



Building a sustainable and inclusive future

Lloyds Banking Group
Sustainability Report 2023



Welcome

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

Our purpose is Helping Britain Prosper

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Our 2023 reporting suite

Our 2023 report provides an update on our progress towards our sustainability ambitions, along with the activities we are undertaking to understand our related risk and the opportunities to grow our business and generate sustainable shareholder returns. Throughout this report, we detail the activities we are undertaking to help our customers and stakeholders.

Alongside progress on broader environmental, social and governance matters, this report includes the second iteration of our Bank climate transition plan, and a progress update on the climate action plan previously released by Scottish Widows.

This report covers the Group’s sustainability progress from a broader environmental, social and governance perspective. Details on the Group’s progress against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures and the Group’s reporting requirements under Mandatory climate-related financial disclosures for Companies (Strategic Report)(Climate-related Financial Disclosure) Regulations 2022 are included within pages 33 to 38 of the [annual report and accounts 2023](#).

Assurance

Deloitte LLP has provided limited assurance over selected environmental and social key performance indicators. Deloitte’s 2023 assurance statement and the 2023 sustainability metrics basis of reporting are available on [our download centre](#).

✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2023 reporting.

Scope of this report

Within this report, reference to the Group covers our three divisions: Retail; Insurance, Pensions and Investments; and Commercial Banking. Bank is limited to our Retail and Commercial Banking operations. Scottish Widows relates to our Insurance, Pensions and Investment activities.

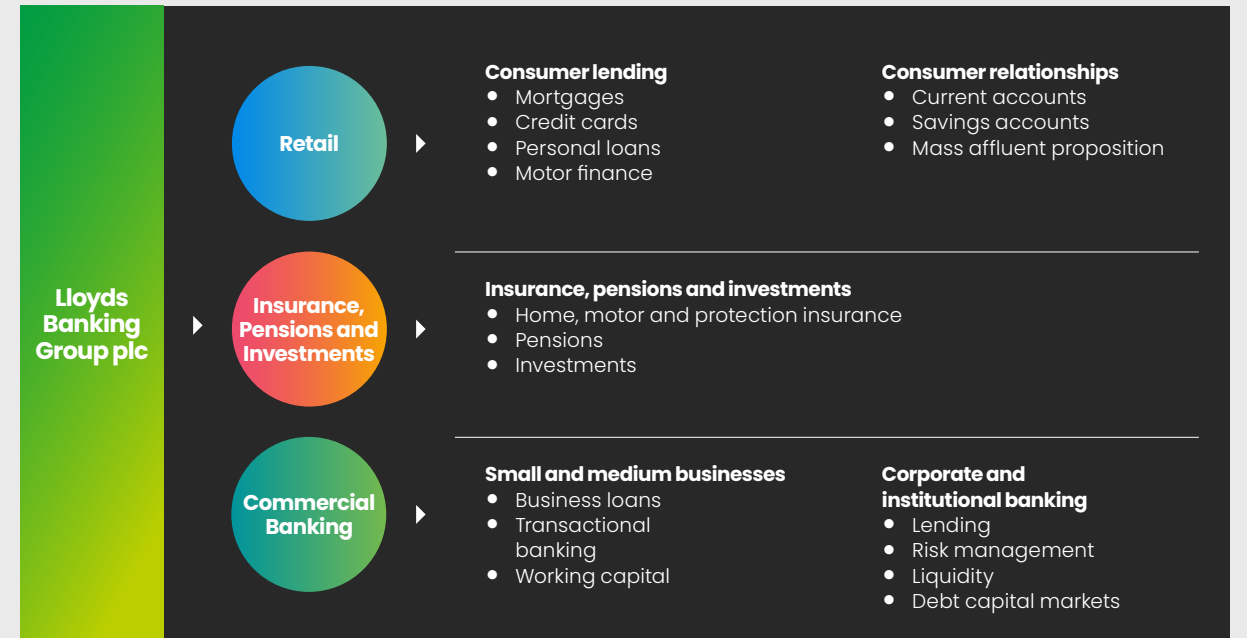
The data and examples in this report reflect activities undertaken during the 2023 financial year (1 January to 31 December 2023) and, where relevant to performance, refer to activities and events before and after this period. The report includes information about Lloyds Banking Group and its subsidiaries' performance.

Please see the disclaimer on **page 176** for further information about the basis on which this document, and the information contained within it (including forward-looking statements), has been prepared.

Further information about our sustainability related policies, sector positions, performance ratings and benchmarks can be found online at [our download centre](#)

Our structure

We have three core divisions and, in line with our new strategy launched in 2022, we have structured our business to optimise synergies and efficiencies to best serve our customers' needs.



Our reporting network

Our reporting network is designed to facilitate better communication to a range of stakeholders.

Annual report and accounts 2023	↗
Sustainability metrics basis of reporting	↗
Sustainability metrics data sheet	↗
Sustainability reporting framework index	↗
Sustainable financing framework	↗

Group Chief Executive's statement

I'm pleased to share our sustainability report 2023 detailing how we're delivering on our purpose of Helping Britain Prosper by enabling sustainable and inclusive growth for people and businesses across the UK.



We support practically every sector of the UK economy, and we serve millions of people and businesses every day. Our lending, investments, products and services are powerful drivers of creating a sustainable and inclusive future for all, as well as enabling the Group to grow profitably with our customers.

By focusing on Helping Britain Prosper, we aim to deliver sustainable growth and returns. Guided by our Group strategy, we are focusing on areas where we can have a bigger impact. In a year that's meant continued hardship and uncertainty for many, we have focused on promoting financial inclusion and resilience, increasing access to quality housing, working to unlock business investment to enable greater regional development and grow productivity across the UK. We've also made significant progress in capitalising on sustainable opportunities through new acquisitions and partnerships and investing in climate-aware strategies. We know there is much more to be done to support customers as they transition to net zero, but our commitment and focus remain strong.

£29bn

of sustainable finance provided since 2022 to support the transition to a low carbon economy

£21.7bn

of discretionary investment in climate-aware strategies since 2020

>£17bn

of new funding to the UK's social housing sector since 2018

12% by 2025

Launched our goal to double the representation of senior colleagues with a disability



Group Chief Executive's statement continued

Industry partnerships and commitments

By participating in global and regional commitments and partnerships, we collaborate with peers on industry initiatives to create positive change. Key memberships which supported our approach to sustainability:



* Since 2016, Lloyds Banking Group has been committed to the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labor, environment, and anti-corruption.

Promoting financial inclusion and resilience

Over the past 12 months, I've met with customers up and down the UK and the cost of living continues to be a challenge and concern for many. In the last year, we have helped customers adapt their finances, manage debt and supported them as they navigate continued economic uncertainty. By using data and insights to gain a deeper understanding of customer needs, we proactively contacted 7.5 million customers since April 2022, to offer support through challenging times. We reached out to 675,000 of our mortgage customers to encourage a review of their available options and we contacted 15 million deposit customers to ensure they are aware of their savings options.

Increasing access to quality housing

Access to quality housing is a fundamental human need and a home is key to giving people a stable foundation. We are one of the largest funders of UK house building and since 2018 we have supported over £17 billion of new funding to the social housing sector. I've spent time with several housing association clients this year and seen first-hand how they are building the next generation of UK homes with social and green spaces at their centre. A clear example of building a more sustainable and inclusive society in action, with safe, affordable and sustainable homes that help communities thrive. Expanding on our work on quality housing, we launched a strategic partnership with Crisis and are calling for 1 million new social homes to be built in the next 10 years. It's been wonderful to see colleagues get behind the partnership and exceed our target of fundraising £1 million in its first year.

