members of the Race to Zero through our participation in the NZBA.



Coal phase-out

- **Powering Past Coal Alliance (PPCA):** The PPCA is a coalition of national and sub-national governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy. In November 2021 we joined the alliance, confirming our commitment to a full exit from thermal coal by 2030.



Agriculture

- **Banking for Impact on Climate in Agriculture (B4ICA):** In 2021, the World Business Council for Sustainable Development (WBCSD) formed the B4ICA initiative in partnership with UNEP FI, PCAF and the Environmental Defence Fund (EDF). We joined the initiative so we could collaborate with other agriculture industry stakeholders to help develop solutions to better measure agriculture carbon emissions at a farm/producer level, which will further aid development of solutions to manage those emissions.



Vehicles

- **Electric Vehicle Fleet Accelerator (EVFA):** We joined in 2021 to help address challenges by providing a platform for members to collaborate, identify potential solutions and leverage aggregate corporate demand to support a joint commitment to buy 100,000 British manufactured EV vans by the end of the decade or sooner if availability allows.
- **The Climate Group - UK Electric Fleets Coalition:** We joined the steering group of The Climate Group's UK Electric Fleets Coalition in 2021 as part of a small group of business leaders using their market experience to advocate for UK policy measures to accelerate the transition to electric cars and vans, such as stimulating EV supply and investing in EV charging.



Buildings

- **NextGeneration Executive Committee:** To support the sector transition and deepen relationships between housebuilders of all sizes, we have supported the creation of national sustainability standards for housebuilding finance through becoming a member of the NextGeneration Executive Committee alongside Homes England and the UK Green Building Council, and we are contributing to the development of a checklist and further benchmark to support the delivery of sustainable finance tailored towards the scale of the housebuilder.



Nature

- **Get Nature Positive:** We joined this UK campaign in October 2021, as we agree that nature should be positioned at the heart of our business agenda, and through the Nature Handbook, we will seek to continuously enhance our understanding of our nature-related business impacts and identify opportunities to take nature positive action.

Our strategy: Pillar 4

We also contributed to several climate change related publications through existing initiatives, including:

- **HRH The Prince of Wales' Sustainable Markets Initiative Financial Services Taskforce (FSTF):** We joined the FSTF in 2020, which focused on fostering industry collaboration through working groups on carbon credits, net zero and sustainable infrastructure. The marquee publication from the FSTF was 'A Practitioner's Guide for Banks', released in October 2021 ahead of COP26 held in Glasgow, that provided considerations for banks in setting a net zero strategy.
- **Institutional Investors Group on Climate Change (IIGCC):** Scottish Widows helped create the IIGCC Net Zero Investment Framework, published in 2021, leading on the Listed Equity & Corporate Fixed Income working group. Since publication, several members of our Responsible Investment team have been participating in working groups focusing on developing detailed guidance on climate solutions, material emissions and stewardship engagement for users of the Net Zero Investment Framework.

- **Association of British Insurers (ABI):** Scottish Widows is a member of the ABI's Board and the Board's Climate Change Sub-Group, as well as its Climate Change Working Group. The collaborative work of this group resulted in the publication of the ABI's climate change roadmap in summer 2021, covering short- and medium-term decarbonisation milestones for the insurance sector, proposals on how insurers can provide one-third of investments needed to meet the UK's decarbonisation targets and plans to support customers in making sustainable choices.
- **Financing a Just Transition Alliance:** The Alliance has focused over the past year on the relationships between finance and business, place-based financial action, and the policy frameworks that are needed to deliver the systemic change required for a just transition. The 2021 'Just Zero' report released ahead of COP26 makes specific recommendations for action across these priority areas.

We continue to participate in several other initiatives including:

- **Aldersgate Group:** In 2020, we joined the Aldersgate Group, which is a multi-stakeholder alliance championing a competitive and environmentally sustainable economy that advocates the business case for decarbonising the UK economy, improving resource efficiency and investing in the natural environment through targeted political engagement and policy development.
- **Business in the Community (BITC) Climate Action Leadership Team:** We are members of the BITC Climate Action Leadership Team which helps business drive innovation that turns the threats of the climate emergency into opportunities.
- **The Climate Group:** In 2019, we were one of the first businesses globally to sign up to all three of The Climate Group's campaigns, and we continue to drive activity in those areas:
 1. RE100 - a commitment to source 100 per cent of our electricity from renewable sources by 2030, which we achieved in 2019 and which was fully validated by The Climate Group in 2020.
 2. EP100 - a commitment to improve our energy productivity by 2030.
 3. EV100 - a commitment to accelerate the transition to electric vehicles by 2030.
- **Green Finance Institute (GFI):** We joined the GFI's Coalition for the Energy Efficiency of Buildings (CEEb) in 2020 and actively contribute to several activities aimed at developing solutions to help further improve the efficiency and decarbonisation of the UK's buildings, including having become a supporter of the GFI's Green Home Retrofit Principles in 2020. We also joined the GFI's Coalition for the Decarbonisation of Road Transport (CDRT) in 2021, which is focused on charging infrastructure, consumer finance and leasing and battery technology and recycling.
- **UK Green Building Council (UKGBC):** As a Gold Leaf member of the UKGBC, we have continued to engage with UKGBC in 2021, actively participating in its Advancing Net Zero workstream as well as the Retrofit Steering Group and the development of a Whole Life Carbon Roadmap. In early 2021, through our engagement with UKGBC, we joined the World Green Building Council's (WGBC) Net Zero Carbon Buildings Commitment, pledging to only own or occupy net zero buildings by 2030.
- **Partnership for Carbon Accounting Financials (PCAF):** PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas emissions associated with their loans and investments. We joined PCAF through the PCAF UK chapter in 2020 and participated in the PCAF UK Residential Lending Working Group, which produced a report in 2021 on the challenges of measuring financed emissions for residential properties and potential solutions from government and innovators that may help in the future.
- **United Nations Environment Programme Finance Initiative (UNEP FI):** We became a member of UNEP FI in 2019 and continue to be a signatory to the Principles for Responsible Banking (PRB), the Principles for Sustainable Insurance (PSI) and the UN Principles for Responsible Investment (PRI). The PRB are designed to accelerate the banking industry's contribution to achieving society's goals as expressed in the Sustainable Development Goals (SDGs) and the Paris Agreement. The PSI serve as a global framework for the insurance industry to address ESG risks and opportunities. The PRI seek to understand the investment implications of ESG factors.
- **Taskforce on Nature-related Financial Disclosures (TNFD):** We are members of the TNFD Forum and will look to participate in consultations as the framework for organisations to report and act on evolving nature-related risk is developed.

Our strategy: Pillar 4

In focus

Lex Autolease: Future of Travel

We launched a thought leadership piece outlining if customers are ready to adopt and switch to electric vehicles, focusing on how customer behaviours are changing and what needs to be done to support green transport.



More information can be found [here](#)

In focus

Green economy research with Oxford Economics

Research partnership with Oxford Economics analysing the UK's readiness to drive a greener economy: Lloyds Banking Group commissioned a series of research papers with Oxford Economics to assess the opportunities and challenges that the green economy presents for the UK.

This research partnership sought to highlight how the transition to a net zero economy can grow our economy across all UK nations and regions, help it recover after the pandemic and improve our environment by reducing harmful carbon emissions.

The first stage of our work with Oxford Economics, published in July 2021, collated existing research to highlight the biggest opportunities and challenges that the green economy presents for the UK. Download the full report: **'Green Growth: Opportunities for the UK'**.

Following the foundational paper released in July 2021, a second paper released in September 2021 examined the opportunities for green growth in each UK nation and region. The Green Growth Index considers each UK nation and region's existing base of green industry; innovation activity; take-up of relevant skills and training; and renewable energy infrastructure and use, to determine a 'green growth opportunity' score. Download the full report: **'UK Green Growth Index'**.

The research has served as a basis for engagement with key partners across government and industry. Lloyds Banking Group has convened a series of applied roundtable discussions on how to accelerate progress towards net zero in each nation and region of the UK as evidenced by these reports.

Jonas Persson, Managing Director Sustainability and ESG Finance, at Lloyds Banking Group, said:

"The research shows clear signs that the UK's green economy is starting to take shape. Every nation and region has its own story, but each has an important role to play in transitioning to a greener economy. In line with this research, we are committed to supporting regional regeneration to ensure no part of the UK is left behind by the transition. We will mobilise support across our business to make sure every nation and region can seize the huge opportunities that the green economy represents."

With COP26 taking place in Glasgow, all eyes were on the UK when it comes to adopting greener ways of living and doing business. While COP26 was a moment of international cooperation, it also prompts us to consider how our domestic economy can thrive in the future."

£1.4tn
The investment the **Climate Change Committee** estimates will be needed between 2020 and 2050 to reach net zero by 2050¹

400,000
people already work in the UK's green economy²

2.5m
people could be needed to work in the green economy³

£253bn
needed to improve home insulation and install low carbon sources of heat and hot water¹

40%
of the £1.4 trillion investment will be directed to the **power sector**¹

¹ Climate Change Committee, The Sixth Carbon Budget: The UK's Path to Net Zero, 2020.
² ONS, Environmental goods and services sector (EGSS) estimates, accessed April 2021.
³ McCullough, Alan, et al., UK business opportunities of moving to a low-carbon economy, 2017.

Metrics and targets

We have developed several initial metrics to measure our progress against our net zero ambitions and the activities required to achieve them. These include measures related to our financed emissions, sustainable finance and own operations.

We expect these metrics to evolve as we develop additional sector-based ambitions, in line with our Net-Zero Banking Alliance commitments, and further expand our sustainable finance and own operations activity.

Measuring our progress

Metrics and targets

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Metrics and targets

Financed emissions ambitions

Net zero ambitions

In order to outline how best we can support the decarbonisation of the UK economy, we have prioritised our financing activities around net zero ambitions associated with achieving net zero by 2050, with interim ambitions set for 2030.

Our net zero ambitions cover our banking activity and our investing activity through Scottish Widows.

Banking ambitions

In addition to our ambition to work with customers, government and the market to help reduce the emissions we finance by more than 50% by 2030 on the path to net zero by 2050 or sooner, we joined the NZBA in April 2021 as a founding member.

We are now committed to developing 2030 sector-specific ambitions for the most GHG intensive and GHG emitting sectors within our portfolio that will be key to the transition to a net zero economy and will complement our existing ambition.


We have made good progress to date, having now set 2030 ambitions for four sectors, including power, thermal coal, oil and gas, and motor. We are working to develop additional 2030 sector ambitions in 2022 for our residential mortgages, transportation and automotive activity beyond Retail motor vehicle loans with further ambitions following in 2023.

Sector ambitions will be set using up to date science-based decarbonisation scenarios which are aligned with a 1.5°C pathway. Examples include the International Energy Agency (IEA) Net Zero Emissions by 2050 (IEA NZE 2050) scenario and the UK Committee on Climate Change's Balanced Net Zero Pathway scenario. As climate science evolves and scenarios are updated, we will review our methodologies and ambitions.


Bank sector-based ambitions

Sector	2030 sector ambitions		
	Financed emissions (MtCO ₂ e)	Physical emissions intensity	Scenario
Power ^{1,2}	n/a	75gCO ₂ e/kWh	Aligned to government policies
Oil and gas ²	3.9 (50% reduction) ³	n/a	IEA NZE 2050
UK motor finance ²	n/a	Cars - 65gCO ₂ e/km Vans - 85gCO ₂ e/km	CCC Balanced Net Zero Pathway
Thermal coal ^{2,4}	Full exit from all entities that operate thermal coal facilities by 2030		

¹ Power sector ambition was published prior joining the NZBA and will be updated in 2022, to align with NZBA guidance.
² Additional detail on ambitions is on page 33 (Power and oil and gas) and page 34 (UK Motor).
³ Our ambition is to reduce the absolute financed emissions from the oil and gas sector by 50% from a 2019 baseline. The 2030 absolute financed emissions value may change if the baseline is updated in future years as better data becomes available.
⁴ This ambition is only applicable to our corporate and institutional clients (clients with a turnover >£100m) and excludes any clients within our SME portfolio that would form part of the supply chain to the energy and coal mining entities. The ambition relating to thermal coal mining excludes commodities trading activities. This ambition is a commitment to exit all entities that operate thermal coal facilities by 2030 and will currently be tracked through lending exposure to the sector as opposed to annual emissions estimates.




Financed emissions




Banking ambitions

Work with customers, government and the market to help reduce the carbon emissions we finance by more than 50% by 2030 on the path to net zero by 2050 or sooner¹



Scottish Widows ambitions

Target halving the carbon footprint² of Scottish Widows investments by 2030 on the path to net zero by 2050³



More detail on Scottish Widows' activity can be found in its **Climate Action Plan** and its inaugural TCFD Report that will be published in March 2022

¹ From a 2018 baseline.
² Carbon footprint is a measure of carbon intensity calculated as absolute value of emissions applicable to an investment divided by the value of investment.
³ From a 2019 baseline.

Metrics and targets

Banking ambitions



Power

In Commercial Banking we have continued to support the decarbonisation of the power sector, as evidenced by our financing of projects including the Dogger Bank offshore windfarm.

In 2020 we announced a new ambition to reduce the emissions intensity of our power sector portfolio to less than 75g CO₂e/kWh in the period from 2018 to 2030, demonstrating our commitment to the development of renewable energy and the decarbonisation of the power sector.

We have continued to support renewable energy, and offshore wind in particular, in the past 12 months alongside the continued embedding of our client engagement strategy in our power generation portfolio, actively encouraging our clients to reduce their reliance on revenue from carbon intensive activities, and to transition to a lower carbon economy, in line with the aims of the Paris Agreement.

Since the launch of our power sector ambition, we have welcomed the publication of further guidance from the Sustainable Markets Initiative – Financial Services Taskforce on considerations for banks in setting a net zero strategy and we have consulted the sectoral target setting for financed emissions from the Science Based Targets initiative. Given this evolution in methodological guidance, we will be taking the opportunity to update our power generation target methodology in 2022, aligned to the commitments we have made as a member of the Net-Zero Banking Alliance. This will include aligning our reference pathway to a science-based reduction pathway and transitioning from a financed emissions intensity calculation to a generation-based emissions intensity calculation.



Oil and gas

As a founding member of the Net-Zero Banking Alliance (NZBA) we have committed to set sector level financed emissions targets with a focus on sectors where we can have the most significant impact. This includes the most greenhouse-gas intensive sectors in our portfolio, such as oil and gas.

We recognise the important role of the oil and gas sector in providing energy security to the UK and that its decarbonisation is critical to limiting global warming to 1.5°C. Therefore, we have prioritised the development of this target.

Measuring our oil and gas financed emissions

We have aligned our methodology as far as possible at this point in time to the standards set by the Partnership for Carbon Accounting Financials (PCAF) and the Net-Zero Banking Alliance (NZBA) to enhance our 2018 baseline methodology and create a bottom-up view of our 2019 oil and gas portfolio, including Scope 1, Scope 2 and Scope 3 (covering use of sold products) emissions. Not all of our clients have disclosed all scopes of emissions, so we have developed methodologies to estimate emissions using primarily industry level data. Most of our clients' Scope 3 emissions data is estimated as many do not disclose this publicly. This is a material consideration given Scope 3 accounts for approximately 90 per cent of total sector emissions.

We recognise the need for better data, standards and methodologies and will play our role as the UK's largest lender to support our clients and the industry to improve reporting and methodology.

This methodology estimated a figure of 7.8 MtCO₂e for our oil and gas portfolio in 2019 with a PCAF score of 3.9, and includes clients related to the sectors of extraction, transport via pipeline, refining and the commodity trading arms of our supermajor clients. We have excluded support services and other commodity traders from the scope of our metric due to data limitations and lack of alignment towards the scenario pathway selected.

Momentum and net zero reference scenario pathways

We have developed a net zero reference pathway from our baseline, based on emissions reductions for oil and gas modelled within the International Energy Agency's Net Zero Emissions by 2050 (IEA NZE 50) scenario, to understand the speed of transition required to achieve net zero in the sector. This scenario was selected based on a review of available scenarios and was deemed to be the most suitable, though we acknowledge that the IEA NZE 50 should be considered the minimum level of ambition, given it only provides a 50 per cent chance of limiting global warming to 1.5°C.

To identify the momentum pathway for our portfolio through to 2050, and provide us with a view of our financed emissions if we were to take no further action, we have reviewed our clients' disclosed CO₂e emissions reduction pathways or published targets.

The global energy production and carbon intensities pathways from the internationally recognised IEA Stated Policy (STEPS) scenario has been used where our clients' targets were not available. By assessing the gap between our momentum and net zero reference pathways, we can refine the actions required to work with clients and reach our climate ambitions.

Target

Our 2030 interim target for the oil and gas sector is based upon absolute emissions reduction and has been developed by applying the IEA NZE 2050 pathway to our portfolio, taking into account changes to the shape of our portfolio since 2019. We are targeting a reduction in absolute drawn financed emissions (scope 1, 2, and 3) of 50 per cent in the period from 2019 to 2030. It should be noted that volatility is to be expected in both our estimated baseline, and our year by year progress towards the target, arising under the PCAF methodology from multiple factors including clients' use of committed but undrawn facilities, movements in clients' equity prices or market value, and improvements in data and methodology to track emissions.

Strategy and levers

We intend to play an active role in the transition of this sector to net zero. We will provide financing solutions to viable projects and companies with the technologies which are critical for decarbonisation, actively financing the solutions required to tackle climate change. As we look forward we are working to embed our net zero commitment into our oil and gas strategy, including levers and actions we can take to maintain alignment between our momentum pathway and our reference net zero pathway. These actions include participation choices, sustainable financing and supporting oil and gas clients to invest in renewable and green energy initiatives.

We will work with our existing clients to support them to establish credible and impactful transition plans. We are developing an assessment methodology and an engagement strategy for these plans and will require existing clients to have their plans in place by the end of 2023. We have also taken the decision to no longer provide direct financing (either via project finance, or reserve-based lending) that finances the development of new oil fields (fields which did not receive an Oil & Gas Authority approval before the end of 2021).

We will not provide financing to new clients in the oil and gas sector unless it is for viable projects into renewable energy and transition technologies and clients have credible transition plans at the point of onboarding.

Future enhancements

It should be noted that the baseline, momentum and net zero reference scenario pathways and targets may be subject to change as data availability and granularity improve, scenario pathways are updated and the broader regulatory and industry environment evolves. We will continue to work on further developing our approach and the supporting transition plan as part of our NZBA commitment.

50% reduction
2030 oil and gas sector absolute
emissions reduction ambition

Metrics and targets

 Banking ambitions



Thermal coal

To meet the requirements of the Paris Agreement and limit global warming to 1.5°C, significant global reduction in thermal coal consumption is required.

Lloyds Banking Group has played a critical role in supporting this transition away from thermal coal and towards renewable energy.

Through our commitment to support renewables and help the UK deliver on its targets to phase out coal we have provided significant financing to reduce the reliance on coal-fired power stations and as a UK focused bank we have nominal residual exposure to thermal coal mining.

In November 2021, we joined the Powering Past Coal Alliance (PPCA) and have enhanced our external sector statements to align with the objectives of this initiative. We expect to completely exit thermal coal power in the UK by the end of 2022, two years ahead of the UK Government’s 2024 deadline to end reliance on all coal power. For our residual exposures outside the UK, we will maintain our strategy to accelerate the transition towards renewables.

Additionally, we plan a full exit from all entities that operate thermal coal facilities by 2030. We may provide finance to entities towards reducing their thermal coal portfolio (including retro fitting of existing facilities or decommissioning facilities), in line with our phase-out timelines and plan for a full exit from all diversified mining companies that operate thermal coal facilities by 2030.

2022

Full exit of thermal coal power in the UK

2030

Full exit from all entities that operate thermal coal facilities¹

¹ This ambition is only applicable to our corporate and institutional clients (clients with a turnover >£100m) and excludes any clients within our SME portfolio that would form part of the supply chain to the Energy and Coal Mining entities. The ambition relating to thermal coal mining excludes commodities trading activities.



Motor

In our Retail motor business (including Lex Autolease and Black Horse) we want to ensure the vehicles we finance are transitioning in line with what is required to meet the Paris Agreement and net zero ambitions.

Our vehicle fleet is located within the UK and, as such, we have looked at what the UK Committee on Climate Change (CCC) has set out in terms of the level of emissions required from UK cars and vans in 2030 to be on the path to net zero by 2050, which implies emission intensities of 75g CO₂e/km (cars) and 113 gCO₂e/km (vans)².

² Based on the UK Committee on Climate Change’s projected carbon emissions for cars and vans in 2030 and assuming a 5% increase in total km driven by 2030 compared to 2018.

We have set ourselves an ambition to reduce the emission intensity of our cars and vans by more than 50 per cent by 2030 (from a 2018 baseline), reaching 65 gCO₂e/km (cars) and 85 gCO₂e/km (vans) or lower, exceeding the implied CCC targets. Our ambition will also contribute to our wider Group ambition to reduce the emissions we finance by more than 50 per cent by 2030.

Achieving our ambition will be dependent on:

The UK Government putting in place the required policy framework to meet the Committee on Climate Change’s recommended 2030 decarbonisation goals, which will ensure that EVs are truly low emission.

We are already seeing strong growth in the number of EVs in our portfolio and will continue to work with our customers to help them choose the right vehicles for their needs and develop attractive propositions, such as our EV salary sacrifice scheme, that increases the attractiveness of switching to EVs.

65 gCO₂e/km or lower
2030 car emission intensity ambition

85 gCO₂e/km or lower
2030 van emission intensity ambition

Metrics and targets

Financed emissions baseline and progress

In 2021, we have estimated our financed emissions producing two separate baselines to align to the individual ambitions to reduce our financed emissions as outlined in the Strategy section. The first baseline is for our banking operations, which covers Lloyds Banking Group, excluding Scottish Widows (the Bank). The second is for our Scottish Widows activity which is reported separately. In measuring financed emissions, the Bank and Scottish Widows have both applied the Partnership for Carbon Accounting Financials (PCAF) standard, with additional detail on approach included within the following sections.

SW Methodology and approach

Lloyds Banking Group, including Scottish Widows, has continued to apply the emerging industry-led standard developed by the PCAF in measuring and disclosing our greenhouse gas (GHG) emissions financed by loans and investments. The PCAF is now recognised as the most widely adopted global standard for measuring and accounting for Scope 3 emissions by the financial sector, referred to here and across industry as 'financed emissions'. Where possible, we have adopted the guidance afforded by the PCAF standard across all material asset classes where published methodologies have been made available.

What emissions are covered?
Our baseline represents Scope 3 financed emissions which is calculated from the Scope 1 and 2 emissions generated from our investments or lending.

Scope 3 (value chain) emissions are also calculated and reported separately for certain sectors, aligning to the PCAF standard phased approach. Scope 3 includes all other indirect GHG emissions of the reporting company not included in Scope 2, and can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur as a consequence of using the organisation's products or services. The comparability, coverage, transparency and reliability of Scope 3 data still varies greatly by sector and data source.

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

Data quality score
Where sourcing of emission data by client or by asset type was challenging, adaptations to our approach reflected the hierarchy of options outlined in the PCAF data scoring framework. We used a range of internal and external data sources to determine the Scope 1 and Scope 2 emissions for each asset class and calculated our average data quality scores across all business lines and sectors, using the classification opposite, which can be found in the PCAF methodology.

Evolution of approach
Throughout 2021, we have continued to mature and refine our measurement of financed emissions across the Group. Progress has been made to extend the scope of our emissions baseline, refine our methodologies and improve data quality, recognising there is still more to do. This includes working in partnership with government, industry and policymakers to improve our approach and calculation estimates.

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

Looking ahead
In order to extend the coverage of our baseline, we will continue to develop our calculation approach to consider equity, non-UK mortgages and corporate bonds. We will also review any new PCAF asset class methodologies as they are released to consider applicability to our portfolios. Continued refinement of our emissions baseline is expected as data availability and quality improves in line with industry developments and as methodologies evolve.

Recognising the Bank's commercial lending portfolio composition, it is also anticipated that the impact of increased lending to customers as part of the Government supported Bounce Back Loan Scheme and Coronavirus Business Interruption Loan Scheme is likely to have a proportionate increase to our financed emissions reporting from 2020. For future reporting periods, we will consider how best to disclose such lending in our financed emissions reporting.

Extending our scope to calculating more of our clients' Scope 3 emissions will continue to be monitored in line with the PCAF published timelines, and we will continue to report separately from our Scope 1 and 2 financed emissions.

Furthermore, in light of the regulatory plans to scale up mandatory TCFD-aligned disclosures across a broader range of reporting entities, we expect our emissions calculations to include more reported emissions with a higher PCAF score over time. We also recognise the need to provide support to our consumers and SME clients to help them understand their carbon footprint and how they can reduce it.

PCAF general data quality score card

- 1 Audited GHG emissions data or actual primary energy data
- 2 Non-audited GHG emissions data, or other primary data
- 3 Averaged data that is peer/(sub) sector specific
- 4 Proxy data on the basis of region or country
- 5 Estimated data with very limited support

Source: The Global Carbon Standard for the Financial Industry (carbonaccountingfinancials.com)

Metrics and targets

Financed emissions baseline and progress

Bank financed emissions baseline

Aligned to our commitment to report a consistent, and transparent financed emissions disclosure and following our enhancements to data, methodology and scope, we have recalculated our 2018 baseline estimates as previously stated in our 2020 Annual Report, in addition to calculating our financed emissions for the year ended 2019. These calculations are based on Bank own lending activity and provide an early starting position on our ambition to reduce the emissions we finance by more than 50 per cent by 2030 on the path to net zero by 2050, or sooner.

Bank aggregated emissions are supported by estimates by divisional asset class and are found in the Bank financed emissions table, which is followed by commentary on material design choices, limitations and recognised drivers to changes in our financed emissions. Of specific note, the 2018 baseline recalculation has formed the foundation of target setting in accordance with the NZBA commitment made by the Group during 2021.

Scope

Our 2019 balance sheet coverage extends to 71 per cent of the Group's Balance Sheet Assets, excluding Scottish Widows, and includes all material exposures across our Mortgages, Motor Finance (which includes finance and leasing activity), Business Banking and Commercial Banking portfolios. Cash is represented in our balance sheet coverage as zero emissions, noting the PCAF standard remains silent on treatment. Exclusions to measurement totals 29 per cent, 25 per cent of which are in line with PCAF methodology where no methodologies exist, such as derivatives, sovereign bonds and green bonds. The minimal remaining 4 per cent of the balance sheet is excluded due to existing data gaps which we will look to resolve in 2022.

Aligned to the PCAF requirement to phase in Scope 3 (value chain) emissions from 2021, we have established an approach to include Scope 3 estimated emissions for clients in the oil and gas sector within our financed emissions calculations and have reported these separately in the Bank financed emissions table. The Group's mining exposures have been excluded from Scope 3 reporting reflecting nominal residual exposure.

Bank financed emissions

We have continued to build appropriate controls into our calculation approach, including: (i) additional data checks within calculations by first-line business owners; (ii) enhanced risk oversight of alignment to the PCAF framework on a comply or explain basis, and the calculation methodology and boundaries used for client, asset or sector inclusion; and (iii) Internal Audit reviews to help identify further enhancements.

As a result of this work, the Bank 2018 baseline has been refreshed reporting an increased position of 28.0MtCO₂e, for our assets in-scope, which reflects a 10.3 per cent increase on our 2018 estimate disclosed in our 2020 ESG Report. The recalculation incorporated the positive enhancements made to data quality and availability, and alignment to PCAF methodology outlined in the asset class summaries on page 38. Recognising the progressive nature of emissions data enhancements and ongoing updates to industry standards and guidance, it is expected that further refinement may be necessary, which provides a challenging foundation to our approach to target setting in line with our NZBA commitment.

Financed emissions for the year ended December 2019 were calculated for the first time and reported a positive reduction in absolute emissions in borrower Scope 1 and 2 emissions to 25.0 MtCO₂e based on >£490 billion of in-scope assets.

The year-on-year movement equated to a 10.8 per cent reduction in emissions and was largely driven by a combination of client decarbonisation, and lending contraction in certain sectors.

An early estimate of Scope 3 emissions was conducted for the Oil and Gas sector, in alignment to the PCAF phased in approach for reporting.

The Oil and Gas portfolio (including Commodity Traders - Energy of the supermajors and

excluding Support Services) is estimated to be 7.0 MtCO₂e for 2019, and was based on actual reported data, where available, estimated data from S&P Trucost, or through a ratio of company Scope 1 and 2 emissions where there is no other available data. Reported data, especially for the category of 'use of sold products', is very sparse and is reflected by a PCAF score of 4.0. It is recognised that we will update our approach as data, standards and methodologies evolve.

Data quality progression

The Bank's weighted average PCAF data score has moved from 3.9 to 3.8, reflecting improved data sourcing and enhanced consistency in methodology approach. While progress has been made during 2021, the ongoing challenges to data sourcing gaps remain significant particularly in measuring emissions for SME clients, which require an industry-wide shift to address this, and will be required to help inform future NZBA targets.

Bank financed emissions

PCAF asset class	2019 financed emissions					2018 baseline				
	Scope 1 & 2	Financed emissions (MtCO ₂ e) ²	Economic emission intensity (tCO ₂ e/£M invested)	Physical emission intensity	PCAF data quality score	Equivalent share of sector or UK total emissions ^{1,7}	Financed emissions (MtCO ₂ e) ²	Economic emission intensity (tCO ₂ e/£M invested)	Physical emission intensity	PCAF data quality score
UK Mortgages ³		5.6	19	46kgCO ₂ e/m ²	3.7	6%	5.9	21	47kgCO ₂ e/m ²	3.9
UK Motor Finance ⁴		3.1	154	129gCO ₂ e/km (cars) 168gCO ₂ e/km (vans)	2.3	4%	3.2	167	129gCO ₂ e/km (cars) 170gCO ₂ e/km (vans)	2.3
Business Loans										
Business Banking ⁵		0.3	208	n/a	5.0	<1%	0.4	219	n/a	5.0
Commercial Banking ⁶		16.0	151	n/a	4.4	6%	18.5	164	n/a	4.3
Total		25.0			3.8	5.5%	28.0			3.9

- 1 Represents estimated 5.5 per cent of UK emissions of 454.8 MtCO₂e by sector reported in 2019 UK Greenhouse Gas Emissions, Final Figures dated 2nd February 2021 by Department for Business, Energy and Industrial Strategy.
- 2 Includes Nil emissions for cash balances which accounts for 8.4 per cent of the Group's balance sheet.
- 3 2019 emissions calculation covers 99 per cent of in-scope UK mortgages. Excludes £3.4bn of newly acquired assets. Uses EPC emissions estimates for 53 per cent of properties. Where EPCs are unknown, property archetypes are aligned to average emissions intensity of properties in EPC bandings C to G.
- 4 2019 emissions calculation covers 87 per cent of motor vehicle loans and operating lease assets in-scope. Excludes assets that do not have a motor, loans for forecourt dealership stock, specialist vehicles and vehicles where mileage is difficult to estimate. Currently does not apply a loan-to-value ratio for emissions.
- 5 2019 emissions calculation covers 85 per cent of Business Banking drawn lending balances in-scope applying Business Loan asset class. Exclusions include, for example, Cards, Invoice Discounting, Hire Purchase and Loans which are either out of scope or had no readily available data. Emissions calculations applied tCO₂e/assets intensity ratio from UK Government Office for National Statistics as no client level financial and emissions data is readily available for small business customers across industry.
- 6 2019 emissions calculation covers >99 per cent of Commercial Banking drawn lending in scope, applying Business Loan asset class. Emissions calculated using granular client level financial and emissions data from S&P, covering 20 per cent of emissions, with remaining 80 per cent applying tCO₂e/asset intensity ratio from UK Government Office for National Statistics. Exceptions to Commercial Banking coverage include, for example, government bonds, green bonds, derivatives and reverse repos which are currently out of PCAF scope.
- 7 UK emissions in 2019 were: 87 MtCO₂e from cars and vans; c.97 MtCO₂e from homes, including emissions from both electricity and heating; and 271 MtCO₂e from business (excluding emissions from electricity used in residential property). Source: Department for Business, Energy and Industrial Strategy - 2019 UK Greenhouse Gas Emissions, Final Figures.

Sector	Scope 3			2019 baseline		
	Financed emissions (MtCO ₂ e) ¹	Economic emissions intensity ktCO ₂ e/£m invested	PCAF data quality score	Financed emissions (MtCO ₂ e) ¹	Economic emissions intensity ktCO ₂ e/£m invested	PCAF data quality score
Oil and gas ²	7.0	4.0	4.0			

- 1 Mining excluded from PCAF-aligned Scope 3 reporting reflecting nominal residual exposure.
- 2 Oil and gas Scope 3 estimates reflect the scope 3 of the oil and gas sector target, based on drawn lending for primary sector clients in extraction, refining and transport via pipeline, including commodities trading arms of supermajor oil and gas clients, and not including support services.

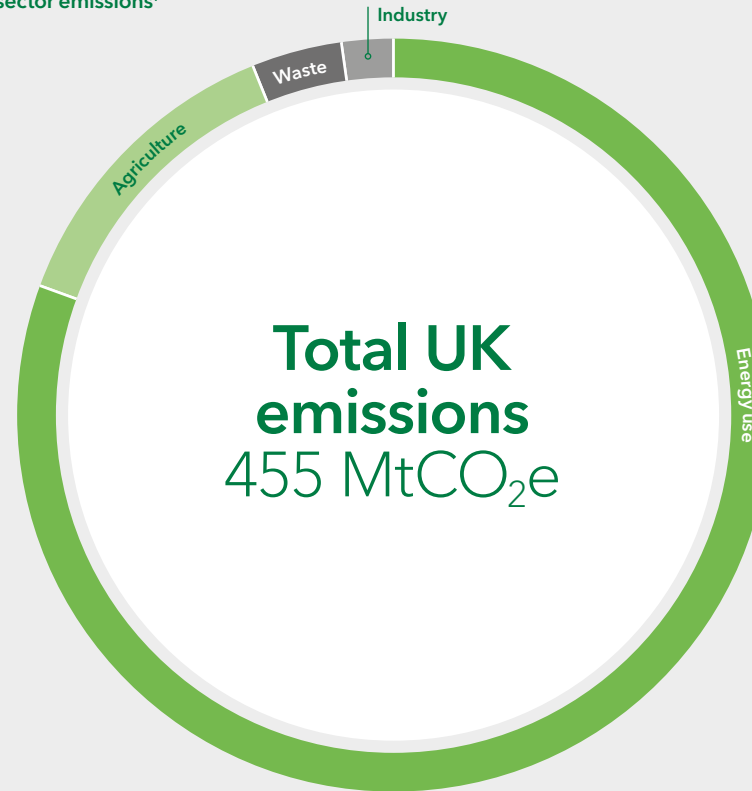
Metrics and targets

Financed emissions baseline and progress

In comparison to reported UK emissions, Bank 2019 emissions represented 5.5 per cent (25.0 MtCO₂e/454.8 MtCO₂e) of the UK emissions reported in the 2019 UK Greenhouse Gas Emissions Final Figures dated 2nd February 2021 issued by the Department for Business, Energy and Industrial Strategy. The Group's share of UK emissions remains largely unchanged. The breakdown by asset type is included in the table on page 36, along with our share of equivalent UK sector emissions.

Comparing UK and 2019 Bank financed emissions

UK sector emissions¹

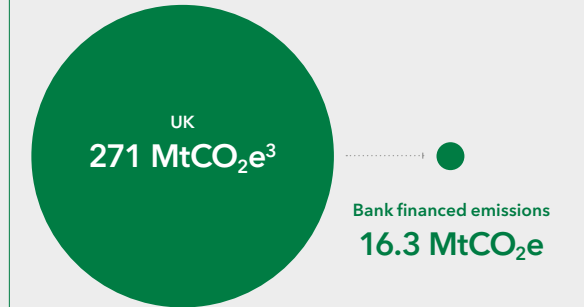


Breakdown of key emissions

Energy use		Agriculture		Waste		Industry	
Buildings	28%	Livestock	7%	Landfills	3%	Industry	2%
Transport	27%	Crops	3%	Other	1%		
Industry	17%	Fossil	3%				
Supply	8%						

UK & Bank comparisons

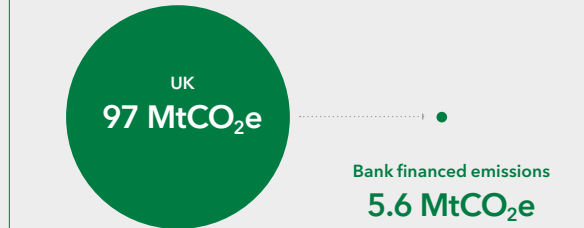
Business²



Cars and Vans²



Homes²



² UK emissions in 2019 were: 87 MtCO₂ from cars and vans; c.97 MtCO₂e from homes, including emissions from both electricity and heating; and 271 MtCO₂ from business (excluding emissions from electricity used in residential property). Source: BEIS 2019 (see footnote 1).

³ For comparison purposes only as there are some non-UK clients in the Commercial Banking portfolio.

¹ Department for Business, Energy and Industrial Strategy (BEIS) - 2019 UK Greenhouse Gas Emissions, Final Figures.

Metrics and targets

Financed emissions baseline and progress

Bank asset class methodology

Specific areas of note in the calculations are:

UK Mortgages:

Following the first calculation of the 2018 financed emissions baseline for the UK residential property portfolio in 2020, there has been a positive step change in our approach to sourcing data, improving calculations, developing automation, and applying the PCAF methodology, resulting in a refined baseline of absolute emissions of 5.9 MtCO₂e for our 2018 in-scope UK mortgaged assets.

A further 6 per cent reduction in financed emissions to 5.6 MtCO₂e is reported for the year ended 2019, reflecting portfolio movements and wider Energy Performance Certificate (EPC) coverage across the mortgage book. PCAF data scoring has therefore improved to 3.7 and the physical intensity of our in-scope portfolio shows a reducing trajectory from 47kgCO₂e/m² to 46kgCO₂e/m².

Absolute emissions were measured at a single property level for our UK residential property portfolio, covering 99 per cent of the Group's in-scope mortgaged assets, equating to calculations for over 2.5 million properties with mortgages of £286 billion. Of the total in-scope assets, £3.4 billion was excluded from financed emissions measurement. These assets were new to scope following a portfolio acquisition and had limited calculation data. To calculate our financed emissions, we applied an attributed share to the estimated building emissions from EPCs in line with the PCAF standard.

5.6 MtCO₂e

2019 UK Mortgages financed emissions

Reflecting on the limitations surrounding industry-wide data challenges, including availability of EPCs, it is recognised that there is still more to do, and as a result we have made certain design choices to estimate emissions, where necessary, such as those for residential properties without EPCs. Taking a risk-based approach this included the development of a modelling hierarchy to determine a best-available EPC outcome by individual property, supported by appropriate data quality checks and internal governance.

UK Motor Finance:

The UK Motor Finance portfolio (which includes finance and leasing activity) first measured and disclosed 2018 financed emissions in 2020. During 2021, significant enhancements have been made in sourcing additional data at vehicle level in accordance with the PCAF data guidance, reducing the reliance on modelled data, and implementing infrastructure changes to improve automated calculations of absolute emissions. For 2021, a refined baseline of 3.2 MtCO₂e is reported for our 2018 in-scope Motor Finance activity, in alignment to the PCAF standard.

Motor Finance emissions were also calculated for 2019 and are 3.1 MtCO₂e, resulting in a 3.5 per cent reduction on 2018 that reflects a change to portfolio composition, and in particular, increased lending in Light Commercial Vehicles (LCV). This additional LCV lending was provided at a reduced emissions intensity of 168gCO₂e/km, compared to 170gCO₂e/km in 2018, a positive trajectory. Cars emission intensity remained unchanged at 129gCO₂e/km.

Motor Finance portfolio emissions were measured at individual vehicle level covering 87 per cent of our in-scope Motor Finance assets and equating to c.1.3 million motor vehicles. Exclusions of 13 per cent include loans for forecourt dealership stock, specialist vehicles and assets that do not have a motor, which are not applicable to the PCAF motor finance asset class. There was also a small proportion of vehicles where data was not available.



Full attribution has been applied reflecting the significant portion of Group-owned vehicles subject to finance leases and a consistent and risk-based approach for those not wholly owned for both consumer and business Motor Finance, a differentiation where PCAF is currently silent. PCAF scoring has remained stable at 2.3, reflecting the recognised improvements to data and infrastructure, a small increase in calculation coverage and a consistent application of methodology.

3.1 MtCO₂e

2019 UK Motor financed emissions

Commercial Banking:

First measured in 2020, for a baseline year of 2018, our approach to measuring financed emissions has been improved across data sourcing, automation of calculations, and the application of better aligned PCAF choices. Restatement of the 2018 baseline reported 18.5 MtCO₂e and is based on >£112 billion of in-scope loans. The restatement captures increased scope coverage, through additional application of estimates, and improved data matching.

2019 financed emissions of 16.0 MtCO₂e are calculated for the first time aligning to £106 billion of in-scope business loans, providing 99.8 per cent coverage and equates to a year on year reduction in emissions from the 2018 baseline of 13.5 per cent. The positive trajectory of business loan emissions between 2018 and 2019 was driven by a combination of lending contraction and a reduction in underlying company emissions. Specifically by applying Enterprise Value including Cash (EVIC) to the emissions attribution formula in line with the PCAF methodology, it is expected that financed emissions are likely to fluctuate year-on-year without necessarily any real underlying change to emissions should client performance vary. This continues to be debated across industry, with any further changes to methodology likely to impact previous emissions calculations.

Emissions and attribution calculations were allocated at client level by SIC code and align to the PCAF business loan asset class standards. Where possible, Commercial Banking sourced and applied financial and emissions data at client level from S&P Trucost. This resulted in c.20 per cent of the 2018 and 2019 portfolio financed emissions being measured on a granular basis. For the remaining c.80 per cent of business loan financed emissions reported, where financial (EVIC) and Scope 1 and 2 were not readily available, calculations adopted economic based activity intensity in alignment with the options outlined in the PCAF standard. Data accuracy has improved during the last year due to a combination of sourcing external client emissions data, government data and a re-mapping to SIC codes. PCAF data scoring has however deteriorated marginally from 4.3 to 4.4, reflecting the increased loan assets coverage applied to emissions calculation, together with a reduction in large corporate exposures where S&P client level data is typically available.

16.0 MtCO₂e

2019 Commercial Banking financed emissions

However, limitations of the level of data availability across industry for smaller enterprises continue to present a fundamental challenge to the level of accuracy across the business loan portfolio and the level of reliance that can be placed on underlying calculations in setting targets to meet the Group's NZBA commitment. We continue to work with our clients to support their capabilities in understanding their emissions, but recognise that additional government and industry support is needed to improve the pace and scale, and to help our clients in transitioning to a low carbon economy.

Business Banking:

Financed emissions have been calculated for the first time this year, reporting 0.4 MtCO₂e for 2018 based on £1.9 billion in-scope assets, and 0.3 MtCO₂e for 2019 based on £1.8 billion in-scope assets providing 85 per cent coverage. The remaining 15 per cent of in-scope assets were excluded due to insufficient company identifier and emissions data. The year on year movement is largely driven by minimal contraction of the portfolio. Existing methodology and measurement approaches employed by Commercial Banking and outlined above are applied to the Business Banking portfolio, and are therefore in alignment with the PCAF standards. Financial and emissions data requirements for emissions measurement continues to be challenging for the small business clients across the industry and this is reflected in application of the PCAF Business Loan asset class for all sectors in Business Banking. A PCAF data score of 5 has been adopted and reflects that no client level data is readily available and an economic activity based calculation was applied using emissions intensity data sourced from the UK Government's Office for National Statistics. Improvements in data and supporting client capabilities are recognised requirements to help improve data scoring and application of wider PCAF asset classes. However, wider industry progress and government support will be needed to help small business clients transition.