Supporting regional development and communities

We have taken important steps forward in our regional development in 2023. We launched our Liverpool City Region Housing Initiative and Leeds Retrofit Partnership.

Our work in Liverpool aims to address the need for more social and affordable housing. Our Leeds retrofit project is testing whether a local, place-based approach to financing homes retrofit can accelerate decarbonising the UK's housing stock. Both projects show how we're working with industry and local authorities to develop solutions that really work for local communities that can be scaled elsewhere.

Capitalising on sustainable opportunities

At COP28 in December, I joined global businesses and policymakers to discuss accelerating the environmental transition. Finance is central to a successful low carbon transition and businesses like ours must help drive progress.

We've made important headway on our sustainability agenda, whilst growing our business this year. To support the transition to a low carbon economy we have funded £29 billion of sustainable financing since 2022. We have grown our low carbon transport business through our acquisition of Tusker and we now finance one in eight ULEVs on UK roads. In support of our focus on greening the built environment, we launched a new solar panel proposition with Effective Home. We have exceeded our target for £15 billion of sustainable financing for our Corporate and Institutional Banking franchise, originally set for the end of 2024. We are continuing to challenge ourselves and have set a new Commercial Banking target of £30 billion of sustainable financing for 2024 to 2026, which will take the cumulative total for the division to £45 billion by 2026. Through Scottish Widows, we have made £21.7 billion of discretionary investment in climate-aware strategies since 2020 and will continue to work across our pensions and investment activities to support decarbonisation and climate solutions.

Looking at our financed emissions, we have set new targets for Passenger Road Transport, Commercial and Residential Real Estate, and Agriculture. We are continuing to challenge ourselves on our sustainability goals and we have launched new operational emissions pledges to be zero waste and water neutral by 2030. We have also launched our first nature pledge to halt and reverse nature loss across our green spaces. Overall, our sustainability strategy represents a significant strategic and commercial opportunity consistent with our purpose.

It is clear though, that parts of our economy are not transitioning at the speed and scale required. Reaching net zero relies on government, industry and society acting together with certainty, pace and focus. We remain committed to delivering on our net zero ambitions, but we are realistic that insufficient progress in key areas like policy commitments, technology and behaviour change will ultimately limit our ability to achieve them.

Continuing to deliver in 2024

I am proud of the role we play in supporting the UK economy and the important progress we've made this year. As we look forward, I feel energised by our ambitious growth strategy that will Help Britain Prosper by creating a sustainable and inclusive society for people and businesses, shaping finance as a force for good.

► **Charlie Nunn,**
Group Chief Executive

**We are Helping Britain Prosper
by creating a more sustainable
and inclusive future.**

Our Group strategy

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Our business model

Our business model

Given our unique position at the heart of the UK economy, we embrace our responsibility to help address some of the biggest economic, social and environmental challenges that the UK faces.

Sustainable and inclusive growth

► Our social and environmental impact



Supporting our Customers

We provide financial services to over half of the UK adult population and around 900,000 businesses of all sizes, responding to the needs and challenges they are facing.

By supporting our customers through sustainable finance, investments, products and services, it enables us to unlock growth and transform the Group.

► **£12bn**

of funding to first-time buyers in 2023

£15.8bn

of sustainable finance provided for corporate and institutional customers since 2022



Supporting our Colleagues

We are committed to building an inclusive and sustainable organisation that is truly representative of modern-day Britain. We know that colleagues who can show up to work as themselves are central to our success.

We are focused on embedding sustainability in all that we do to enable our colleagues to deliver on our purpose.

► **85%**

of colleagues are shareholder of the Group

40.1%

of our senior manager roles were held by women in 2023



Supporting our Communities

Our success is intrinsically linked with the success of the UK's regions and nations.

We are committed to helping communities through our support of regional development to build a sustainable and inclusive UK.

When local people, local businesses, and their communities all prosper, so can we.

£24.7m

donated to our independent Foundations in 2023

£2.7bn

of funding supported to the social housing sector in 2023

In February 2022, as part of our new strategy, we committed to an ambition to become a truly purpose-driven organisation and we are taking steps to embed purpose at the core of our business, decision-making, operations and culture.

Our strategy is directly aligned to our purpose of Helping Britain Prosper, building on the scale and position of the Group, that will deliver long-term and profitable growth while making a meaningful and positive difference for all stakeholders. Core to our purpose and strategy is our focus on building a more inclusive and sustainable society, while creating new opportunities for our future growth. It is only by doing right by our customers, colleagues and communities that we can achieve higher, more sustainable profits for

investors. In doing this we aim to meet the needs of our broader stakeholders through sustainable growth, supporting the prosperity of the UK for generations to come.

Our multi-year strategy will be a transformation requiring us to build towards our ambition progressively, through commitments, objectives and ambitions, and to embed our purpose into our decision-making, culture and capabilities. The Board of Lloyds Banking Group is responsible for the long-term success of the Group, setting and overseeing purpose, culture, values and strategy for the Group. Together with the Group Executive Committee, the Board actively drives our efforts and engages in shaping our strategic plans, ensuring these are aligned to our purpose, while overseeing their delivery.

Sustainable profit and returns



Returns for Shareholders

The Group's robust financial performance has delivered a return on tangible equity that has exceeded our guidance and generated strong levels of capital, enabling higher returns for our shareholders.

2.2m

shareholders, including more than 85% of our employees

£3.8bn

returned to shareholders for 2023

2.76p

ordinary dividend per share



Sustainably managing the value we create for all our stakeholders ensures that we can reshape financial services and Help Britain Prosper for generations to come.

Our strategic sustainability priorities and values

Our strategic sustainability priorities

Our Group strategy focuses on three priorities 'Grow', 'Focus' and 'Change' to help us achieve this. Our sustainability objectives support the delivery of the Group strategy.

Group strategic priorities



Grow

Drive revenue growth and diversification



Focus

Strengthen cost and capital efficiency



Change

Maximise the potential of people, technology and data

Our sustainability objectives

- Capitalising on inclusive and sustainable financing and investment opportunities
- Improving access to quality housing
- Increasing access to banking by promoting financial inclusion and resilience
- Supporting regional development and productivity
- Reducing emissions and monitoring our sustainability-related risks to manage costs and mitigate against future losses
- Strengthening our balance sheet by supporting customers, clients and communities through challenging times
- Embedding sustainability in all that we do
- Supporting and engaging our colleagues
- Building an inclusive and diverse organisation

How our sustainability objectives deliver value for our stakeholders

Our sustainability objectives aim to create positive outcomes for our colleagues, customers and communities while building a more resilient and profitable business to deliver higher, more sustainable returns for our shareholders.

	Promoting financial inclusion and resilience (pages 33 to 43)	Improving access to quality housing (pages 44 to 50)	Supporting regional development and communities (pages 51 to 57)	Promoting diversity, equity and inclusion (pages 58 to 79)	Managing our impact on human rights (pages 80 to 83)	Managing the environmental performance of our own operations (pages 95 to 100)	Managing our supply chain emissions (pages 101 to 104)	Transitioning our business to net zero	
							Banking Group ambitions, targets and progress (pages 105 to 159)	Our focus on Scottish Widows (pages 160 to 175)	
Supporting our customers	Icon	Icon	Icon	Icon	Icon	Icon	Icon	Icon	Icon
Supporting our colleagues	Icon	Icon	Icon	Icon	Icon	Icon	Icon	Icon	Icon
Supporting our communities	Icon	Icon	Icon	Icon	Icon	Icon	Icon	Icon	Icon

Our values

Our values guide how we work together and how we make decisions, so that we're always Helping Britain Prosper by meeting the needs of customers, colleagues and communities – today, and for generations to come. We are aiming to embed these values into key every decision-making moments across the business, from big strategic decisions to smaller everyday choices.



People-first

We listen and care for people as individuals.



Bold

We innovate and do things differently to better serve our customers and grow with purpose.



Inclusive

We learn about and embrace our differences, and seek out diverse perspectives.



Sustainable

We take responsibility for the impact of our actions on nature and Britain's transition to net zero.



Trust

We give each other the space and support to take things on and see them through.

Our approach to materiality

Our approach to materiality

Talking and listening to our stakeholders is intrinsic to our business acting responsibly. This engagement allows us to determine the important topics from an environmental and social perspective. We then analyse material topics that have both an impact on our stakeholders but are also of a strategic importance to us as a Group.

Annually, we review ESG-related topics raised through our own analysis of both our external and internal environments, which includes our geography, markets in which we operate, sector, products, services and activities, as well as through horizon scanning and stakeholder engagement. Our internal environment includes colleagues, processes and policies, culture and management.

Further information on our external environment is available on page 14 of our [annual report and accounts 2023](#). In 2023 we have noted an emerging theme from a social perspective in relation to the consideration of the use of Artificial Intelligence and personal data, which are increasingly important topics to our stakeholders.

Double materiality

We acknowledge the growing focus of double materiality in ESG reporting and regulations across the globe. We continue to review industry developments related to the identification of material ESG-related topics from a double materiality perspective to ensure that we will report on both how ESG issues impact the Group and how we impact sustainable development in society, whilst meeting the information needs of our shareholders and broader stakeholders by reporting on financially material sustainability matters.

Our approach towards assessing ESG matters through a double materiality lens continue to evolve. We will look to update our ESG double materiality assessment once this work concludes, building on initial work for climate-related topics.

Our priorities on material topics

We prioritise our material topics based on:

01 The strategic importance of the issue to the Group

02 The importance of the issue to our stakeholders

03 The social, economic and environmental impact of each topic in relation to the core activities, products and services provided by the Group

2023 has been a challenging year for many of our customers, with the socioeconomic impact of the cost of living crisis from rising inflation and interest rates, and ongoing political instability both in the UK and globally. As a Group, we will continue to respond to support our customers and our communities during this challenging period.

ESG index	2023	2022	2021
MSCI Scale: AAA to CCC, AAA as a best possible score	AA	AA	AA
Sustainalytics Scale: 0–100, 0 as a best possible score	24.9	19.5	20.6
ISS ESG Corporate rating Scale: A+ to D-; A+ as a best possible score	C+	C+	C+
S&P Global CSA/DJSI Scale: Ranking of companies, 100 as a best possible score	55	52	49
FTSE4Good Scale: 0–5, 5 as a best possible score	4.6	4.2	4.5
EcoVadis Scale: 0–100, 100 as a best possible score	63	57	58
Workforce Disclosure Initiative Scale: Number of questions with a meaningful response expressed as a percentage, 100% as a best possible score	87%	82%	95%
CDP Scale: A to F, A as a best possible score	A-	A-	A-

Mapping to the UN Sustainable Development Goals

As we become a more purpose-driven organisation, we have an opportunity to play our part in helping the UK to meet the targets set by the UN Sustainable Development Goals (SDGs).

The SDGs provide a common framework for us to identify how we can play a more active role in the sustainable development of UK society and help us frame how we use our operating model, scale, resources and skillsets to respond to some of the biggest societal challenges faced by the UK today.

When conducting our materiality review and impact assessment of our operations, products and services in line with the requirements of the UNEP FI Principles for Responsible Banking, we have considered, among other inputs, the SDGs with the highest materiality to our business and sector, to assist us in identifying our most material areas of societal impact.

In determining our areas of societal impact, we have reviewed our commercial exposures, considering both the potential for positive and negative impact as well as risk mitigation, and considered the level of influence that the Group may feasibly have to make an impact, as well as those of highest impact to our key stakeholders.

Throughout this report we have chosen to demonstrate how our activities support the achievement of specific SDG sub-targets through selected examples and case studies. Our non-financial performance indicators in the Group balanced scorecard further drive progress against our ambitions, focus areas and the SDGs.

See page 108 of the [annual report and accounts 2023](#).



Our material ESG topics

Our material ESG topics

Group ESG materiality assessment				
Topic	Materiality description	Stakeholders impacted	Our response	SDGs that our activities support for the UK
Artificial Intelligence	The introduction of Artificial Intelligence (AI) into the banking ecosystem carries with it both opportunities and challenges. While AI can process data at unprecedented speeds and scale, it can also unintentionally perpetuate biases.		See page 26	
Biodiversity and nature	We recognise the important role that financial services in particular can play in helping to preserve natural ecosystems, minimise nature-related risks, and channel capital towards protection and restoration of nature.		See pages 92 to 93	
Climate change	As one of the UK's largest financial services providers, we have an important role in managing the impact of our activities, products and services on climate change, and the risks and opportunities to the growth of our business as a result of climate change.		See pages 85 to 175	
Diversity, equity and inclusion	We want to create a fully inclusive organisation that is representative of modern-day Britain, where differences are embraced and everyone can reach their potential, and we want to use our experiences to help communities to become more inclusive.		See pages 58 to 79	
Financial inclusion and resilience	We are focused on ensuring that all our customers, regardless of their personal circumstances, can pursue their financial objectives and ambitions. Through our inclusive products, services and education tools, people, communities and businesses can rely on us for their financial needs, and feel in control and confident about their future.		See pages 33 to 43	
Governance and conduct	We are continuously working to strengthen our management of risk, culture and governance, as well as improving our processes to achieve good customer outcomes in a responsible way. This includes: reducing harm to communities through economic crime; bolstering our cyber defences to keep our customers' money and data safe; and offering responsible products and services that meet the needs of our customers.		See pages 14 to 29	
Health and wellbeing of colleagues	As one of the UK's largest employers, the success of the Group is dependent on our people and a safe working environment is imperative to ensure no harm comes to our colleagues. To support the physical health and wellbeing of our colleagues we offer them a range of programmes and support services.		See pages 75 to 77	
Modern slavery and human rights	Through our lending and investment processes, we aim to respect and positively impact human rights and mitigate modern slavery in our value chain through our role as a financial services provider, lender, purchaser of goods and services, employer and supporter of our communities.		See pages 80 to 83	
Regional inequalities	Regional inequalities are leading to economic and social consequences across many communities. Sitting at the heart of communities, we are uniquely placed to leverage our scale to help address these issues. We will do this by supporting the needs of these regions.		See pages 51 to 57	

Stakeholders key

Customers and clients
 Colleagues
 Suppliers
 Regulatory and government
 Shareholders
 Communities
 ESG rating agencies
 ESG analysts
 NGOs
 Industry bodies

How we support our stakeholders

Our purpose is Helping Britain Prosper.

It's what drives us, what makes us different and defines how we profitably grow for...



Customers

We have supported our customers through a number of sustainability initiatives over the year.

From an environmental perspective we support our customers through our sustainable finance and investment propositions, including £29 billion of sustainable finance since 2022.