0.3 MtCO₂e

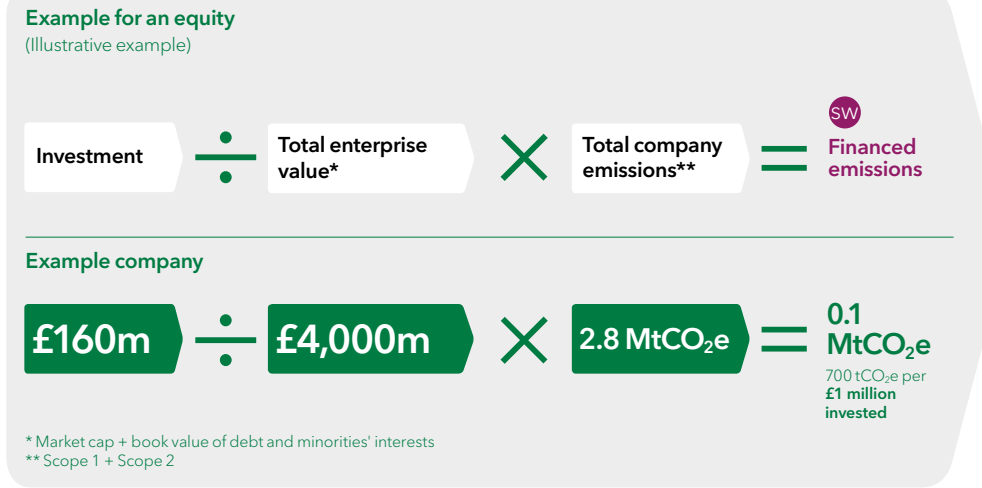
2019 Business Banking financed emissions

Metrics and targets

Financed emissions baseline and progress

SW Scottish Widows financed emissions baseline

Our investments' carbon footprint is the principal metric for measuring our investment portfolio's financed emissions and monitoring progress towards our 2030 and 2050 targets. The footprint is the tonnes of GHG emissions 'owned' by the portfolio. This is measured as carbon dioxide equivalents (CO₂e) 'owned' per £1 million invested.



Baseline

We've selected 2019 to be the baseline year in line with the science-based recommendations of the Intergovernmental Panel on Climate Change (IPCC) and guidance from the Institutional Investors Group on Climate Change (IIGCC). To calculate a reduction of emissions produced by the companies in our investment portfolios, we've used the emerging industry standard for calculating financed emissions developed by the PCAF.

To establish emissions data for corporate bonds and equities, we matched our investments against the published emissions data available on those companies from S&P Global Trucost's data and analytics tool. Trucost provides carbon and environmental data and risk analysis for more than 15,000 companies. There is a lack of published emissions data on loan investments. Therefore, we adopted an alternative PCAF-aligned approach to calculate emissions using estimates from Office for National Statistics (ONS) and Department for Business, Energy & Industrial Strategy (BEIS) sector averages.

Limitations of the PCAF methodology

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

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



Metrics and targets

Scottish Widows financed emissions baseline

Our baseline represents Scottish Widows' Scope 3 financed emissions which is calculated from the Scope 1 and 2 emissions generated from our investment or lending.

Total assets under management includes:

- Policyholder:** unitised and with-profit fund assets held in life and pension funds of Scottish Widows Limited (SWL) and Scottish Widows Europe (SWE); mutual funds managed by Scottish Widows Unit Trust Managers Limited (SWUTM) and HBOS Investment Fund Managers Limited (HIFML); and the workplace savings business of Scottish Widows Administration Services Limited (SWAS). In-scope assets include investment funds structured as insurance contracts. Assets under administration for customers of Schroders Personal Wealth (SPW) and Halifax Share Dealing Limited (HSDL) are not included
- Shareholder:** assets held by Scottish Widows Limited (SWL) and Scottish Widows Europe (SWE) backing annuities and non-unitised liabilities. Investment balances in other Scottish Widows group companies including the General Insurance business
- Policyholder and shareholder investments are governed by the Responsible Investment and Stewardship Framework, Stewardship Policy and Exclusions Policy, while the direct lending part of Shareholder investments are also covered by Lloyds Banking Group External Sector Statements

Scottish Widows' Scope 3 financed emissions

	Total assets under management (AUM) £bn	AUM in-scope according to PCAF methodology £bn	In-scope AUM for which emissions data is available %	Estimated total MtCO ₂ e (Scope 1 & 2 emissions, for investments where data is available)	Emissions per £1m invested (where data is available) (tCO ₂ /£m invested)	PCAF data quality score
2019						
Policyholder	143.1	126.7	76%	11.0	116.6	2.1
Shareholder	26.7	17.8	81%	1.5	112.3	3.7
Total	169.8	144.5	77%	12.5	116.1	2.3

Financed emissions by PCAF methodology

Policyholder						
PCAF methodology applied	Emissions data	£bn	% of reported portfolio	Financed emissions MtCO ₂ e	Emissions per £1m invested	PCAF data quality score
5.1 Listed equity and corporate bonds	Reported emissions	96.6	100%	11.0	116.6	2.1
Total		96.6	100%	11.0	116.6	2.1
Shareholder						
PCAF methodology followed	Emissions data	£bn	% of reported portfolio	Financed emissions MtCO ₂ e	Emissions per £1m invested	PCAF data quality score
5.1 Listed equity and corporate bonds	Reported emissions	7.0	49%	0.5	76.7	2.1
5.2 Business loans and unlisted equity	Economic activity based	5.1	35%	0.4	82.6	5.0
5.3 Project finance	Economic activity based	2.3	16%	0.6	257.2	5.0
Total		14.4	100%	1.5	112.3	3.7
Total (Policyholder and Shareholder)						
PCAF methodology followed	Emissions data	£bn	% of reported portfolio	Financed emissions MtCO ₂ e	Emissions per £1m invested	PCAF data quality score
5.1 Listed Equity and Corporate Bonds	Reported Emissions	103.6	93%	11.5	114.2	2.1
5.2 Business Loans and Unlisted Equity	Economic Activity Based	5.1	5%	0.4	82.6	5.0
5.3 Project Finance	Economic Activity Based	2.3	2%	0.6	257.2	5.0
Total		111.0	100%	12.5	116.1	2.3

Notes on tables

- Only asset types where a PCAF-aligned methodology exists, and which we have access to the data required to meet the PCAF standard, have been included within the above emissions baseline
- For listed equities and corporate bonds, we have followed PCAF methodology 5.1 'Listed equity and corporate bonds' to calculate emissions
- For emissions data associated with loan investments, we have followed PCAF methodology 5.2 'Business loans and unlisted equity'. The exception to this is our infrastructure loans where PCAF methodology 5.3 'Project Finance' has been followed
- There are some assets where, despite a PCAF methodology being available, we do not currently have access to the data to meet the PCAF standard
- Emissions per £1 million invested has been calculated with reference to Equity market values and Bond nominal values, in line with PCAF methodology
- We have excluded our Commercial Real Estate (CRE) and Equity Release Mortgage loan investments from the calculations until we have sourced the asset-specific emissions data required to meet the current PCAF-aligned methodology. CRE loans are included in the Bank's published financed emissions

Where there is no current PCAF methodology for calculating emissions, those asset types have been excluded from the scope of the baseline at this time. Asset types excluded on this basis are government bonds, derivatives, and cash. Collateralised securities (securitised loans) are also excluded on this basis unless data on the underlying loan portfolio is available enabling an alternative PCAF methodology to be followed.

Assets not in-scope of PCAF methodology 2019:

	Policyholder £bn	Shareholder £bn	Total £bn
Collateralised securities	1.0	0.9	1.9
Derivatives	-0.5	1.2	0.7
Government bonds	12.2	5.9	18.1
Cash	3.7	0.9	4.6
Total	16.4	8.9	25.3

Scope 3 emissions

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

2019				
	Total Assets Under Management (AUM) £bn	Estimated total MtCO ₂ e (Scope 3 emissions, for investments where data is available)		Data Quality Score
Policyholder				
Oil and Gas	6.8	26.0		2.7
Mining	3.5	14.5		2.9
Total	10.3	40.5		2.7
Shareholder				
Oil and Gas	0.1	0.3		3.1
Mining	0.1	0.4		3.0
Total	0.2	0.7		3.0
Total (Policyholder and Shareholder)				
Oil and Gas	6.9	26.3		2.7
Mining	3.6	14.9		2.9
Total	10.5	41.2		2.7

Metrics and targets

Sustainable finance



Banking ambitions

Commercial Banking

£15bn

Sustainable financing for corporate and institutional clients by 2024

With the support of our Sustainability and ESG Financing team, created in 2021, we will help clients with an increasing volume of Sustainability and ESG-linked loan transactions, underpinned by our range of sustainable finance tools and propositions. The £15 billion ambition by 2024 will include:

- Green use of proceeds - funding that can support a broad range of investments in sustainable business, including our Clean Growth Finance Initiative (CGFI), Real Estate & Housing green lending initiative, and renewables funding including refinance and acquisitions.
- Sustainability and ESG Linked Loans - general corporate purpose lending where a margin ratchet is linked to achievement of ambitious, pre-agreed company level ESG sustainability performance targets (SPTs).
- Green, ESG, Transition, and Social bonds - which have a defined use of proceeds aligned to one or more of these activities.
- Sustainability linked bond facilitation - where bond proceeds are for general corporate purposes, and the coupon increases if specific Key Performance Indicators ("KPIs") are not met.



Retail

£8bn

Financing for Electric Vehicles and Plug-in Hybrid Electric Vehicles¹ by 2024

We will enhance our transport offering with more flexible finance solutions, expanded manufacturer partnerships and services. We will also extend digital channels to include new direct to consumer leasing and financing solutions for EV charge points to meet emerging customer needs.

£10bn

Green mortgage lending² by 2024

As the largest UK mortgage lender, we will continue our commitment to supporting customers grow their understanding of home energy efficiency, as well as providing innovative products that drive greater customer consideration for energy efficiency when purchasing their homes.

1. Includes new lending advances for Black Horse and operating leases for Lex Autolease (gross); includes cars and vans.
 2. New mortgage lending on new and existing residential property that meets an Energy Performance Certificate (EPC) rating of B or higher.

SW Scottish Widows

£20-25bn

Discretionary investment in climate-aware investment strategies by 2025, with at least £1 billion invested in climate solutions investments

We estimate we'll make discretionary investment of £20-25 billion into climate-aware investment strategies by 2025, with at least £1 billion invested in climate solutions investments.

We're working closely with our core strategic fund management partners to develop and refine a range of funds that have a bias towards investing in companies that are adapting their businesses to be less carbon-intensive and/or developing climate solutions. We'll invest in climate solutions investments either within these strategies or other funds. To define climate solutions investments, we look at company revenue associated with activities such as alternative energy, energy efficiency, green building, sustainable agriculture, sustainable water and pollution prevention. We use MSCI Environmental Impact Revenue data to help with this classification.



Metrics and targets

Own operations

Our own environmental footprint

Since 2020, we have been tracking against three operational climate pledges, which were announced early in 2021. They are designed to accelerate our plan to tackle climate change and apply across our own operations.



Net zero and operational climate pledges

We will achieve **net zero carbon operations by 2030**. We plan to reduce our direct emissions (known as Scope 1 and 2 emissions) by at least 75 per cent (compared to 2018/19 levels)

We will **maintain travel carbon emissions below 50 per cent of pre-COVID-19 (2018/19) levels**, embedding for the long-term the reduced levels of commuting and business travel seen during the pandemic and supporting colleagues to switch to low carbon transport

We will **reduce our total energy consumption by 50 per cent by 2030** (compared to 2018/19). While we already procure 100 per cent renewable electricity, it remains crucial that we reduce the amount of power we consume to support the UK in meeting an increasing demand for renewable energy

Achieving these goals will not be easy, and we will need to invest in our buildings over the next decade, supporting the UK in the transition towards a greener future. We will continue to deploy energy efficient technology including LED lighting and improved building controls. We will remove all use of natural gas from our estate, replacing gas boilers with low carbon heating technologies and create more sustainable branches in communities across the UK. Many of the technologies we will need to use are still new and we will work closely with our partners and supply chain to innovate.

We proudly remained Carbon Trust Standard certification holders for carbon reduction for the twelfth year in a row. We are also members of the UK Green Buildings Council and we have recently renewed our commitment to the World Green Building Council Net Zero Carbon Buildings Commitment to include the new embodied carbon reduction requirement for new build and major refurbishment by 2030. This renewed commitment, along with those we've already made by joining The Climate Group's campaigns on renewable electricity (RE100), energy productivity (EP100) and electric vehicles (EV100), underpins our new climate pledges.



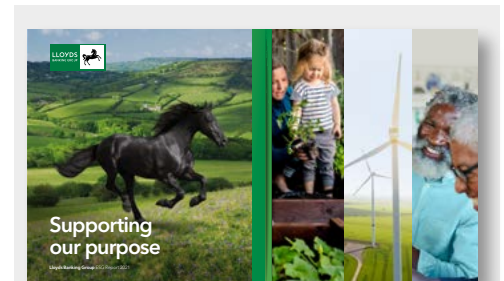
We also achieved certification to the Carbon Trust Standard for Waste for the first time in 2021. The standard recognises organisations that follow best practice in measuring, managing, and reducing their waste impact.

Additional operational sustainability and environmental ambitions

We also have broader environmental ambitions for our own operations, which focus on reducing waste and improving water efficiency, which include:

Reduce our operational waste by **80%** by 2025, from a 2014/15 baseline

Reduce water consumption by **40%** by 2030, from a 2009 baseline



Further information on operational carbon and sustainability performance can be located in our 2021 ESG Report **see: pages 34 to 38**

Metrics and targets

Own operations

Own operations climate pledges, progress and plan


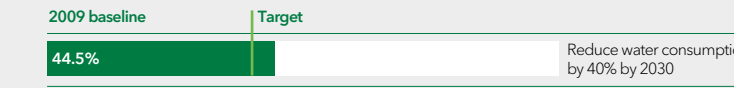
What is the target?	We will achieve net zero carbon operations by 2030 ^{1,2,5} .	We will reduce our total energy consumption by 50% by 2030 (compared to 2018/19) ³ .	We will maintain travel carbon emissions below 50% of pre-COVID-19 (2018/19) levels ⁴ .
What's included and how will it be achieved?	We plan to reduce our direct emissions (known as Scope 1 and 2 emissions) by at least 75% (compared to 2018/19 levels). In 2030, we will purchase carbon credits to offset the remainder of our direct emissions. We intend to use certified offsets from high-quality carbon removal projects.	We already procure zero carbon electricity, and we plan to achieve this target by reducing the energy we use (measured in kWh) to power and heat our buildings, including our use of electricity, gas, and oil.	We plan to achieve this target by reducing the emissions related to commuting and business travel activity (covering flights, car journeys, hotel stays, taxis, buses and underground/overground rail trips). We plan to maintain a much lower level of travel once COVID-19 restrictions are lifted, and this new ambition means we intend never to exceed 50% of our pre-COVID-19 travel emissions.
What progress was made in 2021?	<p>In 2021, our operational carbon emissions (Scope 1 and 2, measured using the market-based method) fell by 3.5 per cent compared to 2019/20, resulting in an overall reduction of 22.5 per cent from the 2018/19 baseline. We also successfully remained Carbon Trust Standard certification holders for carbon reduction for the twelfth year in a row.</p> <p>During COVID-19 restrictions, most of our branches, data centres and some of our office buildings remained operational, albeit with reduced hours and lower occupancy. Throughout winter 2020/21, we faced a challenge due to an unexpected increase in our gas consumption due to increased fresh air requirements in our operational buildings; however overall, we have seen building energy and the associated emissions reduce. The year-on-year reduction in emissions is mostly due to:</p> <ul style="list-style-type: none"> • Ongoing energy reduction measures • Improvement in the accuracy of our refrigerant gas data collection method • Continued procurement of 100% renewable electricity 	<p>In 2021, our building energy consumption reduced by 5.7 per cent compared to 2019/20, resulting in an overall reduction of 14.8 per cent compared to our 2018/19 baseline. This was achieved through continued reduction to the energy use in our properties and working with our supply chain to implement energy saving solutions. Some of our key activities were:</p> <ul style="list-style-type: none"> • Continued our energy optimisation programme, resulting in a 101.5 GWh cumulative saving in 2021 • Continued our LED lighting install programme across our offices and branches, resulting in expected savings of 1,280 MWh, the equivalent to powering 360 UK homes • Upgraded building management systems at 101 of our branches, ensuring minimal energy wastage and resulting in savings of 610 MWh • Continued our Climate Group's EP100 campaign, confirming our commitment to improve energy productivity through our use of the UK Green Building Council's Net Zero Carbon Buildings Commitment 	<p>In 2021, our travel emissions remained 80.2 per cent below our 2018/19 baseline, achieving our target. The reduction is largely due to COVID-19 travel restrictions; however, we continue to support our colleagues to switch to low carbon modes of transport, focusing on transforming our buildings to provide facilities for safe and sustainable travel. Examples of our key activities include:</p> <ul style="list-style-type: none"> • Launched the 3Ps of sustainable travel as part of colleagues' new ways of working: Purpose, Planet and Planning • Invested in sustainable travel facilities across 13 sites • Installed over 133 electric vehicle charging points at 34 of our sites • Launched a carbon footprint calculator to support our colleagues to explore the environmental impact of both their business and personal travel choices • Launched a new ULEV salary sacrifice scheme for colleagues • Created co-working hubs above our branches to minimise unnecessary business travel
	<p>Progress (% reduction)</p> <p>2018/19 baseline: 22.5% Target: Net zero carbon operations by 2030</p>	<p>Progress (% reduction)</p> <p>2018/19 baseline: 14.8% Target: Reduce our total energy consumption by 50% by 2030</p>	<p>Progress (% reduction)</p> <p>2018/19 baseline: 80.2% Target: Maintain travel carbon emissions below 50% of pre-COVID-19 levels</p>
What are your plans for the future?	<ol style="list-style-type: none"> 1. Continue to purchase 100% renewable electricity and work towards our ambition to increase our electricity sourced directly from renewable projects (via Power Purchase Agreements) or onsite generation, to at least 60% by 2025. 2. Eliminate the use of natural gas in our buildings by 2030. 3. Improve our air conditioning systems, switching to more energy efficient models using less harmful refrigerant gases. 	<ol style="list-style-type: none"> 1. Continue our energy optimisation programme. 2. Accelerate our investment in energy efficiency (e.g., installing LED lighting and improving building management systems) and build awareness with our colleagues and suppliers via energy management behavioural campaigns. 3. Test new ideas and innovative technologies to deliver transformational clean energy solutions across our estate. 	<ol style="list-style-type: none"> 1. Continue to improve cycling facilities for colleagues, seeking Cycle Friendly Employer accreditation from Cycling UK at each of our main offices. 2. Continue our commitment to The Climate Group's EV100 campaign, installing charging points across all our colleague car parks by 2030. We currently have EV charging facilities at 60% of our office car parks. 3. Continue to embed new ways of working developed during the pandemic, having already launched the 3Ps of sustainable business travel.

1 This reduction is greater than the required reduction in carbon emissions set out by the Intergovernmental Panel on Climate Change (IPCC) in order to keep global warming below 1.5 °C.
 2 We measure emissions using the 'market based' approach, which means we calculate them according to the type of electricity that we buy.
 3 This reduction is aligned to the reduction in transportation-related carbon emissions set out by the Intergovernmental Panel on Climate Change (IPCC) in order to keep global warming below 1.5 °C.
 4 We measure our commuting emissions through our annual colleague survey. Each year we ask colleagues how they travel to work and combine this with their distance from work to calculate their emissions.
 5 We expect to have some refrigerant emissions remaining in 2030, and we will offset these using certified carbon removals.

Metrics and targets

Own operations

Own operations wider environmental pledges, progress and plan

What is the target?	We will reduce our operational waste by 80 per cent by 2025, from a 2014/2015 baseline.	We will reduce water consumption by 40 per cent by 2030, from a 2009 baseline.
What's included and how will it be achieved?	Our operational waste relates to the main waste streams generated within our own operations, including general waste, plastics, mixed recycling, food waste and confidential paper, as well as lower-volume waste such as glass, wood, and media.	Our ambition relates to water consumed in our offices, branches and data centres, mainly in toilets and kitchens. We have made low water usage WCs, urinals and taps our standard, and we roll out these technologies every time we undertake any refurbishment, replacement and new installation in toilets and kitchens across our estate.
What progress was made in 2021?	In 2021, we produced 72.1 per cent less operational waste compared to 2014/2015, and a 26.9 per cent reduction year-to-year. We also achieved certification for the Carbon Trust Standard for Waste for the first time. This year, our recycling rate is 77.7 per cent and we diverted 95.7 per cent of our waste from landfill. Some of our key activities were: <ul style="list-style-type: none"> Switched to 100 per cent recycled paper as our Group standard to provide a more sustainable option to use when printing is absolutely necessary Refreshed signage at our bin stations, making it much easier for colleagues to understand how to dispose of their different types of waste correctly Installed oxidised water taps and delivered training to our cleaning teams to reduce water wastage when cleaning our sites <p>Progress (% reduction)</p>  <p>2014/15 baseline Target</p> <p>72.1% Reduce our operational waste by 80% by 2025</p>	In 2021, our water consumption was 44.5 per cent lower compared to the 2009 baseline, with a 11.6 per cent year-on-year reduction. Some of our key activities were: <ul style="list-style-type: none"> Installed automatic metering at some of our largest sites, allowing us to monitor and manage water consumption more effectively Implemented water saving technology and low-flush toilets at 3 offices <p>Progress (% reduction)</p>  <p>2009 baseline Target</p> <p>44.5% Reduce water consumption by 40% by 2030</p>
What are your plans for the future?	This year we almost achieved our target, however we face a significant challenge in maintaining these low levels of waste as more colleagues return to work in our offices. We realise this will require significant work with our supply chain and influencing colleague behaviours and ways of working. We will: <ol style="list-style-type: none"> Continue to build colleague awareness with communication and engagement activities to help reduce our operational waste, as colleagues have a significant role to play in achieving our ambition. Work with colleagues to help embed the paper-free behaviours adopted during the pandemic. Support divisions to explore other ways to reduce or eliminate paper from our processes. Complete the implementation of the Colleague Recycling Campaign in branches. Continue to right-size our printer estate by expanding the Printer Power Down programme in operational sites 	We will progress with the roll-out of water efficient WCs, taps and low water usage urinals across our branches and offices, to align the building with our engineering standards and achieve the 2030 reduction target.