We have enhanced the sustainability of our credit card offering through producing sustainable plastic credit cards (c.85 per cent recyclable for Lloyds Bank Credit cards).

In addition we have supported an additional 5 million customers go paper-free through digital communications, keeping them safe from fraud and giving them access and storage to their key documents via their phone or device 24/7. This takes our total number of paper-free customers to 20.5 million for products where we offer this capability, with a further 6.5 million receiving some form of digital communications from us.

We have provided tablets and in-person training to 513 local individuals in Liverpool, to support financial capability through our pilot and we will build on this initiative to provide 4,750 tablets, training, and mobile internet access to digitally excluded individuals during 2024. Through our partnership with Citizens Advice, 4,000 customers have received dedicated support and advice, helping them access £2.5 million of potential additional income.

In 2023, we supported £2.7 billion of new funding of which £1.4 billion is sustainable or sustainability-linked to the social housing sector, which also reduces tenants' energy bills and helps to tackle fuel poverty.

In addition, during 2023 we have been providing targeted support for our business customers to help them navigate challenging times, and supported c.600,000 customers with customer resilience resources via our support teams, outreach by client relationship managers and digital financial wellbeing communications.

Colleagues

As one of the UK's largest employers, we know the success of our business is dependent on our colleagues and we aim to look for ways to help them feel more supported, in control and confident about their future.

In 2023, we launched Inclusive Everyday, our ongoing internal campaign to help colleagues understand how they can be more inclusive in their everyday behaviours, language and leadership and support making our business a place we all love to work.

We launched our Flexibility Works colleague proposition to support enhanced, fair flexibility for all colleagues, which is crucial in achieving our purpose of Helping Britain Prosper.

We have agreed a two-year pay deal to give colleagues greater certainty and paid an additional cash award to support our colleagues during these extraordinary times and over the longer term.

We support our colleagues to make sustainable choices including through our colleague salary sacrifice scheme. The Group has supported loans for 2,500 electric cars.



Communities

Sitting at the heart of communities across the UK, we play an active role in helping them in a number of different ways.

To help our Foundations to support charities and organisations we donated £24.7 million in 2023 and supported over 2,400 charities through a mix of grant-making and colleague-matched giving for their local fundraising and volunteering.

In 2023, Lloyds Banking Group and Crisis, a UK national charity for people experiencing homelessness, joined forces through a new two-year partnership to help tackle the shortage of good-quality, affordable homes in Great Britain. Through colleague and customer fundraising, over £1.3 million has been raised to support Crisis (and Simon Community in Northern Ireland) with over 300 colleagues also volunteering their time to support Crisis activities across the UK.

Since January 2020, the Group has been working in partnership with the Woodland Trust to plant 10 million trees in the UK by the end of the decade as part of our commitment to finance a greener future and support the transition to a low carbon economy.



How we support our stakeholders continued

Shareholders

The Group has a proactive investor stakeholder engagement programme. We actively engage with shareholders and other investor stakeholders (e.g. proxy advisers and NGOs) on a range of ESG topics, including our climate commitments and diversity and inclusion plans. Our focus on inclusivity and sustainability supports the delivery of our purpose and strategy, and higher, more sustainable returns to our shareholders.



Over the past year, the Group has undertaken a number of sustainability-focused investor meetings and presentations, and participated in a number of ESG investor conferences. The Chair and other Board members have also engaged with the Group's shareholders on a range of governance topics. We continue to disclose on ESG topics, including progress against our sustainability commitments and how our sustainability initiatives support the Group on delivering its purpose and strategy. We do this primarily through this report as well as our 2023 annual report and accounts.

Suppliers

We recognise the environmental and social impacts of the Group's demand for goods and services and the importance of working collaboratively with our suppliers in a way that is aligned with our purpose. To drive more targeted and deeper engagement with our suppliers on these important topics, we have introduced various initiatives.

In 2022 we launched the Lloyds Banking Group Emerald Standard which, aligned to the Group's own ambition, sets clear environmental and social expectations of our suppliers that we ask them to work towards. Through 2023 we continued to engage with our key suppliers to drive adoption of our standard.

In addition, we have worked with Unseen, a UK anti-slavery charity, to deepen our understanding of modern slavery risk within our supply chain and enhance our colleague training.

We have also progressed our supplier diversity activity geared towards ensuring our supply chain aligns with our goal to further represent the society we serve. The intent is to provide insights into the diversity of our existing supplier base and proactively ensure equal opportunity is provided to diverse suppliers.



Government

The Group recognises the importance of using our voice to engage with government and regulators on sustainability matters.

We have actively engaged with government to help encourage the right enabling policy environment and business behaviours and activities. For example, we have engaged with the UK government directly to shape the UK Transition Plan Taskforce's (TPT) framework for nature and Just Transition, and supporting development of sector-specific transition plans. We have also engaged with the WWF on the inclusion of nature within TPT requirements.

In relation to greening the built environment, we are engaging on our policy asks including hosting roundtable events and one-to-one meetings with MPs, peers and policy advisers to discuss and garner advocacy and support for our policy ideas. See [page 122](#) for further details.

During 2023 we launched our flagship Liverpool City Region Housing Initiative. The Initiative is being driven by the Group, Liverpool City Region Combined Authority, and key city housing partners. It aims to deliver practical action to address housing challenges.

Recognising that cyber security is a material issue impacting our entire sector, the Group collaborates externally, working in conjunction with our sector peers and government on initiatives such as the Financial Services Cyber Collaboration Centre, working with the UK Government's National Cyber Security Centre, and the Cross-Market Operational Resilience Group.

How we deliver through oversight, ownership and responsible conduct builds a foundation that allows us to deliver on our purpose of Helping Britain Prosper.

How we deliver



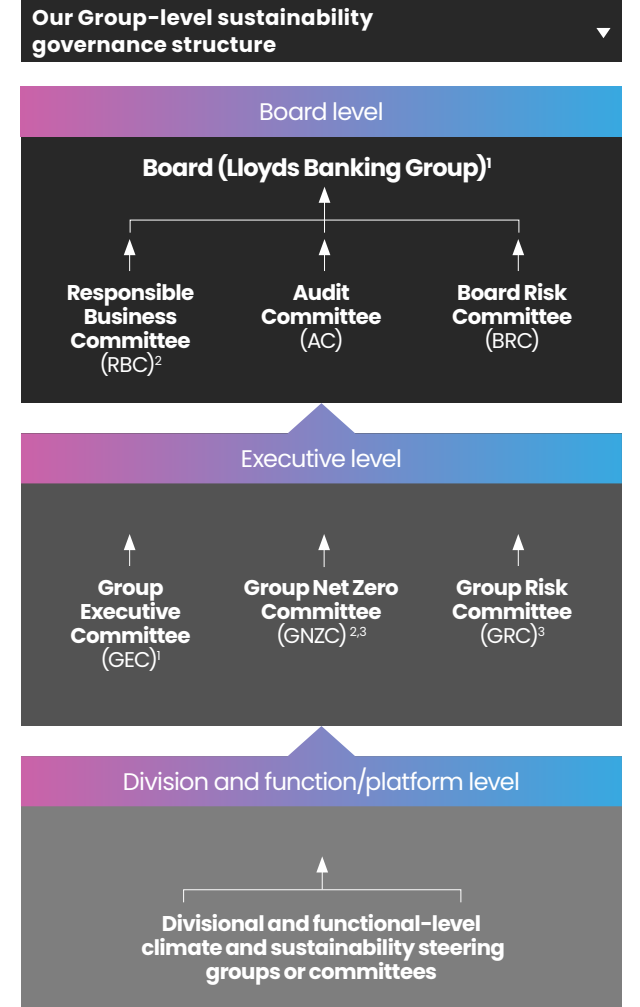
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Group roles, responsibilities and remuneration

Given the strategic importance of our sustainable business ambitions and commitment in managing the impacts arising from climate change and broader social issues, our governance structure provides clear oversight and ownership of the Group’s sustainability strategy and management of risk.

Our Board-level Responsible Business Committee oversees the Group’s performance as a responsible business, sharing responsibility with the Audit Committee and Board Risk Committee on sustainability-related matters.



- 1 The Chair of the Scottish Widows Board sits on the Group Board. The Scottish Widows CEO sits on GEC and will update GEC on relevant insurance matters which can include papers for GEC approval.
- 2 The Chair of the RBC, Amanda Mackenzie, is a non-executive director on the Board, and is a member of the Remuneration Committee and the Nomination and Governance Committee, as of 1 January 2024, the Audit Committee, and ensures that sustainability is discussed and considered by the Board. Amanda has extensive experience in ESG matters, including helping launch the United Nations Sustainable Development Goals.
- 3 GNZC and GRC provide oversight from an environmental perspective only.

Full details on how sustainability is incorporated into our Group governance structure along with key decision made in the year can be found within the **annual report and accounts 2023** [71](#) on page 84.

Group roles, responsibilities and remuneration continued



Governance structures are in place to support consideration of sustainability and climate risk across the Group's key legal entities.

Entity governance

Beyond the Group level, governance structures are in place to support consideration of sustainability and climate risks and opportunities at Board level across the Group's key legal entities.

The Group's governance structure focuses on ensuring independent decision making by the Ring-Fenced Bank Boards, the structure and responsibilities for the Ring-Fenced Banks are outlined on page 87 in the [annual report and accounts 2023](#).

In Lloyds Bank Corporate Markets (LBCM), regular updates on climate risks are provided to its Board and Board Risk Committee. Details of the governance structure within Scottish Widows can be found on [page 163](#).

Further details on respective governance for the Group's other entities can be found in their respective disclosures.

Divisional governance

Group-level governance of sustainability and 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. Divisional governance structures include the Consumer Lending Executive Committee, Commercial banking Committee and Insurance Pensions and Investments Responsible Business Executive Committee within Scottish Widows. Our Group Sustainable Business team is supported by divisional sustainability teams, ensuring a coordinated approach to oversight, delivery and reporting of the Group's sustainability strategy.

Training delivered

Skills and training

In 2023 we provided training for the Group Board, Group Executive Committee (GEC), the Scottish Widows Board and Insurance, Pensions and Investments Executive Committee on the theme of nature and biodiversity. We launched new environmental sustainability training for all colleagues covering the transition to a low carbon economy, nature loss and greenwashing. We have also continued specialist training of our frontline Commercial banking, credit risk, and sourcing and supplier manager colleagues, with this training continuing in 2024.

The Group Board in addition to the above training received training related to the following sustainability topics:

- Culture, conduct and the statutory duty of responsibility for non-executive directors
- Market abuse
- Consumer duty
- Data ethics
- The Group's tax strategy

Other updates delivered:

During the period other key updates delivered include:

- RBC recommended to the Board approval of our environmental strategy update, and three additional sector targets
- AC update on limited assurance activities and evolving regulatory landscape including International Sustainability Standards Board
- Climate data requirements were discussed at a joint Audit and Risk Committee forum

Training provided at a Board and executive committee level on the theme of nature and biodiversity.



Group roles and responsibilities and remuneration



Three lines of defence¹

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

1st line

Teams

The Group Sustainable Business team is responsible for overseeing the Group's strategic approach to responding to global and local issues on environmental and social sustainability.

At a divisional and/or sector level there are sustainability teams supporting the delivery of our strategy. They are responsible for developing the Group's strategic response to climate risk, including setting the business strategy, ambitions and development of sustainable product-level offerings to support the Group's sustainability strategy.

This includes calculating and forecasting emissions, as well as sector-level target setting and transition plans to support the Group's environmental commitments and targets.

Group Finance is responsible for incorporating climate into the Group's planning and external reporting.

2nd line

Risk is responsible for overseeing the risks relating to ESG topics. This includes formal responsibilities in relation to oversight of the risks arising from climate change to support meeting regulatory expectations.

Teams across Risk are responsible for oversight of the Group's strategy for environmental and social sustainability, as well as incorporating consideration of ESG-related topics into the appropriate risk management processes. Activity in relation to climate risk is most advanced, including development of methodologies to quantify climate risk, oversight of net zero strategies and setting the Group's climate risk appetite.

3rd line

Group Audit has an established team focussing on ESG risks. This team, supported by other subject matter experts, provides independent assurance to the Audit Committee and the Board. Group Audit also attends key sustainability and climate risk governance committees and forums.

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

Remuneration and balanced scorecard

Our annual balanced scorecard provides transparency on how our performance aligns with 2023 GPS and LTIP awards. In 2023 the weighting related to ESG performance measures in the Group balanced scorecard was 17.5 per cent, continuing our focus on climate change ambitions and our ongoing commitment to improving diversity at the Group. The ESG measures included within our annual scorecard are as follows:

- Increasing our gender and ethnic representation in senior roles (7.5 per cent)
- Reducing our operational carbon emissions (5 per cent)
- Sustainable financing and investment (5 per cent)

Progress against our targets is set out on pages 32 and 35 to 36 of the **annual report and accounts 2023**.

For 2024, we are returning to a performance based Long-term Incentive Plan (LTIP) which will deliver stronger alignment with our strategic objectives by supporting a more demanding performance culture and providing the opportunity to directly link long-term variable reward outcomes to the delivery of our strategy and the realisation of its benefits for shareholders. The new LTIP will weight 15 per cent to environmental measures, reflecting that the transition to a low carbon economy is at the core of our strategy and aligns with our purpose to Helping Britain Prosper. Sustainable financing and investment will form part of the LTIP in 2024 and therefore has been removed from our 2024 balanced scorecard. Full details on the LTIP can be found on page 124 of the **annual report and accounts 2023**.

Conducting our business responsibly

We believe that conducting our business responsibly means: operating ethically, sustainably and inclusively; meeting our legal requirements; and always considering our impact on our customers, colleagues, society and the environment.



Product development

Our Group customer and product policies set out how important it is to ensure that we are delivering good customer outcomes.

- Everyone in the Group must focus on the outcomes we want to deliver for customers and to ensure that evidence and monitoring is in place to assess whether we have provided good outcomes, avoided foreseeable harms and supported customers in pursuing their financial objectives.
- We must act in good faith towards customers which is characterised by honesty, fair and open dealing, and acting consistently with the reasonable expectations of customers.
- We must ensure that our products offer fair value to customers.

Taking this approach enables the Group to grow with purpose by continuously improving outcomes for our customers. We conduct regular monitoring to assess whether or not we meet our high customer service standards and colleagues' remuneration is linked to outcomes.

Upholding competition law

We believe that consumers benefit from healthy competition between providers of financial services and we compete vigorously and fairly, striving to offer excellent service and competitive products which meet our customers' needs and provide good outcomes.

The Group tolerates no anti-competitive practices that could lead to: interventions by competition authorities; or breaches of competition law, which may harm customers or have a significant financial or reputational impact on the Group. The Group does not become involved in agreements or practices that are unlawful, such as colluding with our competitors to restrict competition or unlawfully fixing prices. We recognise that we must deal in good faith with all our trading partners, including our suppliers and competitors. We recognise that competition law is not intended to stifle legitimate business.