Metrics and targets

Own operations

Scope 1, 2 and 3 emissions reporting for own operations

The Group has reported greenhouse gas emissions and environmental performance since 2009, and since 2013 this has been reported in line with the requirements of the Companies Act 2006 and its applicable regulations and the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (i.e. Streamlined Energy and Carbon Reporting ('SECR')).

Our total emissions, in tonnes of CO₂ equivalent, are reported in the table right. Deloitte LLP has provided limited level ISAE 3000 (Revised) assurance over selected non-financial indicators. Their full, independent assurance statement is available online at www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads.html

Methodology

The Group follows the principles of the GHG Protocol Corporate Accounting and Reporting Standard to calculate Scope 1, 2 and 3 emissions from our worldwide operations. The reporting period is 1 October 2020 to 30 September 2021, which is different to that of our Directors' Report (January to December 2021). This is in line with the regulations in that most of the emissions reporting year falls within the period of the Directors' Report. Emissions are reported based on the operational control approach.

Reported Scope 1 emissions are those generated from gas and oil used in buildings, emissions from fuels used in UK company owned vehicles used for business travel and fugitive emissions from the use of air conditioning and chiller/refrigerant plants. Reported Scope 2 emissions are generated from the use of electricity and are calculated using both the location and market-based methodologies. Reported Scope 3 emissions relate to business travel and commuting undertaken by colleagues, emissions from colleagues working from home, operational waste and the extraction and distribution of each of our energy sources - electricity, gas and oil.

Intensity ratio			
	Oct 20-Sep 21	Oct 19-Sep 20	Oct 18-Sep 19
GHG emissions (CO ₂ e) per £m of underlying income (location based) ¹	11.6	13.5	15.8
GHG emissions (CO ₂ e) per £m of underlying income (market based) ¹	7.3	7.8	9.9

¹ Intensities have been restated for 2018-2019 and 2019-2020 to reflect changes to emissions data only, replacing estimated data with actuals; underlying income figures for those years have not changed. Scope 3 emissions include elements within the Group's own operations including emissions for waste, colleague commuting and business travel (including taxis, tube, well to tank emissions of business travel and hotels). Additionally, October 19-September 20 and October 20-September 21 Scope 3 figures include an allowance for emissions from homeworkers not previously accounted for, owing to the significant increase in materiality year-on-year due to the impacts of COVID-19. Previous years have not been restated.

This year, our overall location-based carbon emissions were 188,806 tonnes CO₂e; an 8.5 per cent decrease since 2019/20. We have seen a continued reduction in our carbon emissions this reporting year, mainly driven by the impact of COVID-19 on our operations. A large proportion of our colleagues continued to work from home in 2021 in line with travel restrictions and advice, which has led to a considerable reduction in both Scope 1 and 3 business travel numbers reported.

Group energy consumption, electricity and gas, has also reduced mainly due to the impact of this operational shift. However, most of our buildings have still been operational and subject to our continued energy management and optimisation programme.

Throughout winter months we have seen a small increase in our gas consumption due to additional fresh air requirements in our operational buildings. Overall, we have seen building energy consumption and associated carbon emissions reduce.

Since January 2019, our Scope 2 market-based emissions figure is zero tCO₂e, as we have procured renewable electricity mainly through our PPA and Green Tariff, and renewable certificates equal to the remainder to make up the total electricity consumption in each of the markets we operate.

Omissions

Emissions associated with joint ventures and investments are not included in this disclosure as they fall outside the scope of our operational boundary. The Group does not have any emissions associated with imported heat, steam or imported cooling and is not aware of any other material sources of omissions from our reporting.

Metrics and targets

Own operations

Carbon footprint

Energy efficiency

While COVID-19 has had an impact on our energy performance year-on-year, we have also seen consumption reduction driven by our continued energy efficiency initiatives. This workstream includes an energy optimisation programme that implements onsite optimisation and strategic alterations of building management systems and controls systems to match the run hours of plant to core operating hours and ensures temperature settings are aligned with Group comfort guidelines. In 2021, 45 deep dives, 80 onsite optimisations, 9 remote optimisations and 531 bank holiday programmes were completed, which resulted in a 101.5 GWh saving. We have also run a programme of LED lighting upgrades throughout our estate, leading to an estimated 1,280 MWh electricity saving.

8.5%

Decrease in location based emissions from 2019/20 to 2020/21



Carbon emissions (tonnes CO ₂ e)			
	Oct 20-Sep 21	Oct 19-Sep 20	Oct 18-Sep 19
Total CO ₂ e (market based) ✓	118,057	119,878	180,002
Total CO ₂ e (location based) ✓	188,806	206,236	286,363
Total Scope 1 & 2 (location based) ✓	108,401	125,387	154,917
- Of which UK Scope 1 & 2 (location based)	108,084	124,708	152,546
Total Scope 1 & 2 (market based) ✓	37,653	39,029	48,556
- Of which UK Scope 1 & 2 (market based)	37,336	38,728	47,872
Total Scope 1 ✓	37,653	39,029	48,171
Total Scope 2 (market based) ✓	-	-	385
Total Scope 2 (location based) ✓	70,748	86,358	106,745
Total Scope 3 ✓	80,404	80,849	131,446

Global energy use (kWh)			
	Oct 20-Sep 21	Oct 19-Sep 20 ¹	Oct 18-Sep 19 ¹
Total global energy use ✓	474,364,203	517,459,510	589,853,483
- Of which UK energy use	469,425,422	512,208,678	583,662,870
Total building energy	468,594,150	497,144,236	550,290,468
Total company owned vehicle energy	2,796,073	14,436,436	29,987,906
Total grey fleet vehicle energy ²	2,973,980	5,878,838	9,575,109

¹ Restated 2018/2019 and 2019/20 emissions data to improve the accuracy of reporting, using actual data to replace estimates.

² Grey fleet refers to colleague and hired road vehicles being used for a business purpose. Emissions in tonnes CO₂e in line with the GHG Protocol Corporate Accounting and Reporting Standard. We are reporting to the revised Scope 2 guidance, disclosing a market-based figure in addition to the location-based figure. The methodology to derive reported Scope 1, 2 and 3 emissions is provided in the Lloyds Banking Group Reporting Criteria statement available online at www.lloydsbankinggroup.com/who-we-are/responsible-business.html.

Scope 1 emissions are emissions from activities for which the Group is responsible, including mobile and stationary combustion of fuel & operation of facilities.

Scope 2 emissions are emissions from the purchase of electricity, heat, steam, or cooling by the Group for its own use and have been calculated in accordance with GHG Protocol guidelines, in both location and market-based methodologies.

Scope 3 emissions include elements within the Group's own operations such as emissions from waste, colleague commuting and business travel (including taxis, tube, well to tank emissions of business travel and hotels).

✓ Indicator is subject to Limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2021 Annual Responsible Business Reporting. Deloitte's 2021 assurance statement and the 2021 Reporting Criteria are available online at www.lloydsbankinggroup.com/who-we-are/responsible-business.html.



Governance

Our governance structure provides clear oversight and ownership of the climate-related risks and opportunities.

Acting on change

Governance

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Governance

Responsible Business Committee Chair Statement



Clear strategy and decisive action is required to deliver net zero ambitions. Our purpose of Helping Britain Prosper is inextricably linked with our ambitions for net zero. The committee will ensure our progress against both.

Amanda Mackenzie Chair

At Lloyds Banking Group we believe that the transition to a low carbon economy represents an opportunity to build a prosperous future for the UK. As the UK's largest retail and commercial bank, we have a critical role to play in supporting our customers, colleagues, government and the market in achieving a responsible and credible transition to net zero. As part of this role, we believe that providing our stakeholders with transparent disclosures, in line with the recommendations of the TCFD, is an important milestone in making progress towards our sustainability ambitions.

The Responsible Business Committee supports the Board in the oversight of the Group's policies, performance and priorities as a responsible business, including the Group's environmental sustainability strategy. Our environmental sustainability strategy prioritises key areas that will help us achieve net zero in our own operations by 2030 and for financing and investment activities by 2050, with interim ambitions for 2030. We are continuing looking to evolve our approach on these topics, including how we incorporate new and emerging sustainability matters, such as our response to the preservation of natural capital. This strategy is anchored by strong responsible business and risk management practices that are embedded within our organisation.

As the Chair of the Responsible Business Committee, I am pleased to share in this report the progress the Group has made in line with the key recommendations of the TCFD. Our report includes financed emission reduction targets across some of our highest emitting sectors, which complement our net zero ambitions. We have also reflected on the updates to our governance approach and in embedding sustainability across our organisation.

We also continue to make good progress on reducing the carbon emissions of our own operations and managing our supply chain. We recognise the scale of the challenge that climate change poses and in particular the need to understand the different set of impacts and opportunities facing each of our sectors, clients and customers. We believe that as the UK's largest lender, we will need to find solutions that protect the UK economy and deliver a resilient future.

We know that our ambitions and approach will continue to evolve as further enhancements are driven through collaboration, public policy and innovation. We will continue to work at pace to deliver on our ambitions, supported by the leadership of the Board. I look forward to sharing our progress with you throughout 2022.

Net zero in our own operations by

2030

Net zero financing and investment activities by

2050

Board Risk Committee Chair Statement



The committee continues to develop and embed our approach to managing climate risk, and support our customers on the transition to net zero.

Catherine Woods Chair

The risks associated with climate change are key considerations for the Board, with the potential for significant physical and transition risk impacts. Our response will have a long-term impact on our business, our customers and across society.

The Board Risk Committee supports the Group's Board in fulfilling its risk governance and oversight roles and responsibilities. The committee is responsible for oversight of the risks we face from climate change, including the transition to net zero, and has received standalone updates to monitor progress and assess our evolving risk management capabilities and approach.

In 2021, the management of climate risk has been further developed, including incorporating an initial assessment of climate risks within the Group's financial planning process, complemented by further analysis into sectors at increased risk from climate change. We participated in the Bank of England's 2021 Climate Biennial Exploratory Scenario, which explored the resilience of our credit portfolios across a range of climate scenarios. Such activities develop our understanding of climate risks, their impacts on the Group, and the appropriate risk mitigation to support our customers and deliver our net zero ambitions.

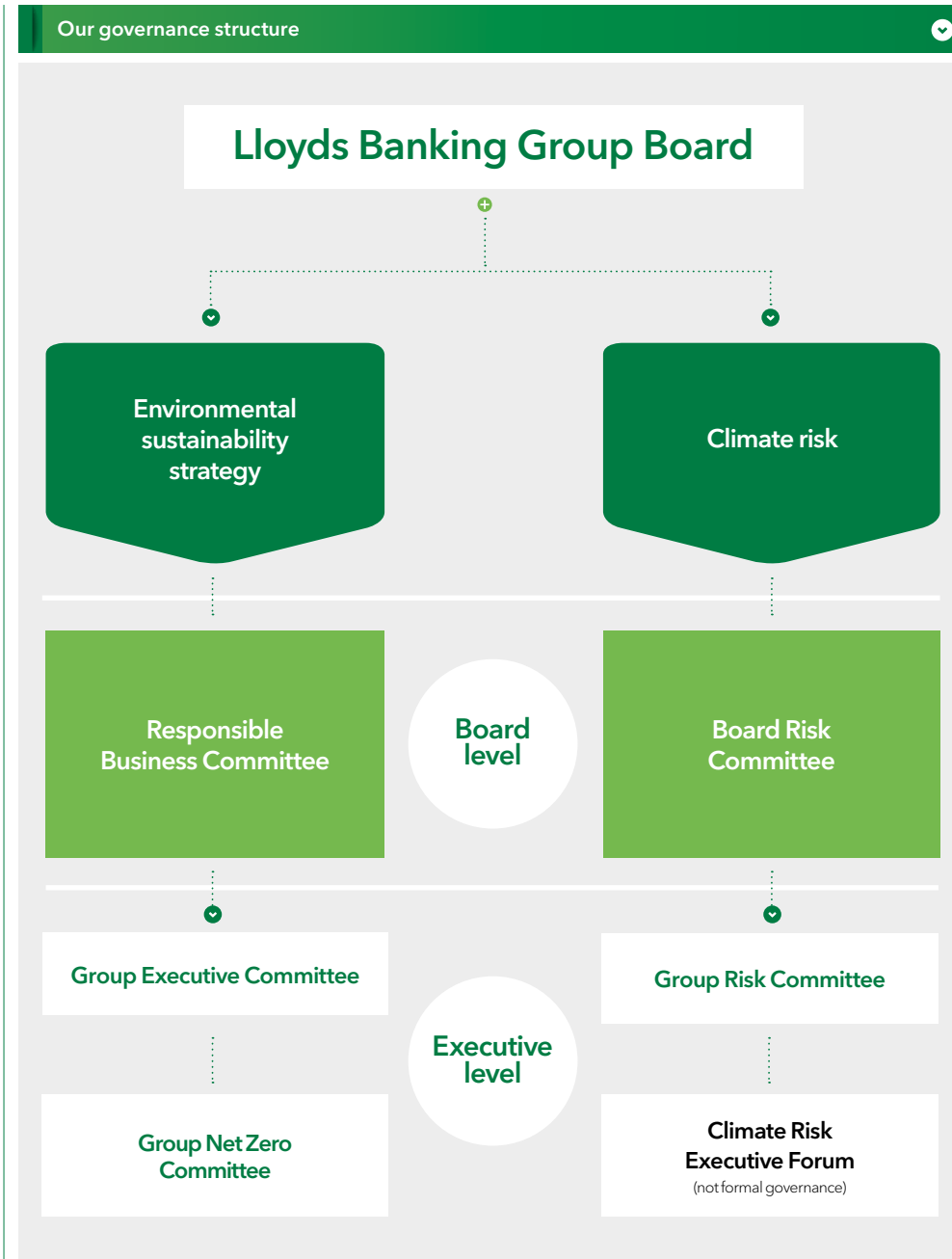
Within our Climate Report we have reflected on the updates to our risk management practices and I am pleased to report that our disclosures are consistent with the 2017 recommendations of the TCFD under the Risk Management pillar and our reporting can be found on pages 52 to 64.

Climate risk remains a key priority for the Group. During 2022, we will have focused reviews at the Board Risk Committee, which will consider how our strategy and credit portfolios will evolve as we transition to net zero, as well as the development of our risk management capabilities such as scenario analysis. Further embedding climate risk management across all parts of the organisation will continue to be an essential component in achieving the Group's sustainability ambitions.

Governance

Governance structure

Given the strategic importance of our sustainability ambitions and commitment in managing the impacts arising from climate change, our governance structure provides clear oversight and ownership of the Group's environmental sustainability strategy and management of climate risk.



Board oversight

Climate-related responsibilities at Board level are in place across the Responsible Business Committee and Board Risk Committee, with shared membership across these Committees to ensure appropriate co-ordination and co-operation on climate-related matters.

Climate change and sustainability are key areas of focus at Board-level and are among the areas assessed in consideration of the Board's skills, experience and knowledge. Further details are provided on page 83 of the Group's 2021 Annual Report and Accounts.

The Board is engaged on a regular basis, receiving regular briefings to build understanding and capability and also attends relevant external briefings. Training sessions have been held for the Group's Board and its key sub-groups' Boards, to develop their understanding of climate risk. This is intended to equip the Boards to meet regulatory expectations, including the key climate considerations specific to the Group, and also be in a position to help direct the Group's response and strategy.

Board governance of our environmental sustainability strategy

The Responsible Business Committee (RBC) ensures Board oversight for the Group's overall strategy on environmental sustainability. The Committee meets quarterly, with responsibilities including:

- Identifying new opportunities to support our customers and clients and finance the UK transition to a low carbon economy
- Identifying, managing and disclosing sustainability and climate risks across the Group and their impacts on the Group and its financial planning processes
- Using our scale and reach to help drive progress towards a sustainable and resilient UK economy through engagement with customers, communities, industry, government, shareholders and suppliers
- Embedding sustainability into the way we do business and manage our own operations

The Chair of the Responsible Business Committee (RBC), Amanda Mackenzie, is a Non-Executive Director on the Board, a member of the Board Risk Committee, the Remuneration Committee and the Nomination and Governance Committee, and ensures sustainability is discussed and considered by the Board. Amanda has extensive experience in ESG matters, including helping launch the United Nation's Sustainable Development Goals.

Board governance of climate risk

Governance for climate risk is embedded into the Group's existing governance structure and is complementary to governance of the Group's environmental sustainability strategy.

The Board Risk Committee (BRC) is responsible for oversight of climate-related risks, including alignment with regulatory expectations, embedding into the Group's Risk Management Framework and implications for risk appetite. Climate risk is considered on a monthly basis in the Group's risk reporting with qualitative updates provided, while more detailed updates are presented half-yearly to the Board Risk Committee regarding the Group's climate risk management activities and key developments. These more detailed updates are intended to ensure Board oversight of:

- Overall climate risk programme management across the Group, including climate scenario analysis and stress testing
- Climate-related risk appetite development and approval at both a Group and individual sector level
- Metrics associated with the climate risk programme and risk appetite

Entity governance

Governance structures are also in place to support consideration of sustainability and climate risk at Board level across the Group's key legal entities. For instance, the Insurance Sustainability Committee is in place to review and recommend the ESG Strategy of the Insurance Group, while climate risk is discussed on a regular basis at the Insurance Risk Oversight Committee. In Lloyds Bank Corporate Markets (LBCM), regular updates on climate risks are provided to its Board Risk Committee. Further details on respective governance for the Group's other entities can be found in their respective disclosures.

Governance

Executive oversight

Board-level governance is supported by ownership and monitoring of sustainability and climate risk at an executive level.

Group-level governance of our environmental sustainability strategy

Updates on the key areas of the Group's environmental sustainability strategy are provided to the RBC by the Group Executive Committee (GEC) on a quarterly basis. These are informed by the Group Net Zero Committee, which is a GEC-level committee established in 2021 to provide GEC direction and oversight of the Group environmental sustainability strategy, including particular focus on the net zero transition and natural capital (biodiversity) strategy, as well as oversight of the Group's approach to meeting external environmental commitments and targets, including progress in relation to the requirements of the NZBA. At GEC level, individual management responsibility for the Group's sustainability strategy is through the Chief of Staff and Group Director of Sustainable Business, with relevant teams in place to drive this forward, including the Group Sustainable Business team.

Group-level governance of climate risk

Responsibility for overseeing the management of risks from climate change rests with the relevant Chief Risk Officers across the Group who have Senior Management Function responsibility covering Lloyds Bank and Bank of Scotland, LBCM, and the Solvency II regulated entities in Insurance. These responsibilities are supported by regular discussions at Risk Committees across the Group's key legal entities, including the Group Risk Committee, informing updates to the BRC. Additional engagement on relevant climate-related matters is undertaken through the existing risk governance structure, for example, discussion and approval of the bank's Climate Biennial Exploratory Scenario (CBES) outputs at Group Financial Risk Committee.

Divisional governance

Group-level governance of climate risk is supported by existing governance structures across our divisions that are used to oversee decisions related to sustainability and climate risk that impact the divisions, ensuring sustainability and climate risk are managed as part of regular activity. These divisional governance structures include the Retail Bank Executive Committee, Commercial Banking Management Group and Responsible Business Executive Committee in Insurance. Our Group Environmental Sustainability team is supported by divisional sustainability teams, ensuring a co-ordinated approach to oversight, delivery and reporting of the Group's sustainability strategy.

Supporting activities

In addition to the formal governance for climate risk, the Climate Risk Executive Forum was established in 2021 to help shape key decisions on the Group's approach towards meeting regulatory expectations. This forum includes participants across Risk division, as well as stakeholders from across the organisation. Sector risks and opportunities related to climate are also presented and discussed at senior credit forums in Retail and Commercial Banking.

Programme governance is also in place for coordinating the implementation of TCFD and embedding of climate risk management across the Group, in line with regulatory expectations. This is focused on key decisions related to the Group's climate risk management and TCFD implementation by stakeholders across Risk division, as well as from Business and Group functions.

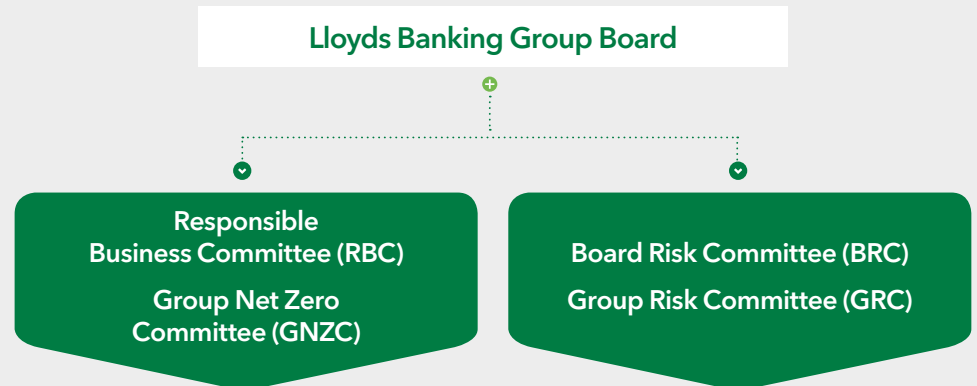
Remuneration

This year we have evolved the Group Balanced Scorecard to bring greater focus on our climate change ambitions and ensure our purpose of Helping Britain Prosper is at the heart of everything we do. The 2022 scorecard now includes two ESG measures that are aligned to climate change to reflect our net zero ambitions. We have kept the measure on reducing operational carbon emissions and added a new measure on sustainable financing and investment. We will continue to review the scorecard and our remuneration policies taking into account market practices and aligning with our Group strategy.

See page 117 in the Group's 2021 Annual Report and Accounts for further detail

Key discussions and decisions in 2021

The following diagram illustrates some examples of the key discussions and decisions taken across the Group's governance structure in relation to the Group's environmental sustainability strategy, targets and approach to managing climate risk.