Conducting our business responsibly continued

Avoiding market abuse

We implement and monitor adherence with market abuse and personal account dealing procedures that are aligned with the UK's market abuse legislation. Market abuse, such as trading based on inside information, is a criminal offence in the UK, the US and many other countries. Colleagues are personally responsible for ensuring that they comply with this policy and do not abuse the market. We have monitoring systems in place to detect instances of market abuse and procedures to ensure that any detected instances are dealt with swiftly and effectively. This includes procedures to identify and report suspicious transactions where relevant.

Product governance

A comprehensive Group product policy, procedures and framework is in place to define the guardrails for the business to meet the regulatory requirements and how we want to operate as a Group. The policy outlines core concepts which are considered throughout the product lifecycle including identifying the need the product is required to meet for customers in the target market, and having controls in place to prevent the product from being offered to customers for whom the product is not appropriate. Colleagues are also supported to use their judgement to apply the policy requirements in a way which is proportionate and appropriate to the product and customer needs and the foreseeable harms. Through robust risk management, regular product reviews and monitoring, we adopt a continuous process to ensure that our products provide good customer outcomes.

Development and continued oversight of the implementation of the customer vulnerability strategy remains through operating at a senior level to prioritise change, drive implementation and ensure consistency across the Group. More on approach to supporting customers is available on **pages 34 to 38**.

We conduct regular monitoring to assess whether or not we meet our high customer service standards.

Suppliers

Code of Supplier Responsibility

To meet our objective to be more purpose-driven, it is crucial that we act in a sustainable and inclusive manner, and this includes the way in which we source goods and services from our suppliers. Our Code of Supplier Responsibility sets out the key sustainable and inclusive business practices and behaviour that we want our suppliers to abide by. These are grouped into five key areas:

- Human rights
- Diversity, equity and inclusion
- Accessibility and usability
- Conducting your business responsibly
- Environmental sustainability

We expect suppliers to meet or exceed the provisions of our Code of Supplier Responsibility (the Code), which we share through the supplier contract in our business sourcing process.

The Code is reviewed at least annually and updated to ensure its ongoing appropriateness, relevance and applicability for our suppliers.

Responsible and sustainable sourcing

We are committed to working collaboratively with our suppliers on developing our approach to responsible and sustainable sourcing; this is integral to the way we do business. Colleagues engaged in sourcing follow a defined business sourcing process as required by our internal sourcing and supply chain management policy and related procedures. The business sourcing process is a seven-step process that facilitates the identification, assessment and mitigation of applicable risks as we select and contract with suppliers.

We are committed to working collaboratively with our suppliers on developing our approach to responsible and sustainable sourcing.



Conducting our business responsibly continued

There is also a defined supply chain management framework including associated tools and learning for accountable persons and supplier managers, which enables the ongoing risk-based management of the supplier relationship in line with the Group's risk appetite. Where third-party relationships exist that fall outside the scope of our sourcing and supplier management policy, business units accountable for these relationships are required to ensure adherence to the Group's policy framework, including the Code of Supplier Responsibility, where applicable.

Supplier due diligence

In assessing and managing risk, it is important that we have the right framework to operate responsibly and safely. Before selecting any supplier, we follow a due diligence process which evaluates them against key criteria across all the key risk domains.

Managed suppliers and FSQS

Lloyds Banking Group subscribes to the FSQS (Financial Services Qualification System), a third-party managed supplier qualification system for the financial sector that is currently used by c.60 financial institutions. This ensures we adopt a standardised approach to risk, compliance and assurance, which forms an integral part of our sourcing and supply chain management activity for new and existing suppliers.

We take a risk-based approach and contractually require our managed suppliers to self-attest their compliance to the Group's policy expectations on an annual basis. When completing FSQS we require our suppliers to confirm they have read, understood and complied with the Code of Supplier Responsibility and provide us with evidence to demonstrate their approach in the design, deployment and control of their policies and procedures.

Supplier assurance

The Group sourcing supplier assurance team conducts an annual programme of supplier assurance reviews. These reviews target suppliers which represent the highest risk exposure to the Group primarily driven by the resilience, cyber, data privacy and conduct risks they represent based on the services they provide. Suppliers that trigger agreed risk criteria are selected for a supplier assurance review conducted by subject matter experts through a combination of onsite and remote assessment to test adherence to relevant Group policies. Where appropriate, testing is completed on our Code of Supplier Responsibility.

ESG risk assessment

We are using EcoVadis' predictive sustainability analysis to help further understand our ESG risk across our core supplier base. This covers the key themes of environment, labour and human rights, ethics and sustainable procurement. In 2023, this analysis has helped to identify a sub-set of suppliers for a deeper dive risk assessment specific to modern slavery, and we have engaged Unseen (a UK anti-slavery charity) in this activity.

We will continue to assess our risk-based approach to supplier engagement, colleague training and more generally raise awareness of ESG risk in our supply chain.

Economic crime

Economic crime devastates lives, causing deep distress and harm to victims and communities. The economic climate and changing spending habits provide a complex mix of uncertainty for customers and attractive opportunities for criminals to exploit as the 'hook' for their scams.

As a Group, we are committed to complying with our legal and regulatory responsibilities in relation to economic crime prevention and have no appetite for non-compliance. In line with legislative and regulatory requirements, the Group adopts a risk-based approach to managing economic crime risk. This flexibility allows the Group and its businesses to focus our control framework on those customers, products, channels and jurisdictions that carry a higher risk of economic crime.

Prevention and detection are a key defence against economic crime. At Lloyds Banking Group, we have processes, technologies and systems that help us understand who our customers, suppliers and third parties are. We undertake checks to understand sources of funds to reduce the risk that illicit proceeds can enter the financial system. We monitor payments and transactions, so we protect customers, society and the Group. And when needed, we stop payments, close accounts and end relationships to meet our legal and regulatory requirements.

Policy framework

The Group has a dedicated economic crime prevention (ECP) function, which is part of the Risk Division. The ECP function facilitates risk-based, effective and efficient economic crime risk management by providing expert support and oversight across our businesses.

We have adopted a holistic approach to economic crime prevention and have a single ECP policy and associated procedures which are reflective of prevailing legal and regulatory requirements, industry guidance, and the Group's risk appetite. The ECP policy sets out the minimum requirements to which all Group businesses must comply across five key risk areas: anti-bribery and corruption (ABC); anti-money laundering and counterterrorist financing (AML); fraud; sanctions; and tax evasion. This holistic approach provides a consistent, proportionate and effective approach to managing economic crime risk.

The Group continues to invest in and enhance our economic crime prevention policies, processes and systems to help combat this continuously evolving threat.



Conducting our business responsibly continued

Anti-bribery and corruption (ABC)

Lloyds Banking Group is subject to the provisions of the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act 1977, which have extra-territorial effect globally, as well as applicable local anti-bribery and corruption laws.

The ECP policy requires that all colleagues act with integrity and fairness, and to conduct appropriate due diligence when pursuing business opportunities and when awarding business. Our policy prohibits the offering, giving, promising or receiving of monetary or other inducements, or any other inappropriate practice which might be perceived to improperly influence a person's conduct in their professional or public duty.

The Group's Code of Ethics and Responsibility is a reference point for every colleague and underpins our purpose, bringing together all the different elements that define how we work and ensuring that we do business responsibly.

The Code explains how we can work responsibly, living up to our values and doing the right thing when we have to make decisions, and it applies to all Lloyds Banking Group colleagues, contractors and agency employees, whether or not they are working with customers directly.

The Group is committed to fighting economic crime, maintaining its focus on protecting the bank and minimising customer impact, Helping Britain Prosper, whilst reducing the harm to communities caused by criminals and terrorists.

We are a member of Transparency International (TI) UK's Business Integrity Forum – a network of major international companies committed to high anti-corruption and ethical standards in business practices. TI has a Corporate Anti-Corruption Benchmark, which measures and compares the performance of corporate ABC programmes in the UK using TI's extensive anti-corruption expertise and the input of experienced specialist practitioners. In September 2023, the Group received an 'A' rating for its ABC control framework from TI.

Training and awareness

The Group has a comprehensive economic crime prevention training programme which includes mandatory general awareness training delivered via Workday, the Group's learning management system. All colleagues are required to undertake core level economic crime prevention training:

- An induction level module designed for new colleagues and those returning from long-term absence. The learning is split into four sections followed by a series of mandatory assessment questions which the colleague must answer correctly before they can progress to the next section
- An annual core refresher module for all existing colleagues, designed to test a colleague's knowledge and understanding of the key risk areas. The learning comprises four video scenarios followed by a compulsory assessment. Colleagues must answer all questions correctly to pass the module

In 2024 the core annual refresher will be updated, moving from a single 60-minute course to four courses, spread across the year. The update is needed to reflect several regulatory developments which need to be reflected. Notably: the requirement to undertake proliferation financing risk assessments and the introduction of a strict liability sanctions regime. Using real-life customer and colleague scenarios, the learning solutions retain both the theoretical and practical application of economic crime concepts. Training provides colleagues with the knowledge they need to protect our customers, the Group and the economy from the harm caused by criminals and terrorists.

In addition, there are two advanced level courses (sanctions and anti-bribery) which meet the needs of colleagues whose roles require further specialist training. Colleagues undertake the training, dependent upon the nature of the business, type of role, jurisdiction in which they operate and the propensity for which their products can be used to facilitate economic crime.

In 2023, 99 per cent of colleagues across the Bank completed their annual refresher economic crime prevention training, compared to 98 per cent in 2022. Completion rates for new starters and returners within eight weeks of joining is above 97 per cent. Controls are in place to manage those colleagues who do not complete their training on time.

Working with partners and law enforcement

We recognise that we cannot tackle and reduce economic crime in isolation. We work collectively with industry bodies, law enforcement, regulators and governments. These partnerships are crucial to our ambition to reduce financial crime and to help Britain prosper. The Group is an active participant in public and private sector initiatives to tackle economic crime.

City of London Police

In 2018, the Group formed a partnership with the City of London Police (CoLP) to fight economic crime across the UK, committing £1.5 million to support the delivery of several joint initiatives, over a three-year period.

Due to its success, the Group extended the partnership for a fourth year and in September 2022, a new memorandum of understanding was signed for joint commitment to an ongoing collaborative partnership. Our funding has enabled the expansion of the CoLP's intelligence development capability, which is helping support tangible coordination across national, regional and local policing to address high harm fraud.

The partnership continues to support key initiatives: Economic Crime Training, Knowledge Enhancement and Sharing and Community Engagement/Social Responsibility.

Economic crime training:

- Creation of a new CoLP online learning platform, offering new advanced fraud and cyber education courses to give mainstream police greater opportunity for fraud investigation training, and to keep abreast of new and emerging fraud techniques.
- Development of Fraud and Cyber courses which have been rolled out to over 7,000 participants across the police and counter fraud community, helping to enhance knowledge and develop relevant skills to enable police officers to better detect and respond to Economic Crime.

Knowledge enhancement and sharing:

- Supporting CoLP to build new relationships with other private sectors and as a result CoLP are now an integral part of a joint programme with Cifas, the UK's fraud prevention community, in training Fraud Protect Officers and the Fraud Foundation, recently winning a Tackling Economic Crime Award (TECA) for their achievements.
- Joint CoLP and Lloyds Banking Group workshops have been successful, sharing best practice, cross-sector knowledge and enhanced capabilities across both organisations. This has led to targeted dissemination of intelligence packages resulting in successful law enforcement detection and outcomes.

Our purpose in action

Community engagement and social responsibility

Crooks on campus

The Group and CoLP, in collaboration with Lancaster University, have partnered with We Fight Fraud to roll out Crooks on Campus a fraud education programme to university students. Crooks on Campus is designed to help educate and prevent them becoming a money mule. After a trial at Lancaster University, a pilot across six universities in London began in October 2022 comprising of webinars, face to face seminars and training programmes.

A growing number of students are being targeted by criminal gangs to launder money through their student bank accounts. Research conducted by Dr Nicola Harding at Lancaster University in 2022 shows that 3 in 5 students have been approached in person or online to become a money mule. Even more worrying is that 52 per cent did not know what a money mule was and 47 per cent thought it was acceptable to let someone use their bank account to transfer money.

In 2022, money mule behaviour accounted for 68 per cent of misuse of bank accounts according to the Cifas, Fraudscape 2023 report. The key age range for mule activity continues to be 21-25 years, with social media remaining a key enabler in the recruitment of mules.

Mule recruitment continues to be a challenge as criminals seek to convince account holders there will be no consequences for taking part in this type of activity and coach them on how to respond if challenged by a bank.

Crooks on Campus is a powerful criminal drama that brings to life the reality of organised financial crime and the consequences for students if they become a money mule. The film accurately depicts the role a money mule plays in helping criminals 'clean' money they have obtained through fraudulent activity. The film is based on real-life stories of victims and criminals gathered from We Fight Fraud's intelligence-gathering activities.

Originally piloted with the National Crime Agency, the film produced significant awareness and behavioural change, with 90 per cent of students from the pilot population rejecting subsequent money mule recruitment messages.

It is hoped this project, which also incorporates training for university staff and student representatives, will help stop students from allowing criminals to use their bank accounts – making it increasingly harder for criminals to place their illicit funds in the financial system.

Additional funding, secured from Project Olaf (see below), will enable the rollout of Crooks on Campus to universities across the UK.

Students can protect themselves by:

- Not responding to job adverts, or social media posts that promise large amounts of money for very little work.
- Researching a potential employer, particularly one based overseas, before handing over personal or financial details to them.
- Not allowing an employer, or someone they do not know and trust, to use their bank account to transfer money.
- Reporting any suspicions of money muling to CrimeStoppers on 0800 555 111, or the police.



SDG 16.4: By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime.

SDG 17.7: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

The Group believes it is really important young people understand more about the consequences of being caught moving fraudulent funds. Tempting offers that sound too good to be true probably are, so it is important to think about the consequences.

Conducting our business responsibly continued



Our purpose in action

Cyber Detectives

- Recognising the increasing threat of economic crime to our young children the Group and CoLP co-designed and delivered the 'Cyber Detectives'. An education programme targeting primary school children which now forms part of the PSHE (Personal Social Health and Economics) element of the national curriculum in England. Latest figures show more than 3,500 schools, circa 150,000 young children in England are now using the learning.
- 'Cyber Detectives' will help equip pupils with the skills they need to stay safe online, protect their personal information, report concerns and access help. The lessons will help pupils:
 - Explain what online fraud is and identify and analyse examples of scams
 - Describe the importance of protecting personal information and data online
 - Explain why age restrictions for online gaming can help to keep us safe and prevent fraud
 - Recognise ways to stay safe online and report concerns about online fraud
- The resource pack also contains teacher guidance to help ensure effective lesson delivery, as well as information and guidance for parents, so they can stay informed how online fraud could affect their child.