Topics discussed

- Climate-related impact and insights across our key sectors
- Portfolio alignment activity required to achieve the Group's net zero ambitions and external commitments through NZBA and IIGCC
- Progress in relation to our Helping Britain Recover plans, including key achievements across divisions in achieving outcomes agreed for 2021
- Climate-related GEC balanced scorecard performance measures
- Enhancements recommended to Group governance structure and approach to net zero activities
- Skills and capabilities required to achieve our ambitions

Key decisions

- Approval of sector ambitions and external sector statements
- Approval to join the Net-Zero Banking Alliance and Powering Past Coal Alliance **(GNZC only)**

Topics discussed

- Progress against meeting regulatory and TCFD expectations
- Updates on bank and insurance CBES submissions
- Climate-related impact and insight across key sectors, and portfolio alignment activity in line with the Group's net zero goals
- Introduction of Climate Risk Policy **(GRC only)**
- Development of Management Information and approach to developing appropriate risk appetite

Key decisions

- Scope of activity to meet regulatory expectations by end 2021 **(GRC only)**
- Approval of Risk Appetite Statement and initial metric climate risk **(BRC only)**
- Risk mitigation strategy for proposed transition to electric vehicles in UK Motor Finance portfolio **(BRC only)**

Governance

Organisational roles and responsibilities

The Group’s structure provides clear oversight and ownership of our environmental sustainability strategy and management of climate risk across the three lines of defence, with dedicated teams in place focused on both these areas, including a number of new teams set up in 2021.

In the 1st line, the Group Sustainable Business team is responsible for overseeing the Group’s approach to responding to global issues of environmental sustainability. The business divisions (Retail, Commercial Banking and Insurance & Wealth) are responsible for developing the Group’s strategic response to climate risk, including setting the business strategy, ambitions and product-level response to support the Group’s sustainability strategy. This includes calculation and forecasting of emissions, as well as sector-level target setting to support the Group’s external environmental commitments and targets. Group Finance is responsible for incorporating climate into the Group’s planning and external financial reporting processes. Group Transformation support is in place for delivering the change required to develop the Group’s capabilities in line with external expectations.



Risk division (2nd line) is responsible for overseeing the climate risks arising from climate change and for ensuring alignment with regulatory expectations. This includes: ownership of climate-related methodologies and frameworks, including material assumptions to quantify climate risk and generate scenarios and stress testing; integration into risk management processes; and setting the Group’s climate risk appetite, including support for business strategy and approval of our sector appetite response and targets.

Group Internal Audit (3rd line) has established a team to focus on sustainability and climate risk. This team, supported by other subject matter experts, provides independent assurance to the Audit Committee and the Board. Group Internal Audit also attends key sustainability and climate risk governance committees and forums.

As we continue to further embed climate risk into the Group’s Risk Management Framework, we will ensure that climate-related risks are considered as part of existing processes, aligned to the three lines of defence model.

Risk management

Managing the risks from climate change for the Group, both through the impacts of potential changes in weather patterns, but also from the transition required to reach net zero.

Managing climate risks

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Risk management

The pace, scale and order of transition required to mitigate the risks arising from climate change remain uncertain. Risk impacts will be complex, interconnected and are expected to span decades and affect many geographic areas and sectors.

The Group defines climate risk as, 'the risk that the Group experiences losses and/or reputational damage as a result of climate change, either directly or through our customers'. These may be realised from physical weather events, the impacts of the transition to net zero or as a consequence of the Group's response to managing this transition.

The Group's response to managing climate risk affects many different stakeholder groups, including: our customers; colleagues; suppliers; regulators and policymakers; investors and NGOs and wider society. Our response will have a long-term bearing on these stakeholders and the Group's business model.

Climate risk is considered a principal risk within the Group's Enterprise Risk Management Framework (ERMF), reflecting its importance and the focus required. This ensures a consistent approach to embedding the consideration of climate risk in the Group's activities, while also enhancing Board-level insight.

Climate risk also impacts many of the financial and non-financial risks the Group faces. Therefore, the Group has also taken steps to build and embed the consideration of climate-related risks throughout our ERMF to ensure comprehensive consideration across our business activities.

The Group and the wider industry continue to develop both the understanding and capabilities for managing climate risk, therefore, the Group's approach will evolve significantly in the coming years.

In addition to the risks already facing the Group, new risks will continue to emerge as a consequence of the transition to net zero. Further information on the emerging risks facing the Group, including those relating to climate change, can be found on pages 141 to 142 of the Group's 2021 Annual Report and Accounts.

Embedding climate risk management

In 2021, the Group established the Group Climate Risk Policy to provide an overarching framework for managing climate risks and opportunities. The policy is structured around seven principles, setting out clear requirements to help meet the Group's ambitions relating to climate change, the TCFD recommendations and relevant regulatory expectations.

The policy is intended to support appropriate consideration of climate risks and opportunities across key activities. However, it also recognises that understanding of and capability for managing climate risk will continue to evolve. As such, some areas of the policy cannot currently be fully embedded at this time, with ongoing activity to implement these expectations continuing into 2022.



Principle 1

The Group will ensure climate risk is fully embedded through effective policies, procedures, processes, systems and controls.

Principle 2

The Group will identify and assess potential climate risks and opportunities, including how these could impact on the Group's strategy, external commitments, operating model and customer journeys.

Principle 3

The Group will embed appropriate scenario analysis capabilities to support its understanding and proactive management of climate risk and opportunities.

Principle 4

The Group's strategy will consider climate risks and opportunities to support our customers and meet our strategic objectives.

Principle 5

The Group will set an appropriate risk appetite for climate risk against which it will operate.

Principle 6

The Group's governance structure will provide oversight of climate risk impacts, effective decision-making and timely escalation to senior management.

Principle 7

The Group's reporting will support monitoring and management of climate risks as well as the Group's relevant strategic commitments, alongside appropriate disclosures to inform our external stakeholders.

We have incorporated the consideration of climate risk into a number of key processes to ensure suitable Board-level visibility.

- Climate risk is included as part of regular risk reporting to the Board. This is currently focused on a qualitative assessment against external expectations and the Group's external commitments. This is supported by monitoring relevant information to track key climate risks throughout the Group. Although this remains in its infancy, reporting will continue to be enhanced as understanding and capabilities improve
- A Board approved Risk Appetite Statement for climate risk is in place, supported by an initial metric to ensure the Group continues to progress activities at pace. We are developing our approach to setting further quantitative and qualitative risk appetite metrics as our capabilities evolve, including appropriate consideration across our sub-groups
- The Group's 2021 financial planning process captured an initial consideration of the Group's key climate risks and opportunities. We also piloted forecasting approaches to provide a high-level view of the Group's lending financed emissions out to 2030. Both these areas are expected to evolve for future planning cycles, to ensure climate-related consideration is fully embedded
- We have considered and included commentary on climate-related risks as part of our annual Individual Capital Adequacy Assessment Process (ICAAP). We have used expert judgement to assess the financial impacts for key risk types that are sensitive to climate change, under a number of different climate scenarios. We will enhance our approach further as our scenario analysis capabilities develop



Risk management

Identification and assessment of climate risks

Climate risk manifests through two channels:

Physical risks

Changes in climate or weather patterns which are acute, event driven (e.g. floods or storms), or chronic, longer-term shifts (e.g. rising sea levels or droughts).

Transition risks

Changes associated with the move towards a low carbon economy, including changes to policy, legislation and regulation, technology and market; or legal risks from failing to manage these changes.

In order to identify the main physical and transition risks which could impact the Group, a number of workshops have been held with subject matter experts across the divisions and Risk division. These workshops have taken into account the sectors most exposed to the risks from climate change and also the impacts across the other principal risks in the Group's risk taxonomy.

Based on the assessment of the key climate risks impacting the Group from these discussions, the Group has taken a proportionate approach to focus on the most material risks impacting the Group. This has informed the changes required to the Group's risk management processes to ensure suitable management of climate risk.

The Group's approach to risk identification includes consideration of environmental factors, including climate change, among the external sources of risk to be proactively identified across the Group. The impact and likelihood of these potential risks should be assessed in line with Group's ERMF to understand the potential effects on the Group's performance and reputation.

The Group assesses a number of factors to determine the materiality of these impacts, including: customers; reputation; regulatory; financial losses; impact on business objectives; and impact on management time, resources and colleagues. These factors are relevant for consideration in assessing climate-related risks given that these risks may potentially impact a number of the Group's traditional risk categories, while also impacting a broad range of stakeholders.

The Group undertakes horizon scanning of climate-related developments, which is particularly important given the uncertain and long-term nature of the risks from climate change, as well as the increasing focus in this area. Regular monitoring of climate-related regulatory and legal developments is in place across different areas of the Group to ensure suitable consideration and appropriate action is taken. The Group also participates in a number of climate change initiatives (refer to pages 28 to 29) which provide insights across the industry and supports monitoring emerging trends and developments to ensure these are appropriately reflected in our environmental sustainability strategy.

Identification of the key climate risks impacting the Group has been supported by the initial consideration of climate risks within the Group's financial planning process, considering the key impacts for the Group across key business areas where detailed sector reviews have been undertaken. Further detail on the key areas of evolution for the Group's approach to climate scenario analysis to support management, identification and assessment of climate risk is provided in the Scenario analysis section (page 70).

We are continuing to develop our approach to assessment of climate risks impacting other risks, supported by appropriate tools and methodologies. One example is the Group's qualitative climate risk assessment methodology in Commercial Banking, which is designed to generate an overall rating for individual clients based on their transition readiness and response to managing climate risks and opportunities.

Further information on the approach to identification and assessment across other principal risks is included under 'Managing climate risks' for these risks (pages 56 to 64).



Risk management

Key climate risks across the Group's risk taxonomy

We have mapped how examples of the Group's key risks from climate change, as outlined on page 14, impact across the different risk types within the Group's risk taxonomy. While the majority of the Group's principal risks are impacted in different ways, we have focused on the impact for the most material risk types, outlined on the right.

These examples are useful to understand some of the key risks for the Group across its risk taxonomy; however, this is not an exhaustive view of all the potential climate risks across the Group's other principal risks. Some other considerations include:

- Strategic risk - Given its interconnected nature, a number of the impacts which crystallise in other principal risks will also result in strategic risks. In these cases, the impacts have been detailed against that affected principal risk
- Market risk - A number of physical and transition risks outlined above under credit risk may also impact market risk factors
- Model risk and Data risk - These are both areas of elevated risk given the limitations in the data available and infancy of the models currently used to assess climate risk
- Capital risk - Potential second-order impacts across other risks could adversely impact the Group's capital position

Examples of climate change impacts across other principal risks		
Key risk types impacted	Driver	Examples of key risks for Lloyds Banking Group
Strategic	Reputation	<ul style="list-style-type: none"> • Failure to deliver or sufficiently drive change through the Group's net zero strategy, relating to its financed activities and own operations
Credit	Policy & Legal Technology Market Reputation Physical (Acute / Chronic)	<ul style="list-style-type: none"> • Impacts from new and existing government policies, for example, around energy efficiency standards or the transition to electric vehicles • New technology and availability of electric vehicles reduce valuation of existing vehicles • Unproven new technologies required across other sectors in order to reduce emissions • Reduction in asset and company valuations reflecting changes in customer demand, impacting the Group's lending • Increased costs from sustainable materials for Commercial Banking customers • Adverse coverage of the Group's exposure to high emissions sectors • Flood damage to properties or coastal erosion, impacting our Retail Mortgage business or Commercial Real Estate portfolio • Reduced production for Commercial Banking customers as a result of higher temperatures and/or changing weather patterns, for example, lower food or crop yields
Market	Market Physical (Chronic)	<ul style="list-style-type: none"> • Reduction in asset and company valuations reflecting changes in customer demand, impacting the Group's markets/trading business, investments and equities • Changes in longevity of the Group's pension scheme members
Insurance underwriting	Physical (Acute / Chronic)	<ul style="list-style-type: none"> • Potential for increased levels of General Insurance claims due to damage to property caused by changes to weather patterns and climate (e.g., flood, storm, coastal erosion)
Conduct	Reputation Policy & Legal	<ul style="list-style-type: none"> • Conduct risk implications from the Group's role in the transition, including potential impacts on mortgage customers, specific sectors, insurance and investment products • The Group's climate-related disclosures are considered to be either insufficient or misleading, including potential 'greenwashing' in product communications
Operational resilience	Physical (Acute)	<ul style="list-style-type: none"> • Damage to properties and systems within the Group estate, resulting in disruption to the Group's services to customers • Disruption to services provided by the Group's suppliers
Regulatory & Legal	Policy & Legal	<ul style="list-style-type: none"> • The Group's climate-related disclosures are considered to be either insufficient or misleading, including potential 'greenwashing' in product communications • Evolving regulatory standards for the Group's operations

Risk management

Managing climate risks

We are continuing to integrate consideration of climate risk as part of activity and processes for managing other principal risks in our Enterprise Risk Management Framework. This has focused on the most material risks impacting the Group, as outlined in the following sections.

The Group's existing frameworks also support our approach to managing several key climate risks that the Group faces.

The Group has made considerable progress over recent years regarding its assessment of exposure to climate risk through its ICAAP; however, this remains an area of active review and evolution. Recent regulatory developments have assisted in determining the Group's approach alongside internal discussions and broader engagement within the industry.

The Group acknowledges that continued development will mature over the medium term with dependencies on future regulatory expectations in this area informed by collaborations across the industry. At this point we expect to focus on developing our approach through consideration of and enhancements to the Group's ICAAP.

Model and Data risk will also remain significant areas of focus while understanding develops across the industry. The current position is mitigated through higher reliance on management judgement and the Group's approach to managing these risks will be guided by its existing standards and frameworks in place. Modelling ability will improve going forward, with future developments taken through the standard model governance process.

Further information on the Group's wider approach to risk management across the different risks we face can be found in the Group's 2021 Annual Report and Accounts on pages 134 to 193.

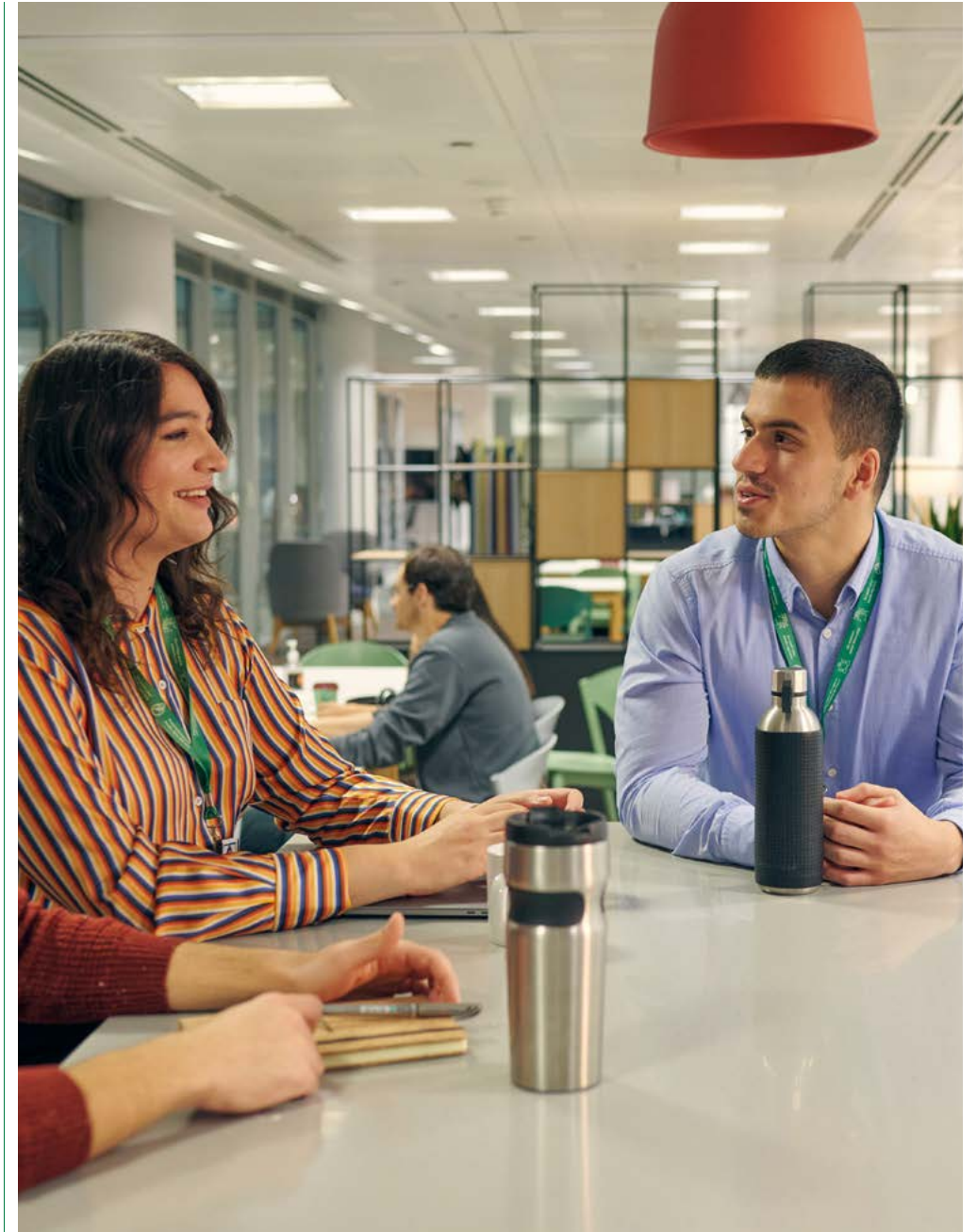
Strategic risk

Significant investment has been made in 2021 to understand the Group's strategic risks and their connectivity with the Group's wider principal risks. Forming a holistic understanding of the implications of the Group's strategic decisions is at the forefront of the Group's thinking. As a result, the Group's leadership is committed to evolving the strategic risk framework further in 2022.

The Group has identified sustainability as one of the key themes impacting its strategic direction, with strong support received from the Group's Board to enhance understanding of the impacts of its climate and sustainability strategies.

Initial considerations in respect of climate risks and opportunities were incorporated into the Group's financial planning processes in 2021. This was in line with the Group's wider approach for managing strategic risk, with the intention to continue to evolve the approach going forward. The Group Net Zero Committee has also been established, with responsibility to oversee the Group's environmental sustainability strategy and plans to achieve the Group's external commitments.

As the Group develops its strategic risk framework in 2022, ensuring that climate risk and strategic risk are considered in tandem, including connectivity with the Group's wider risk profile, is an important priority. Further engagement is planned in 2022 to develop the Group's approach across both of these areas, with the ambition to ensure greater integration of climate risk considerations in divisional business plans and investment decisions.



Risk management

Managing climate risks: credit risk

Credit risk

Introduction to credit risk

We have continued to strengthen our capabilities and abilities for identifying, assessing and managing climate-related risks, recognising that climate change is likely to result in changes in the credit risk profile and outlook for our customers, the sectors we operate in and collateral/asset valuations. Our risk appetite for managing climate risk is outlined in our external sector statements, and forms one of the ways we manage and control climate risk.

Lloyds Banking Group has 12 external sector statements that apply to the Group's activities which reflect the approach we take to the risk assessment of our customers. These sector statements outline what types of activities we will and will not support. Lloyds Banking Group's external sector statements are publicly available on the Group [Responsible Business Download Centre](#).

Credit risk policies

Climate and sustainability risk have been key considerations in the credit assessment process in recent years and we continue to deepen the integration of climate risk considerations into our credit risk processes. The table opposite details the way climate risk and sustainability have been considered in our credit policies and products.

As we embed climate risk into our credit risk management framework, we are continuing to assess how climate risk is reflected in our Group credit risk policies and sector appetites over the short, medium and long-term to ensure climate-related risks are managed appropriately. Regular updates are submitted to the Group Risk Committee and Board Risk Committee to ensure awareness of the risk profile and work undertaken to align to future strategy and regulatory requirements.

Consideration of sustainability and climate risk in our credit policies

Policy	Segment coverage	Risks addressed	Key controls / mitigation measures included in the policy	Status of implementation
Group Credit Risk Policy	Group-wide	Climate and sustainability risks	<ol style="list-style-type: none"> Sustainability Risk - Must be considered for all new/renewal credit applications (thresholds apply). Equator Principles - Must be adhered to for all Project Finance/Project-related facilities. Collateral/Valuations - Due regard must be paid to sustainability/environmental legislation. 	Implemented
Commercial Banking Credit Framework Policy	Commercial Banking	Climate and sustainability risks	<ol style="list-style-type: none"> External Sector Statements - All business must comply with external sector statements. Sustainability Risk - As above, and including understanding of clients approach to transition/physical risks, reduction of greenhouse gases, stranded assets and compliance with relevant legal/regulatory ESG requirements. Environmental Risk Assessment - Completed for relevant clients/transactions. Soft Commodities Compact - Adhere to standards of compact. Equator Principles - As above. Counterparty Level Risk Assessment - Use assessment (where available) to inform credit profile for new/renewal applications. 	Implemented/Counterparty Level Risk Assessment - ongoing development
Commercial Banking ESG Credit Risk Policy	Commercial Banking	Climate and sustainability risks	Encapsulates all climate and sustainability risk requirements in one policy, expanding on the activities expected of the business and credit.	New policy - published in Dec-21
Commercial Banking Sector Policies	Commercial Banking	Climate and sustainability risks	Sustainability guidance/mandatory requirements are being embedded into all appropriate sector policies, in particular high carbon intensive sectors identified as part of the sector review process, as detailed on page 61, e.g. oil and gas, utilities, automobiles etc.	Embedded into >15 policies, with further policies in scope for 2022
Mortgage Credit Risk Policy	Retail	Energy efficiency and physical risks	<ol style="list-style-type: none"> EPC Controls - In place for buy-to-let properties, to ensure all lending meets regulatory requirements. Physical Risk - Exposure to physical risks (such as flooding) considered in our mortgage origination criteria/property valuation process. To help determine the adequacy of mitigation/abatement measures, higher-risk cases are subject to a thorough site inspection by technical experts (also considered within Commercial Real Estate policies). 	Implemented
Motor Credit Policies	Retail	Transition risk	EV strategy fully aligned with Risk Motor policy to ensure the pace and quality of growth is understood and regularly reviewed to ensure risks remain within appetite.	Implemented

Risk management in Commercial Banking

We have continued to embed climate risk assessment into our credit risk management framework to ensure that climate-related risks are considered for all Commercial Banking customers that bank with us, with specific commentary in new and renewal credit applications where total limits exceed £500,000 (excluding automated renewal processes).

As part of our Relationship Managers' regular client engagement activities, we have embedded climate risk as a key discussion point into mainstream processes and activities to support the identification of climate-related risks and opportunities associated with the clients' business and the sector in which they operate. This enables us to gather data and understand the risk profile of our clients, their sectors and our portfolio, which enhances our ability to help clients identify and navigate climate-related risks.

We have also been embedding climate-related risks into all of our policy and sector reviews to ensure that climate is covered from a policy perspective but also to ensure that we provide the necessary guidance to our colleagues to support their client engagement and ensure physical and transition risks are considered. This will continue to be undertaken as we move forward and our understanding is informed and data becomes more available.

Reputational risks

To further ensure that climate-related risks are assessed and understood, the Group's Reputational Risk Policy was launched in January 2021. It defines a formal process for identifying and monitoring reputational risk in Commercial Banking. This includes any potential climate and environmental risks such as trade in goods with heightened environmental risks and can also assess historic environmental incidents appertaining to the clients we fund.

Where reputational risks are identified, the policy outlines the governance requirements to understand the nature and magnitude of these risks including alignment to risk appetite and climate risk strategy.

Risk management

Managing climate risks: credit risk

Counterparty-level risk assessment

Identification of counterparty-level climate risk is essential, and we have continued to enhance our internal climate risk assessment methodologies and tools in Commercial Banking, to assess the physical and transition risks relevant to our clients. We have developed and launched a bespoke, qualitative climate risk assessment tool with a focus on transition risks and readiness into our large corporate portfolio and work is underway to determine the approach for the remaining portfolio. This will be completed at least annually as part our regular client engagements and will facilitate an in-depth discussion with the client to enable us to:

1. Gain a detailed understanding of the climate-related risks and opportunities related to their business/sector they operate including where the client is on their transition journey
2. Assess the scope and feasibility of their transition plan
3. Discuss/mitigate any risks identified
4. Support the client with potential propositions to support their transition
5. Develop internal management information to monitor the transition risk within the Commercial Banking portfolio and to enable any mitigating action to be taken

The outputs of the climate risk assessment tool are overlaid with quantitative sector level emissions and transition risk data to produce a score reflective of the client's climate impacts and exposure to climate risks. We have embedded the outputs of this tool into our credit risk management framework to ensure that climate-related risks are considered for all Commercial Banking customers that bank with us, with specific commentary in new and renewal credit applications where total limits exceed £500,000 (excluding automated renewal processes).

The novel data from these assessments will allow us to develop a view of our portfolio by differing levels of climate risk, enhancing our understanding of the challenges being faced by our clients and identifying areas for further due diligence. So far, we have completed these assessments with over 1,500 of our clients, and built an understanding of the risk profile and outlook of our portfolio, while embedding climate risk into our mainstream credit risk management process. We will continue to develop the tool with the goal to widen to the scope and enhance the methodology as data improves.

Portfolio alignment

During 2021, we have undertaken a proactive analysis from a risk perspective on the Group's portfolio in relation to our climate ambitions and the pathways required to achieve the Group's targets.

Each sector faces a unique set of physical and transition risks, and understanding the current pathways is key to determining the size and scope of actions required to meet our commitments as a founding member of the Net-Zero Banking Alliance. We expect these pathways will evolve as policy changes and data improves, allowing for greater understanding and scoping of the associated risks.

The Group's assessment of the sector pathways from the Climate Change Committee's (CCC) Sixth Carbon Budget suggests four sectors (mortgages, agriculture, transport and construction) will not achieve a reduction of 50 per cent, meaning further actions will be required to support our clients, and a deeper understanding of each sector's future pathways obtained through our momentum and target-setting work.

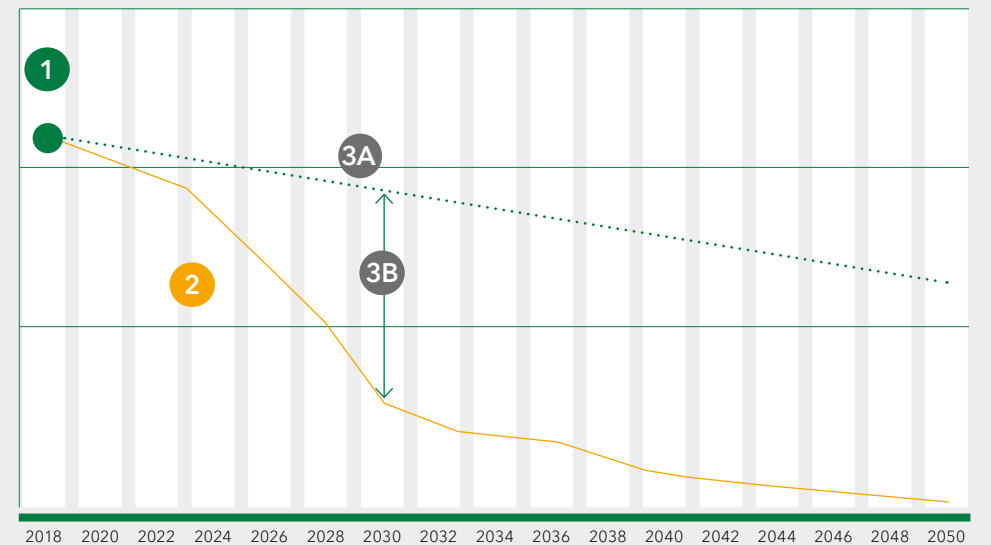
Momentum and target setting

To support our understanding of the trajectory of our portfolio, we have developed methodologies to create a bottom-up view of client transition plans, and create an estimated top-down trajectory for our clients who are yet to disclose their plan. This creates a momentum pathway for us to understand the expected transition of our portfolio, before we take action.

We have then selected a reference net zero scenario that the Group would aim to track in line with our reduction targets, and identify the size of intervention needed to bridge any gap between the momentum and the reference scenario. This will give us the understanding required to set sector-level targets that will waterfall down from our Group-level commitments, into each sector.

We have started with our oil and gas portfolio, using the internationally recognised IEA Net Zero Emissions by 2050 scenario (NZE 2050) as our net zero reference pathway to assess our clients' transition plans and develop a methodology aligned to NZBA principles that we have used to set robust science-based targets for the sector. Further detail can be found on page 33. This methodology will form the template for other targets required as part of our NZBA commitments, and provide enhancements to our previously stated targets.

Momentum pathway - illustrative example



Initial steps include:

- 1 **Calculating emissions baseline**
- 2 **Select relevant reference pathway**
- 3 **Momentum scenarios to assess gap versus reference pathway**

3A Inertial emission projection (momentum case)
 - Top-down: use sector momentum pathways
 - Bottom-up: collect client transition plans and targets

3B Momentum case + strategic positioning

Risk management

Managing climate risks: credit risk

Lending to customers in sectors with increased climate risk

We have refined our analysis of the sectors where we have lending to customers that may likely contribute a higher share of the Group's financed emissions. Not all customers in these sectors have high emissions or are exposed to significant transition risks. We continue to enhance and refine this work at both counterparty and sector level, considering both risks and opportunities as we look to support our customers' responses to climate change.

- 1 Commercial Banking and Retail divisions only. Excludes Insurance & Wealth division.
- 2 Commercial Banking division only, excludes Commercial Finance. All values are gross of significant risk transfers. 2020 restated on a consistent basis with 2021.
- 3 Percentages calculated using total Group loans and advances to customers and reverse repurchase agreements on a statutory basis, before allowance for impairment losses (£503,608 million at 31 December 2021, £504,603 million at 31 December 2020).
- 4 Weighted average maturity calculated using total limits in Commercial Banking and loans and advances in Retail.
- 5 Commercial lending classified using Office for National Statistics Standard Industrial Classification (SIC) codes at legal entity level.
- 6 Agriculture total utilisation includes Agricultural Mortgage Corporation (AMC) based on loans and advances to customers (2021: £4,246 million, 2020: £4,186 million). AMC total limits aligned to total utilisation.
- 7 Includes automotive manufacture, retail and wholesale trade, rentals and parts but excludes finance captives and securitisations.
- 8 Certain SIC codes have been removed from the table in 2021 to better represent the activities in the descriptions; Architectural, planning and consulting from Other construction, Water and sewerage from Utilities and Wholesaling activities from Food manufacturing.
- 9 Construction excludes 41100 Development of building projects (included within Real estate) and 41202 Construction of domestic buildings (reported separately as Housebuilders).
- 10 Excludes commodity traders.
- 11 Sectors with increased climate risk only, as seen in Commercial Banking above. Undrawn loans and advances excluded.

		Total utilisation of Commercial Banking customers ² (£m)		Total limits of Commercial Banking customers ² (£m)		Percentage of total Group loans and advances to customers ³ %		Weighted average maturity (no. months) ⁴	
		Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Lending to customers in sectors with increased climate risk¹									
Commercial Banking sectors ⁵									
Energy use in buildings	Real estate	17,711	19,461	22,218	24,875	3.5%	3.9%	57	62
	Social housing	5,538	5,966	10,556	11,137	1.1%	1.2%	84	91
Agriculture⁶	Agriculture	7,526	7,429	8,074	8,012	1.5%	1.5%	101	103
	Forestry	10	10	15	16	0.0%	0.0%	67	65
	Fishing	31	26	50	50	0.0%	0.0%	59	49
Transportation	Passenger transport	1,231	1,135	2,216	2,264	0.2%	0.2%	41	47
	Industrial transport	1,058	1,374	2,297	2,507	0.2%	0.3%	42	46
	Automotive ⁷	1,007	1,485	5,452	6,315	0.2%	0.3%	26	25
Energy use in industry⁸	Housebuilders	655	870	2,872	3,023	0.1%	0.2%	28	28
	Cement, construction materials, chemicals & steel manufacture	279	317	814	1,098	0.1%	0.1%	27	25
	General manufacturing	1,167	1,300	3,745	4,329	0.2%	0.3%	35	33
	Food manufacturing	762	1,002	2,802	3,069	0.2%	0.2%	18	22
Energy supply⁹	Other construction ⁹	921	1,052	2,094	2,457	0.2%	0.2%	35	37
	Oil & gas ¹⁰	987	1,099	2,520	3,815	0.2%	0.2%	39	35
	Utilities	1,791	900	4,372	3,820	0.4%	0.2%	74	76
	Coal mining	<1	8	<1	22	<0.1%	<0.1%	3	7
Total		40,674	43,434	70,097	76,809	8.1%	8.6%	-	-
		Loans and advances to Retail customers (£m)		Undrawn loans and advances to Retail customers (£m)		Percentage of total Group loans and advances to customers ³		Weighted average maturity (no. months) ⁴	
		Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Retail division areas	UK mortgages	308,344	294,806	17,151	19,456	61.2%	58.4%	232	224
	UK motor finance	14,276	15,201	1,985	1,660	2.8%	3.0%	28	28
	Business Banking ¹¹	3,804	4,281	-	-	0.8%	0.8%	73	74
Total		326,424	314,288	19,136	21,116	64.8%	62.3%	-	-



Risk management

Sector reviews

We are committed to supporting the UK Government's vision of a sustainable low carbon future, so in line with our purpose of Helping Britain Prosper we have undertaken an analysis of how the Group's principal risks are impacted by climate change.

As detailed in the table on page 59, we have identified sectors where we have lending to customers that are likely to be higher carbon emitters or be exposed to higher levels of physical or transition risks and continue to enhance and refine this work at both counterparty and sector level, considering both risks and opportunities as we look to support our customers' responses to climate change.

Across 2020 and 2021, we completed bespoke deep dives into each of these sectors, which have been supported by external third-party consultants and sector experts with the goal to:

- Assess the specific physical and transition risks in our lending portfolio
- Analyse market trends related to climate risk, including regulations, customer sentiment and investor pressure
- Identify risks and opportunities related to the transition to net zero
- Understand the impact of each of these opportunities and levers on our emissions trajectory through various scientific lenses, assessing the feasibility and likelihood of a sector's opportunities to decarbonise in terms of timing and impact
- Discuss implications on credit risk appetite and policy to support the transition to a sustainable low carbon economy and achieve the Group's ambitions



Oil and gas



Manufacturing



Construction



Agriculture



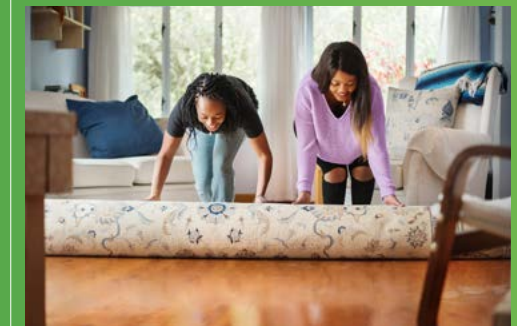
Automotive



Commercial real estate (CRE)



Transportation



Mortgages



Risk management

Managing climate risks: credit risk

The follow-up actions as a result of these sector deep dives are to:

- Develop sector business cases to identify and implement levers and opportunities, including any required changes to strategy
- Identify any implications on credit risk appetite and policies by sector
- Continue to improve Group financed emissions calculations by sector
- Define business strategy by sector, including targets and metrics
- Continue to embed climate risk into all sector reviews, including sectors not prioritised in this exercise, in 2022

Sector review table - below is a summary of the high carbon sectors identified and the progress achieved to date:

Sector	Ambition	Sector insights	Key considerations
Oil and gas	Published	<ul style="list-style-type: none"> • Abatement of Scope 3 emissions remains a challenge for the sector, leading to transition plans reliant on horizon Carbon Capture, Usage and Storage (CCUS) technology 	<ul style="list-style-type: none"> • Stranded assets as regulation tightens in advanced economies • Credibility of counterparty transition plans
Power	Published	<ul style="list-style-type: none"> • Energy's major players are restructuring their core portfolios and decarbonising operations across the value chain in response to shifting investor sentiment 	<ul style="list-style-type: none"> • Accelerated shift to renewables • Stranded assets as regulation tightens in advanced economies
Automotive-Retail Automotive-OEM	Published	<ul style="list-style-type: none"> • Transition risk is a key issue for the automotive sector, with an increase in regulation/policies, increased competition with new entrants, as well as increasing investor pressure and shifting customer sentiment 	<ul style="list-style-type: none"> • Residual value of Internal Combustion Engines (ICE) and Electric Vehicles (EV) • EVs/Plug in Hybrid EVs vs ICEs adoption rates • Transition risks related to shifting regulation and consumer demand impacting the residual value of vehicles • Adjustment to new technology and supporting infrastructure
Mortgages (including Buy-To-Let)		<ul style="list-style-type: none"> • Mortgages are exposed in the short to medium term to transition risk as customers look to improve the energy efficiency of their homes through changes to energy efficiency retrofits (e.g. insulation) and low carbon heat installation (e.g. heat pumps). Exposure to physical risks will increase in the long term 	<ul style="list-style-type: none"> • Property devaluation driven by the cost of transition to meet minimum energy efficiency standards or through exposure to physical risk (i.e. flooding/subsidence) • Impacts on affordability driven by transition, e.g. changes in energy prices, potential increase in insurance premiums • Potential for financing requirements driven by increasing energy efficiency regulations
Transportation		<ul style="list-style-type: none"> • Transition risk is a key issue for the transportation sector, with an increase in regulation/policies, as well as increasing investor pressure and shifting customer sentiment 	<ul style="list-style-type: none"> • Impacts of demand management and fuel efficiency measures • Stranded assets from shifts in fuel type • Adjustment to new technologies
Manufacturing		<ul style="list-style-type: none"> • Manufacturing is a heat and energy intensive sector often having complex machinery and processes 	<ul style="list-style-type: none"> • Inertia in the SME sector due to understanding, capability and available resources • Potential for financing requirements driven by need for technological improvements
Construction		<ul style="list-style-type: none"> • Construction is 1-2% of UK emissions; however, the industry influences and impacts other sectors 	<ul style="list-style-type: none"> • Adjustment to new low carbon materials and processes • Potential for financing requirements driven by transition to new technology
CRE		<ul style="list-style-type: none"> • The sector faces transition risks in the short term, and physical risks in the longer term 	<ul style="list-style-type: none"> • Potential for financing requirements driven by increasing energy efficiency regulations • Limitations around EPC data
Agriculture		<ul style="list-style-type: none"> • Agriculture is becoming a critical part of the UK emissions reduction strategy, reflected in government plans to accelerate sequestration and subsidise sustainable farming 	<ul style="list-style-type: none"> • Transition risks related to shifting consumer demand • Engagement of SME sector with low carbon processes • Competition for land from carbon capture

Risk management

Managing climate risks: credit risk

Mortgage Energy Performance Certificate (EPC) distribution

We seek to comply with climate-related regulations within each jurisdiction in which we operate. A specific example of risk arising from current and future regulation are minimum energy efficiency standards applicable for Buy-To-Let (BTL) mortgages and owner occupied residential mortgages.

In our BTL portfolio the primary transition risks are:

- Inability to fund improvements to the property and/or achieve a sustainable rental income to service debt leading to default
- Property devaluation aligned to the cost of transition to meet the minimum EPC standard
- Tenant affordability stress caused by increasing energy costs

The need to drive energy efficiency through legislation can have second order impacts which creates additional risk for the Group:

- BTL landlords exiting the market, leading to a reduction in the supply of private rented sector (PRS) housing and localised house price volatility
- The migration of energy inefficient housing stock from the BTL to private homeowner sector
- Lending supporting the demand for new build energy efficient homes, reducing the Group's exposure to transition risk but potentially increasing the exposure to physical risk

Operationally, EPCs are currently the best source of publicly available data on the energy efficiency of a property. They are based on data about a building's energy features, for example, the building materials used, the heating systems and insulation. These are collected by an accredited energy assessor and generate a score for the EPC, typically ranging from 0 to 100. Domestic EPCs are banded from A to G, where A is the most energy efficient and, while useful, they have their limitations, such as:

- Incomplete dataset (no complete coverage across the UK housing stock)
- Recommended actions do not encourage carbon neutral measures
- Out-of-date data (i.e. not updated when work is completed)
- Availability in real-time application systems

This impairs our ability to support the transition effectively as we are unable to track the impact of energy efficiency improvements on EPC scores without additional costs/lending controls.

We recognise that measured and timely government policy interventions will be required to improve the efficiency of UK homes; we proactively engage with government and policymakers to support the industry-wide challenges and address the potential for any systemic risk.

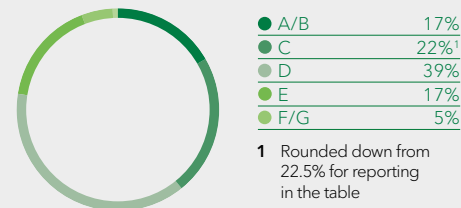
We aim to lead industry best practice. We monitor prudential regulatory developments on an ongoing basis across various sources and consider potential forthcoming regulatory changes as we develop our approach to managing climate-related issues.

We proactively consider emerging regulation as part of our developing approach to climate risk and, when regulations change, we respond as swiftly as possible to ensure we maintain compliance. As climate change and related regulations are constantly evolving, we look to include these in our risk assessments.

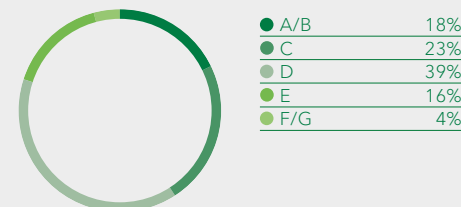
We continue to develop climate metrics to aid discussion and inform strategic decisions. The following EPC charts provide an indication of how our portfolio has transitioned where EPC data is available.

EPC distribution by lending value

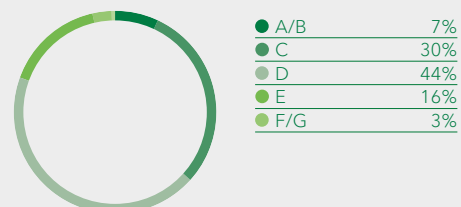
Residential 2020



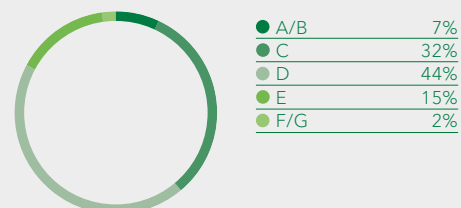
Residential 2021



Buy to Let 2020



Buy to Let 2021



The exposure to properties with no EPC data has reduced from 35% of residential properties in 2020 to 29% in 2021, and from 28% to 23% respectively for BTL



Motor type Electric Vehicle (EV)/ Internal Combustion Engine (ICE) analysis

The impact of new technology is most prevalent in our Motor Finance business. The introduction of low emission vehicles (electric vehicles, plug-in hybrids (PHEV), hybrids, etc.) is rapidly expanding, with stock of EV/PHEV increasing; although this will take time to evolve, the Group is committed to supporting the transition to greener motor vehicles as stated in our ambitions.

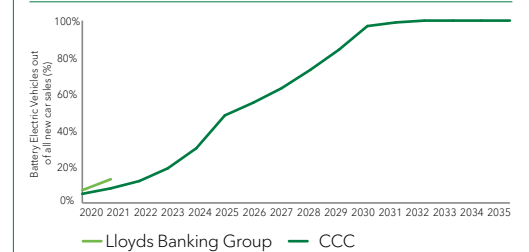
The emerging EV market presents a significant technology-related risk within vehicle residual values, with key drivers as follows.

- **Manufacturers' suggested retail prices decrease** - Technology improvements at a scale with tech innovation (such as lower battery prices) will reduce the prices of new low emission vehicles
- **Technical redundancy** - New models will constantly push performance boundaries therefore challenging depreciation assumptions
- **New technology breakthroughs** - Technology will evolve quickly and old cars will have significant disadvantages compared to new cars
- **EV infrastructure** - Drives overall EV uptake through price parity and convenience; however, the market is immature and fragmented

Consumer preferences are changing, while concerns around technology, range, charging infrastructure and price stand in the way of mass EV uptake.

The following graph displays that our current proportion of new EV sales is higher than the CCC pathway, and displays an indication of the speed of transition required according to the Balanced Net Zero Pathway.

Transition of UK new car sales



Source: CCC 6th Carbon Budget, Surface Transport, figure 3.1.e Proportion of all new car sales that are battery-electric vehicles, Balanced Net Zero Pathway. Lloyds Banking Group includes cars, taxis and vans, recognising that the speed of transition will vary by vehicle type.

To better understand these risks, the Group has invested in building its residual value forecasting capability. A stress test has been undertaken, noting the most significant risks from a credit perspective relating to existing electric vehicles, for example, from increased competition, technological improvements and a different depreciation profile.

Risk management

Managing climate risks

Market risk

Climate-related risks and events could trigger unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other financial instruments), potentially leading to reduced financial returns. This could be as a result of physical events or transition risks due to the market evolution to more sustainable business models and investments. In addition to the general exposure to market risk factors, specific risks to the Group exist via assets, such as government securities, that could be impacted by supra-national or government policy announcements impacting market prices of these instruments.

The Group has several defined benefit pension schemes, with the majority being UK funded schemes. Climate change could impact asset prices, financial market conditions and members' longevity, which may affect the schemes' financial position.

A detailed initial assessment has been undertaken of the Group's market risk management processes to ensure suitable consideration of climate risk is covered through these activities.

The market risk management approach includes comprehensive stress testing frameworks, which cover all material risk factors (key ones being interest rate, foreign exchange, credit spread and inflation risk). While further consideration is anticipated, in line with developing industry and Group best practice on scenario analysis, the initial assessments concluded that the market risk stress testing frameworks are generally sufficiently comprehensive and severe to capture climate-related scenario stress events appropriate to the duration of the most material exposures. More information on the market risk management approach can be found on pages 144 to 148 of the Group's 2021 Annual Report and Accounts.

For Scottish Widows, in line with our revised Stewardship Policy, approved in July 2021, we aim to engage with companies whose activities are so high risk that they are likely to become stranded assets and investment losses. If we are unable to influence them, we will consider divestment. We also encourage external managers of pooled funds that we invest in to implement the Exclusions Policy on a comply or explain basis. Further details on the approach taken towards Scottish Widows' investments can be found on the Scottish Widows website.

The Lloyds Banking Group Pension Trustees Limited is responsible for managing the largest Group sponsored pension schemes and climate change is one of the risks it manages given its potential financial impact. The Trustee has committed to reduce carbon emissions by at least 50 per cent of its £50 billion investments by 2030, and net zero by 2050. The Trustee will disclose more information on its approach to managing climate change in 2022.

Insurance underwriting risk

Given the short-term nature of home insurance policies we are able to review our view of risks regularly, and change our approach as risks develop to mitigate long-term exposure of climate risks. Our overall strategy is to continually review our acceptance criteria and pricing strategy for each risk based on both a short-term and long-term view.

In-house expertise on physical risk is retained in the form of a dedicated Weather Modelling team. The team is comprised of specialists in hydrology, meteorology and probabilistic modelling who develop a baseline view of physical risk for the UK and conduct forward-looking climate stress testing onto this.

This team has been in place since 2016 and has monitored and applied climate change science onto the view of risk used for capital, pricing, reinsurance, and planning.

Financial management

An assessment of climate-related risks to General Insurance liabilities is integrated into our internal model governance process. Climate change is identified as a key topic for model review and

approval within this process, and specifically, the appropriateness of the view of risk for the weather perils in the context of climate change science.

This view of risk is integrated into assessments of capital requirements, reserving, reinsurance and pricing. It also feeds into the quarterly exposure management where insurance portfolio exposure arising from weather-related perils is monitored and controlled.

A third-party vendor model is used for the perils of flood, coastal/storm surge and wind. The vendor model results are adjusted internally to better reflect our own exposure and experience.

Catastrophe modelling

The Catastrophe Weather Model is a key component of the Scottish Widows Solvency II Capital Model. The results of the model by weather peril are used to inform the base rates for risk pricing. Accordingly, Weather Pricing Models are used to inform how insurance premiums should vary across the book. The outputs are used to create a relative view of risk across the geographic domain of the book - i.e. how risk varies from location to location.

The Weather Modelling team conducts an ongoing review of available research and models on climate change.

Properties in high risk areas

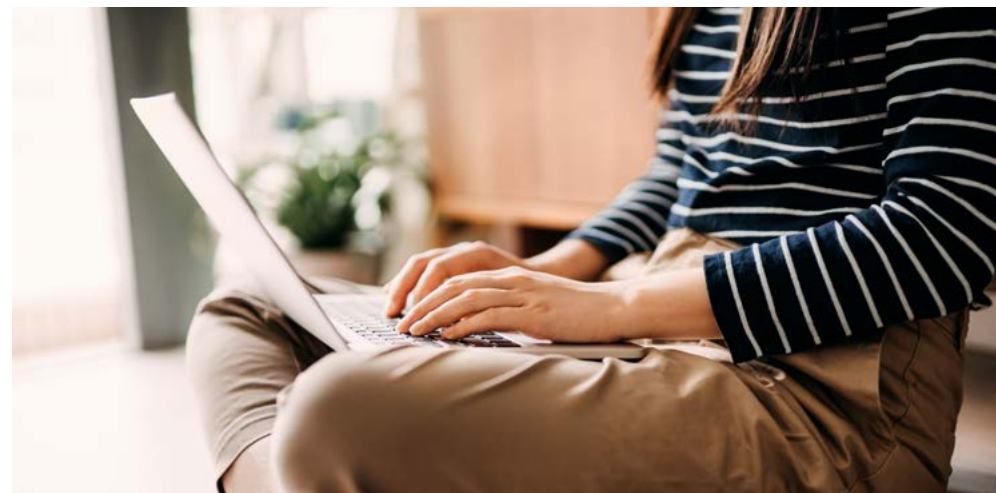
Many of our customers have been impacted by weather events in the last few years, specifically from events which have led to claims from inland flooding, coastal flooding and storm damage.

Climate scientists predict that the frequency and severity of flooding could increase in coming years. For example, sea level in the UK could rise by up to 1 metre by the end of the century. This size of increase would likely affect the frequency and severity of our claims experience.

Being able to identify and monitor trends in the increased physical risks, through a variety of metrics, is therefore very important.

Weather Pricing Models are used to inform how insurance premiums should vary across the book. The outputs are used to create a relative view of risk across the geographic domain of the home insurance book. We assign properties risk bands from 1 to 30 to reflect the level of flood risk, with 1 being low and 30 being high. We can use this banding to manage our exposure in high-risk areas. Increasing the proportion of our portfolio in bands greater than 20 could lead to significant increases in losses in the event of increasing severe events.

% insured properties high risk > Band 20 as at	June 2020	December 2020	June 2021	December 2021
	Inland flood	4.3%	4.0%	2.8%
Coastal flood	0.7%	0.6%	0.6%	0.6%



Risk management

Managing climate risks

Conduct risk

The key climate-related conduct risk consideration for the Group is ensuring that its product communications are fair and avoid any potential 'greenwashing' through overstating or falsifying environmental credentials, and ensuring fair customer treatment as part of the Group's role in supporting the transition to net zero.

A detailed assessment of the Group's conduct risk framework has been undertaken to ensure that the Group is able to identify and mitigate the risk that customers, including those who are vulnerable, experience poor outcomes as a result of the Group's response to the transition required to achieve a low carbon economy.

Colleagues are guided to consider the potential transition risks to the Group's customers as part of the regular product risk assessments. The Group is continuing to develop its approach to assessing and ensuring fair customer treatment when responding to the risks from climate change and the transition to net zero, with ongoing consideration to addressing through the Group's Customer Policy in 2022.

Operational resilience

As part of the Group's approach to manage its operational resilience, the Group is looking to refine its strategy to consider the impact on and from climate as part of ensuring its operations remain resilient. These climate-related impacts could affect the Group's operational resilience through the Group's properties, IT systems, people and third-party suppliers. The Group has initially focused on the main physical risks the Group faces; however, potential transition risks may also require further consideration as the Group's approach evolves.

The Group has processes in place to consider the resilience of its property in relation to physical risks, particularly focused on its offices, data centres and branch network, to minimise the risk of service disruption. The bank's insurers periodically highlight the Group's buildings subject to high flood risk. These sites are then surveyed in detail to quantify that risk and determine appropriate flood defence mitigation. We proactively monitor the temperature and humidity in our data centres, with root cause analysis undertaken for any incidents to identify any local climate issues and remediate. Additionally, we have created resilient tech rooms where power, temperature and humidity are robustly controlled.

The Group's Code of Supplier Responsibility outlines the Group's expectations for its third-party suppliers in relation to environmental sustainability. This includes expectations for the Group's suppliers to proactively identify, manage and reduce their environmental impact.

Regulatory and legal risk

The Group has looked to ensure consideration of climate change and sustainability is captured as part of its existing processes for managing regulatory and legal risks. In particular, consideration of climate-related regulations and legislation is captured as part of the Group's existing horizon scanning processes to identify any requirements for the Group or our customers.

In addition to identification of climate-related regulations and legislation, there are existing processes across the Group to ensure compliance with appropriate requirements impacting the Group, for example, the Prudential Regulation Authority's expectations for embedding the financial risks from climate change through its Supervisory Statement 3/19.





Scenario analysis

Developing our scenario analysis capabilities to strengthen our understanding of risks and opportunities from climate change.

Building climate resilience

Scenario analysis

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Scenario analysis

What is climate scenario analysis?

Scenario analysis is a technique that has been used extensively across the financial services sector to understand the impact of risk and uncertainty on business strategy and decision-making. Climate risk is large scale and long term in nature with uncertain pathways. Scenario analysis lends itself well to better understand the risks and opportunities that arise from climate risk through an iterative process of considering plausible future states of the world that challenge existing thinking and, therefore, test the resilience of the business model.

As the understanding and importance of climate risk progresses, climate scenario analysis is becoming an increasingly important risk management tool assisting the identification, measurement and ongoing assessment of climate risks that pose threats to the Group’s strategic objectives.

Climate scenario analysis does not seek to predict a future state of the world, or pick a preferred outcome, rather it is developed to try to identify different, severe yet plausible climate pathways that challenge the Group’s business model and helps to manage and monitor potential risks and assess the financial impacts of climate change that could arise under a range of possible consequences.

Climate scenario analysis is complex, long-term in nature and presents its own unique set of challenges such as access to the required data and appropriate modelling. Lastly, capabilities and market expectations are fast evolving in this area and the Group’s capabilities will continue to be enhanced, accordingly.

Definition

The starting point for climate scenario analysis is understanding the current and expected future exposures to climate-related risks and opportunities. The next step is to choose a number of scenarios that are relevant given the exposures identified. The Group considered a range of scenarios, such as the Representative Concentration Pathways (RCP) created for the Intergovernmental Panel on Climate Change (IPCC), Network for Greening the Financial System (NGFS) and International Energy Agency (IEA) that all represent possible pathways to different climate change outcomes across industries.

Over the last year the Group has worked with an external partner that has developed its own climate scenarios, encompassing both transition and physical risks. These scenarios were rooted in thorough scientific, economic and technological modelling, leveraging the RCP as a base. This ensured that the scenarios represented realistic pathways with the required granularity to start to explore climate risks in the balance sheet. These scenarios sought to reflect that the Group is a UK focused institution that serves global clients.

Sectors and products in the credit portfolio with high climate risk sensitivity were identified and included in a scenario analysis to support the establishment of business plans to mitigate climate risks. The analysis was undertaken across three distinct climate scenarios described, below.

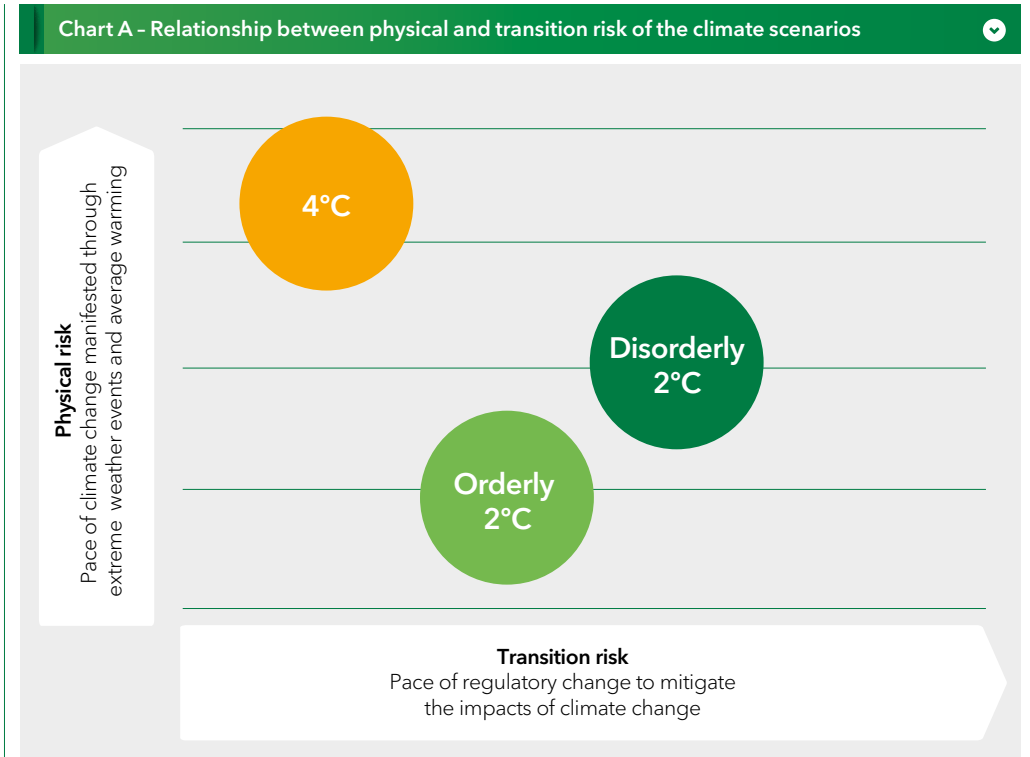
Some examples of this analysis are described in more detail in the section on Climate scenario analysis insights.

This initial analysis also allowed the Group to prepare for using scenario analysis in the Bank of England’s 2021 Biennial Exploratory Scenario on Financial Risks from Climate Change (the CBES), where both the Bank and Insurance businesses participated.

As the beginning of the process of exploring risks from climate change in the balance sheet, three main pathways to the future were chosen to explore, one focusing on a very negative physical risk outcome where climate policymaking failed and two transition views; one where the right adjustments were made early to mitigate physical risks and another one which focused on the consequences of delayed policy actions.

The three scenarios to 2100 analysed were:

- **4°C:** The world does not respond to climate change at all, and technology deployment is driven purely by relative economics. This scenario implies greater physical risks, manifesting more severely after 2050
- **Orderly 2°C:** A globally coordinated response to climate change that sees the world quickly decarbonise in an orderly and efficient manner, therefore limiting transition risks
- **Disorderly 2°C:** The world does not respond to climate change before 2030, and then takes sharper corrective actions to limit global warming impacts, resulting in high transition risks



The graphical representation in Chart A shows the correlation that each scenario has with the others in the context of the inter-relationship between physical and transition risks. The 4°C scenario carries little transition risk, as effectively no transition takes place, the consequence being elevated physical risk. In line with its name, the Disorderly 2°C scenario has higher transition risk but lower physical risk with late policy action taking place. The Orderly 2°C has lowest transition and physical risks of the scenarios as policy action occurs early and consistently along the scenario, mitigating both transition and physical risks.

These scenarios were chosen as they were designed to isolate the impacts of climate change by leveraging key climate specific parameters such as annual emissions, carbon pricing and power generation changes as discussed on page 67. In this first analysis iteration, the scenarios did not include any macroeconomic feedback effects (e.g. GDP impacts). In choosing these scenarios the Group was not expressing its expectations or preferences for future evolution, rather considering three different and plausible future states of the world to understand their impact on the current business model.

Scenario analysis

What is climate scenario analysis?

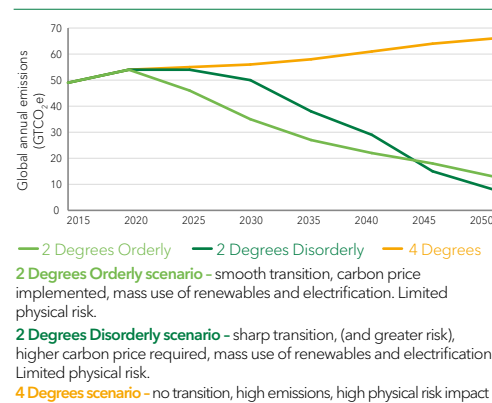
Key parameters

Modelling climate change scenarios over long time horizons involves integrating into the scenarios various parameters and assumptions of potential future states of the world. There will always be uncertainties and limitations when projecting out as far as 30 years and the use of climate modelling in finance is nascent. The Group is committed to improving modelling and associated data capabilities as techniques evolve. Below are three key parameters of the scenarios the Group explored, which help to provide additional context to the scenarios.

Global annual emissions

The summary of the three scenarios' impact on global annual GHG emissions is noted in Chart B. In the Orderly 2°C scenario, there is an immediate but smooth reaction to the effects of climate change reflected in the global annual emissions. However, in the Disorderly 2°C scenario, the delayed reaction causes a continued increase in global annual emissions until the late 2020s, where there is then a sudden correction which ultimately requires emissions to fall further later in the scenario than in the Orderly 2°C scenario.

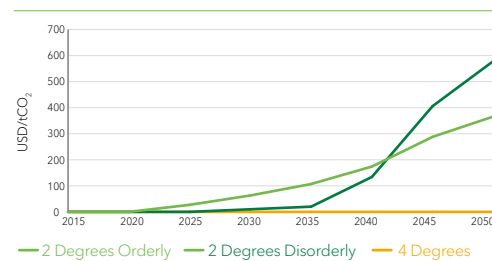
Chart B - Global annual emissions



Carbon pricing

Shown in Chart C, the global carbon price is a key parameter of the climate scenarios that were explored and reflects a shadow price of greenhouse gas emissions and the speed and depth of transition for each scenario. In the Orderly 2°C scenario, a carbon price is introduced at the start of the projection, which gradually increases throughout rising to a maximum price of 366 USD/tCO₂ by 2050. In the Disorderly 2°C scenario there is no material reaction of implementing a carbon price until 2035, where it then starts to climb rapidly as the world takes the sharper corrective action, rising to a maximum of 579 USD/tCO₂ by 2050.

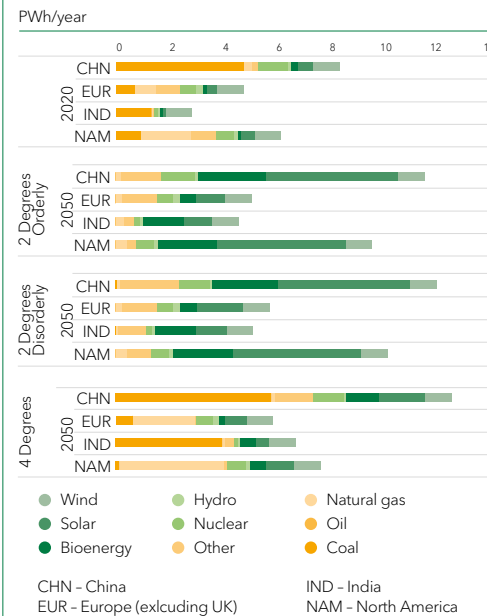
Chart C - Global carbon price



Power generation

In all three of the scenarios considered, global power demand is projected to almost double by 2050 with Chart D showing the regional evolution by fuel type. In the 4°C scenario power demand is driven by rising population and economic growth and more limited improvements in energy efficiency, while in the 2°C scenarios this is driven primarily by widespread electrification of end-use sectors such as buildings and road transport. Growth in electricity demand in China (CHN), India (IND) and other developing economies by 2050 is expected to dwarf that of more advanced economies. The pattern for decarbonising power shows consistency across the regions with a phase-out of coal, modest use of natural gas and significant expansions of renewable energy in all forms. Greater differences in new nuclear capacity are seen due to cost differences and other policy interventions.

Chart D - Regional power generation by fuel type



Climate scenario analysis insights¹

In this first generation exercise, the Group analysed the impact of these three scenarios on a sample of the balance sheet comprising credit portfolios in Commercial Banking, Retail Mortgage and Motor businesses prior to the wider CBES exercise undertaken for the Bank of England. The results from the latter will form part of the publication of the CBES results that the Bank of England will make later in 2022.

The Group ran workshops with subject matter experts providing an assessment of the scenario analysis results. This helped to advance the understanding of the risks and financial implications in different sectors and business areas resulting from climate change, as well as suggesting what potential management actions might be required under the different scenarios.

Commercial Banking

For Commercial Banking, a representative sample of approximately 900 counterparties were modelled across a wide range of sectors. Even though all sectors will be impacted in some form or another by the effects of climate change, a deep dive was performed on the oil and gas and utilities sectors given their high emissions profiles and expectation of being materially affected in the scenarios.

A wide range of range of outputs were generated from the scenario analysis models. These included, at a company level, financial metrics such as EBITDA, revenue, free cash flow, tax rates, through to risk-specific metrics such as probability of defaults, which can then be aggregated at a sector/geography level. The results do not reflect if firms were implementing transition plans. The results provided a projection of how companies' current business models would perform in the given scenarios. These, therefore, helped to isolate which counterparties were most at risk in each of the scenarios and assisted in identifying those that may require engagement and how to shape that engagement.

¹ Climate scenario analysis undertaken at Scottish Widows plc is described in the standalone Scottish Widows TCFD Report.

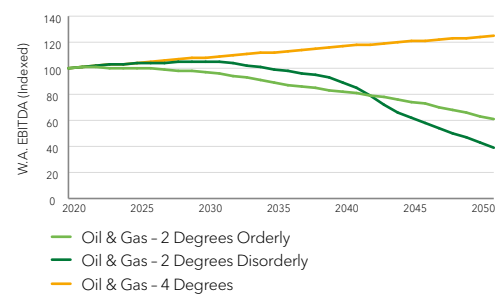
Scenario analysis

Climate scenario analysis insights

The results of the scenario analysis showed that, for the subset of clients reviewed, oil and gas companies' financials declined over time as they covered the cost of transition. Chart E below helps to illustrate this by showing how the weighted average EBITDA in the sector (weighted by exposure at default (EAD)) evolved across the three scenarios. The impact was heaviest initially in the Orderly 2°C scenario; however, by the end of the projection the sharp corrective action and high carbon pricing in the Disorderly 2°C scenario impacted the firms the most. Companies with healthier starting financials were generally more resilient to transition risks and more able to seize the opportunities of climate change, e.g. development of new low carbon solutions and technology.

More broadly, the scenario analysis results illustrated the company nuances across the oil and gas industry, in particular, those that underperformed versus the sector average, helping to improve the Group's risk assessment of its credit risk portfolio. Furthermore, the analysis drove forward the understanding of the financial impacts of climate change on the sector and the counterparty engagements that will be required to understand better firms' transition strategies and how they plan to cope with the effects of carbon pricing. Without change, oil and gas companies will face increasing reputational and brand risk and, generally, constraints in access to capital.

Chart E - Weighted average EBITDA changes to the oil & gas industry



Utilities

The key drivers for the energy transition was the growth in end user demand coupled with technological advances and the demand for clean energy. This occurred as economies decarbonised in line with government policies, targets and the evolution of capabilities within the relevant country and sub-sectors. The biggest opportunities for utilities were in understanding their exposure and in realigning their portfolios to this transition.

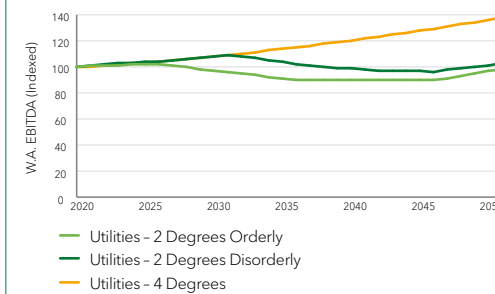
- Under the 4°C scenario, global power demand was projected to increase materially in the 2020s due to rising population and economic growth and limited improvements in energy efficiency. There was no carbon pricing in this scenario nor were supply chain effects captured
- In the Orderly 2°C scenario, global power demand also increased by similar amounts as in the 4°C scenario; however, it was primarily driven by widespread electrification of end-use sectors (e.g. buildings, transport) and expansion of renewables as costs continued to fall and carbon pricing was introduced
- The Disorderly 2°C scenario followed the 4°C scenario until 2030. Firms maintained current performance until thermal assets became less profitable later in the scenario when sharp corrective actions occurred and those companies, which were more diversified began to thrive

As a result of the analysis, the Group was able to understand the financial and risk management performance of the utilities sector better. Chart F illustrates the EBITDA performance, where on a weighted average basis companies saw falls in their financial performance in the Orderly 2°C scenario, however, were not as impacted compared to oil and gas companies. The Disorderly 2°C scenario initially follows the same trend as the 4°C scenario in the first decade as no transition action is initially taken; however, EBITDA begins to be impacted as carbon pricing is introduced in the 2030s.

The capacity mix and diversification of companies was a key driver of performance and as thermal assets become less profitable in both 2°C scenarios, those that were more diversified began to prosper and help to drive the recovery in the sector on average in the 2040s through widespread electrification in end-use sectors (e.g. buildings and road transport). Firms that could deploy cash and align capacity to scenario demand were able to outperform relative to the sector.

Similarly to oil and gas, the scenario analysis results for utilities helped to understand risk concentrations and how the portfolio reacted in different states of the world. The analysis will help support business conversations around the key risks and opportunities in the sector.

Chart F - Weighted average EBITDA changes to the utilities industry



Retail Mortgages

Properties are exposed to both the physical and transition risks stemming from climate change. The scenario analysis results helped the Group to highlight the sensitivity of the mortgage portfolio to both of these risks and the need for customer engagement and education on the potential vulnerabilities of specific properties and locations.

Transition risk

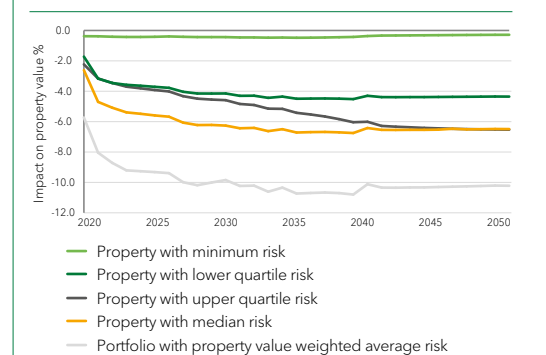
The transition risk in properties focused on energy efficiency and modelling the cost of retrofitting homes, albeit the affordability of retrofitting was not considered. For the transition risk analysis, 100,000 properties were chosen as a representative sample of the residential mortgage portfolio to provide an initial insight into the effects of the three different climate scenarios on the portfolio.

Leveraging the starting-level EPC ratings as a key input, the transition risk model evaluated on a property level the most economically efficient way to heat and insulate a property over time, given the cost and availability of the various heating systems, out to 2050. Where specific EPC information was limited then a waterfall logic of how to estimate missing EPCs was used to complete the modelling.

Across the 100,000 properties, under a 4°C scenario, a modest transition to low carbon heating and improvements in building efficiency was observed. Under the Orderly 2°C scenario, a more significant uptake in low carbon heating and improvement in building efficiency was noted. This shift away from fossil fuel boilers was driven by the increased cost of retail fossil fuels, after accounting for the carbon price.

The impact on property valuation from increased energy systems costs was calculated in the Orderly 2°C scenario as compared with the 4°C baseline out to 2050, shown in Chart G. Risks, viewed through the lens of changed property values, progressively increased to reflect the near-term increases in carbon costs and stabilised once the properties had switched to low carbon footprints.

Chart G - Impact of transition risk in 2°C scenario



Scenario analysis

Climate scenario analysis insights

The Group has used scenario analysis to better understand the potential physical risks that its mortgage portfolio could be exposed to under different climate scenarios and across different hazard types (see Chart H). That wider initial exercise identified that flood risk was an important driver of physical risks and, hence, a specific follow-up analysis of flood risk was undertaken to provide a more detailed perspective of the resilience of the portfolio to that hazard type (see Chart I).

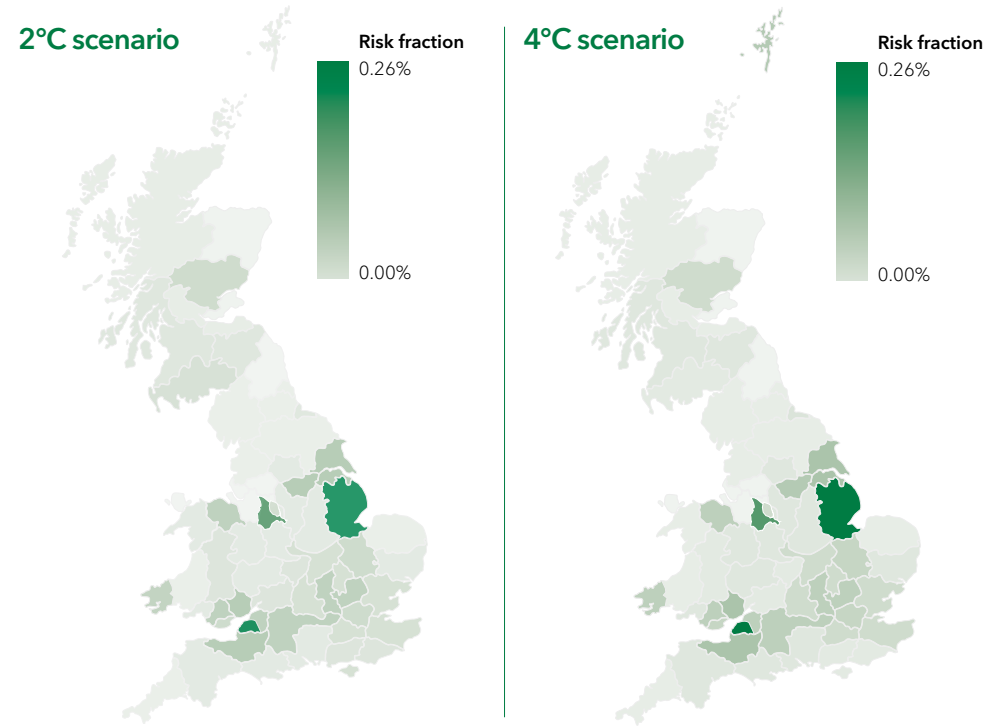
Physical risk

Physical risk manifested in the UK, primarily, as coastal and river flooding and subsidence. Approximately 2 million mortgage properties were modelled for physical risk in this exercise. The output of the modelling provided either a valuation impact or a risk fraction (a GBP ratio of the physical risk damage that has occurred on a modelled property) by individual property for every year of the projection to 2050. The modelling included a worst-case assumption that no flood defence improvements were made in the future beyond the current provision.

Chart H shows the risk fraction output mapped across the UK. The risk fraction was assigned a probability weighting of a physical risk event occurring and then averaged at a county level. Importantly, the modelling was a point-in-time projection and assumed no changes to government policies around flood defences.

The vast majority of properties were not impacted by physical risk and a limited impact on property valuations was observed (therefore, driving low average risk fractions). However certain properties in low-lying areas in the North East, parts of Wales and South West of England did see an impact. The risk fraction was, in particular, driven by low rise buildings that were more sensitive to flooding and subsidence in the scenarios. As a consequence, the flood hazard was investigated further as described in the following mortgage flood risk analysis section.

Chart H - Average mortgage property risk fraction by 2050 in 2°C and 4°C scenarios



Mortgage flood risk analysis

Physical risks, primarily, coastal and river flooding risks have always been considered as part of the mortgage origination process but were formally integrated into the automated valuation process since 2016, leveraging internal expertise developed within the Group's Weather Modelling team (part of the General Insurance division).

To better understand the Group and the UK's exposure to flood risk, the Group collaborated with Rightmove and Ambiental to undertake a benchmark exercise. The exercise involved an individual property-level flood risk analysis using the latest advanced hydrological modelling techniques to understand the potential level of change under future climate scenarios out to 2100.

These scenarios focused on an increase in temperature due to greenhouse gas emissions, which indicates an increase in both rainfall and sea level rises.

To illustrate the potential impacts Chart I represents the estimated proportion of properties at an increased risk¹ of flooding within a region, under Representative Concentration Pathway (RCP) 4.5. This would result in a global rise in mean temperatures from a pre-industrial baseline between 2°C and 3°C.

The benchmark exercise identified the estimated proportion of the Group's mortgages currently at an increased risk of flooding (on a volume basis) represents 1.54 per cent of the portfolio, which is less than for Great Britain overall at 1.61 per cent.

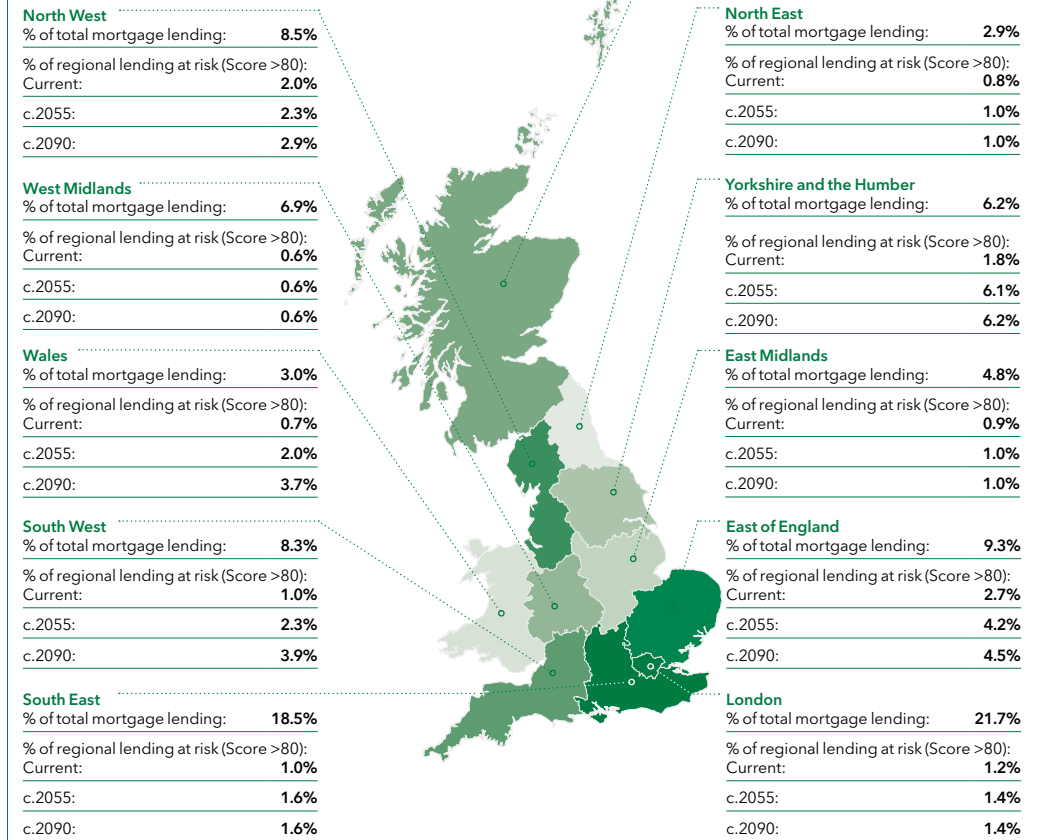
When projected out to 2055 under RCP 4.5, the estimated Group exposure would increase to 2.70 per cent compared to 2.74 per cent for Great Britain overall.

The analysis reinforced the importance of property-level insight and the need for the Group to continue to lead and engage in initiatives that strengthen our understanding and management of climate-related risks as well building customer awareness and understanding.

Chart I - Emissions scenarios

Highest physical risk band over time by region, under a RCP 4.5 emissions scenario

The shades in the image represent the value of lending in the region, with the lightest being the lowest and darkest being the highest



¹ Increased risk of flooding is based on Ambiental Climate Flood Risk Score of >80, where the risk is ranked from 0 to 100 including the impact of any flood defences, with 0 being the lowest and 100 being the highest risk.

Scenario analysis

Climate scenario analysis insights

Motor

For the Motor business, approximately 625,000 vehicles in the Group’s leasing portfolio were modelled for the impacts of transition on the residual value (RV) of the portfolio. The RV is the resale value of the car at the end of the agreement.

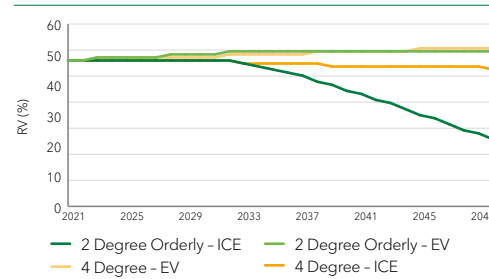
The 2°C scenario assumed a ban on production of ICE vehicles in 2030 (as planned by the UK Government) and a subsequent drop-off in the value of existing ICE vehicles. This drop-off was the primary driver of the overall change in fleet residual value without taking into consideration the natural churn in the portfolio, which would significantly mitigate this.

In general, EVs retained their value with the Group having a relatively high proportion of EVs in their current portfolio. Under a 4°C scenario ICE vehicles and EVs retained their value much more, leading to a stable fleet RV.

The analysis supported the need to transition to EVs in good time to meet the motor transition policy already in place in the UK, in order to mitigate the significant drop in residual values that ICE vehicles are modelled to experience in the early 2030s as the UK ban on sales of new ICE vehicles comes into force.

Chart J shows the change in the residual value of the EV and ICE portfolios across the 2°C and 4°C scenarios.

Chart J - RV change of the Motor portfolio



Limitations of climate scenario analysis

Climate scenario analysis remains in its infancy; therefore, when conducting analysis of this nature, it is important to set out the current limitations that were observed.

- Long-term time horizons – climate scenarios are typically modelled to a significantly longer time horizon than traditional macroeconomic scenarios and can span multiple decades. In the outputs described previously, the Group had selected a 30-year time horizon, as the Group believed it struck the right balance between longevity and plausibility. However, the longer the time horizon, the greater the uncertainty. This leads to increased difficulty in reliably assessing the risk, especially when combined with finance projections that can accompany scenario analysis (e.g. projections of balance sheet evolution over long time periods)
- Data challenges – climate data continues to develop but gaps were observed across portfolios. These included reliance on self-reported emissions by individual companies, which predominantly captured only Scope 1 and 2 emissions, missing the larger value chain Scope 3 emissions. Some EPC data was missing requiring gaps to be filled through a proxy waterfall method

- Modelling – climate modelling is very complex and its application in financial risk assessment is in its infancy, for example where some effects are not captured. As the usage of scenario analysis increases, the modelling will mature and the Group will continue to enhance its capabilities

These limitations are not set out to negate the value of these initial assessments undertaken but to contextualise them and provide perspective to the outputs. The Group recognises the importance of mitigating these limitations to the extent possible and is working together with its clients to better understand emission profiles and transition strategies to improve data disclosures, as well as working with its peers in the financial sector to better understand, provide feedback and improve on modelling evolution and accuracy.

Evolution of climate scenario analysis

As the understanding and importance of climate risk has progressed, climate scenario analysis has become an increasingly important risk management tool assisting in the identification, measurement and ongoing assessment of climate risks that pose threats to the Group’s strategic objectives. It is a fast-evolving discipline, requiring new skills and capabilities to be established with appropriate levels of governance.

The Group considers that the key areas of evolution for climate scenario analysis will evolve around:

- Scope evolution:
 - Supporting understanding and the decision-making of businesses, including extending counterparty engagement on transition strategies across different potential pathways

- Continuing to shape the overall Group’s net zero strategy, and designing Group internal base and stress scenarios to better understand the climate risks and opportunities in key sectors
- Meeting additional regulatory stress test exercises e.g. potential CBES second round and any future regulatory requirements
- Enhance capabilities in line with the evolution of regulatory embedding of climate risks in capital frameworks
- Technical evolution:
 - Improvements to climate-related data (e.g. gathering EPCs, Scope 3 emissions) to improve scenario analysis modelling
 - Enhancing risk management toolkits, methodologies and models to enhance portfolio monitoring

Capabilities developed from undertaking the CBES

Background

Participating in the Bank of England’s CBES exercise enabled the Group to explore the resilience of its credit portfolios under three different climate scenarios (early policy action, late policy action, no additional policy action) over the next 30 years to 2050. The CBES exercise was intended to be a learning exercise and the key learnings the Group took away are described in the following section.

Summary of key learnings

- Climate risk understanding – the CBES required the mobilisation of many internal stakeholders across the Group up to and including the Board. Extensive climate risk training and discussion of the results enabled all stakeholders to build their understanding of the impact of climate risk and provided a robust and effective review and challenge of the results
- Modelling capability – the exercise advanced the Group’s technical capabilities in climate risk modelling and long-term scenario analysis through better understanding of climate model uncertainties and linking climate transition pathways and hazard impacts on asset valuations with financial assessment models that capture impairment and fair value changes. This end-to-end modelling capability and connection with traditional credit stress test techniques provided deeper insights on the vulnerability of existing business models to future climate pathways
- Business strategy – consideration of the performance of existing business models under different climate conditions underscored the need to create feedback loops from scenario analyses to ensure strategic climate risk drivers are more deeply embedded in strategy discussions and business planning. This provided insights on the strategic drivers of management actions, across diverse scenarios, and their timing
- Client engagement – the bottom-up legal entity modelling required by the CBES provided an opportunity to engage further with counterparties to better understand their climate adaptation plans, identify how the Group could support them and, hence, help clients recover through accelerating the transition to a low carbon economy
- Data – gathering climate-related data describing the climate profile of clients is a key area of improvement needed across the industry. While sourcing external data sets remains an important method to acquire data, the additional contact with clients was a more valuable way of gathering climate-related data, enabling the information to be placed into the context of the clients’ adaptation plans and business strategy evolution



Looking forward

The Group has made good progress in further incorporating climate change into the Group strategy and business operations as well as prioritising the areas of our businesses where we see the greatest opportunity to support and accelerate the transition to a low carbon economy.

We are enhancing our disclosures with our inaugural standalone Climate Report and have published key sector ambitions for high-emissions and fossil fuel sectors, committing to a full phase-out from thermal coal.

In 2022, we will continue to develop propositions and tools for our customers to help them reduce their emissions, while further advancing our work on reducing our own operational and supply chain emissions.

We will also look to report additional sector ambitions in 2022 for parts of our remaining carbon-intensive sectors, including residential mortgages, transportation and automotive activity beyond Retail (Motor). In addition, we will be developing further ambitions and a transition plan in accordance with the timelines stipulated by the NZBA.

Given this progress and the evolving best practice for climate votes, we do not intend at present to bring a climate vote to the 2022 AGM. We will continue to consider a vote on a year-by-year basis.

Our ambition net zero

across emissions we
finance by 2050 or sooner

Reducing our impact on the environment

Managing the risk from climate change remains a key priority for the Group. We will enhance our capabilities by leveraging the learnings from our participation in the Bank of England's Climate Biennial Exploratory Scenario and undertaking further climate scenario analysis in 2022. This will allow us to better understand the resilience of the Group's business model to climate risks.

We will continue to develop our assessment of the sectors at increased risk from climate change or the transition to net zero, and augment our climate-related policies as our capabilities strengthen. Focused Board level reviews will consider how our strategy and credit portfolios will evolve as we transition to net zero, including the further development of our risk management capabilities.

Continued embedding of climate risk is essential for the Group to achieve our strategy in transitioning to net zero. Our understanding of climate-related risks and opportunities continues to evolve and our strategy and risk management activities will evolve accordingly in order to best respond.

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking

statements include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; risks concerning borrower and counterparty credit quality; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of our securities; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; potential changes in dividend policy; the ability to achieve strategic objectives; insurance risks; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; tightening of monetary policy in jurisdictions in which the Group operates; instability in the global financial markets, including within the Eurozone, and as a result of ongoing uncertainty following the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in

laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; assessment related to resolution planning requirements; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; projected employee numbers and key person risk; increased labour costs; assumptions and estimates that form the basis of our financial statements; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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