Project Olaf

- Through building a strong working relationship with CoLP, together we launched the first banking industry's pilot scheme called 'Project Olaf,' using proceeds of crime to fund fraud-fighting and victim support programmes. The 'frozen' money captured from fraudsters by a Group's specialist mule-hunting team has been invested in projects to tackle fraud, as well as increasing education and awareness in organisations such as Age UK.

Stop Scams UK

- The Group is an active supporter of Stop Scams UK. Working in partnership with other banks, telecoms and technology companies, the telephone hotline number – 159 – has been rolled out across the UK with excellent results. This number connects customers directly and securely with their bank if they fear they are a victim of a scam or to check the authenticity of a caller.

North East Business Resilience Centre

- The Group is a member of the North East Business Resilience Centre (NEBRC), a not-for-profit organisation bringing together experts across the cyber and fraud communities to improve cyber safety and reduce cybercrime by promoting awareness and delivering training to small businesses and the local community. The Group has also promoted online and in-person events to educate our customers and promote the services of NEBRC.

Illegal wildlife trade

- The illegal wildlife trade (IWT) is the prohibited collection, transportation and sale of flora or fauna (living or dead). IWT is valued between £40-120 billion per year and is one of the five most lucrative global crimes, which benefit organised criminal gangs.
- Since 2019 Lloyds Banking Group has been a member of the United for Wildlife Financial (UFW) Task Force, part of the Royal Foundation led by the Prince and Princess of Wales to tackle the illegal wildlife trade (IWT) and protect endangered species. So far, UFW collective efforts have led to 250 arrests, 450 law enforcement cases and trained over 100,000 employees across member institutions to raise awareness about the illegal wildlife trade.
- The Group's internal UFW Working Group has actively engaged in several projects, which include enhancing public-private IWT intelligence sharing; promoting education and awareness of IWT across the Group; using transactional analysis of known IWT cases to build typologies and identify red flags; and supporting Project Seeker, which uses Artificial Intelligence scanning technology, to increase detection of IWT products trafficked through international airports.

Cyber security and data privacy

Cyber security and resilience

Customers trust us to keep their money and data safe, and the Group deploys sophisticated technology to protect both. The Group works continuously to bolster defences against cyber-attacks through adopting a threat-led approach and enhancing our preventative, detective and responsive controls. We also recognise the importance of secure behaviours and continue to educate our customers and colleagues on cyber threats.

Governance

Cyber security maintains a high level of focus right up to Board level, with regular updates to the Board and Group Risk Committees, along with a dedicated quarterly Board sub-risk forum focused on cyber security, IT resilience and operational resilience. Cyber and data security forms a part of the Group's wider operational resilience framework, which continues to enhance the Group's resilience to 'maintain the expected through the unexpected'. An ongoing focus area of the Group is to continue to embed a culture of resilience and security across the Group and its key third parties.

Compliance and controls

The Group utilises a range of identified best practice guidance as inputs to our Security Policy Frameworks including the NIST cyber security framework, ISO 27000 and PCI DSS. In addition, we undertake legal, regulatory and best practice horizon scanning to proactively identify updates to the framework or opportunities to respond to regulation, alongside our annual policy refresh cycle.

In 2023, external validation of the Group's security controls in the form of a SOC2 report was achieved for the period 1 January 2022 to 30 June 2022 covering our client-facing businesses in Commercial, Lex Autolease, Lloyds Bank Capital Markets, Insurance and Pensions. This was the second SOC2 report to be obtained by the Group and provides an independent assessment of the design and operational effectiveness of the Group's security controls.

Cyber benchmarking

The Group undertake an annual cyber benchmarking exercise, in conjunction with an independent consultancy, to understand the relative maturity of our cyber capabilities, as aligned to the NIST framework. This allows us to measure ongoing improvements in our capability maturity and align ourselves with peer organisations in the financial services industry.

The result of the 2023 review were favourable with the Group's cyber capabilities praised as mature and well-established. Our highly-skilled cyber security colleagues and their drive to innovate were highlighted as a particular strength for the organisation, along with highly mature capabilities in areas such as colleague education and incident detection/response functions. The key areas for improvement highlighted in the report align with our Group security strategy focus areas, confirming that it is addressing the correct areas of development and investment.

Colleague training and awareness

All Group colleagues and contractors must complete an annual mandatory four-part security training programme, which highlights the key threats and risks that colleagues face and how to reduce and avoid them. We also publish regular articles and news on our SharePoint and Viva Exchange channels and a monthly newsletter, alongside regular webinars, presentations and events. The education and awareness team also create bespoke learning campaigns which correlate with ongoing real-world events – the FIFA World Cup, for example, as well as international holidays and events like Valentine's Day, Easter, Christmas etc. – to obtain further colleague engagement in security education. Our phishing simulation programme allows colleagues to spot phishing emails and receive training as necessary, while certain colleagues in the Group, due to their role or risk profile, must complete further mandated training.

Incident management and intel-led security testing frameworks

The Group maintains strong and practised incident management frameworks, demonstrated during the COVID-19 pandemic. We have continued exercising our incident management frameworks and teams right up to Board level, focusing on cyber security scenarios and threats, and participating in the Bank of England sector SIMEX exercise. The Group carries out active security testing of internal and external systems, utilising the expertise of in-house advanced security testing capability and external CREST accredited security experts.

Collaboration

Recognising that cyber security is a material issue impacting our entire sector, the Group collaborates externally, working in conjunction with our sector peers and government on initiatives such as the Financial Services Cyber Collaboration Centre, working with the UK Government's National Cyber Security Centre and the Cross-Market Operational Resilience Group. We work closely with other banks, recognising the importance of collaboration when it comes to security, including being part of the Cyber Defence Alliance.

Data privacy

The Group values the trust our customers and colleagues place in us, therefore we process their personal data in a lawful, fair and transparent manner to enable the delivery of good outcomes and to protect our customers and colleagues from foreseeable harm. The Group demonstrates accountability to data subjects and regulatory expectations through policy, process, risks and controls, this includes ensuring:

- Personal data is limited to what is necessary, processed lawfully, fairly and in a transparent manner
- Personal data is collected for an explicit, legitimate, adequate, and necessary purpose and not further processed in a non-compatible manner
- The risk posed to our data subjects is assessed, monitored and escalated when necessary
- Data subjects' rights are upheld and respected
- Personal data is processed with appropriate protection against unauthorised or unlawful processing, and against accidental loss, destruction or damage, using appropriate measures

Our approach to tax

Tax is one of the ways in which businesses contribute to the societies in which they operate, and we are proud to be among the UK's highest payers of corporate taxes for several years.

In 2023, we paid £2.6 billion of cash taxes. This was primarily on business profits, VAT on goods and services needed to run our business, bank levy and employer social security on staff wages and salaries. In addition, we collected £1.8 billion of cash taxes primarily from payroll taxes and customer product taxes.

Appropriate, prudent and transparent tax behaviour is a key component of being a responsible business. We comply with the HMRC code of practice on taxation for banks. We do not interpret tax laws in a way that we believe is contrary to the intention of Parliament, and we do not promote tax avoidance products to our customers.

Further information on the Group's approach to tax can be found in our [tax strategy and approach to tax report 2023](#).



Whistleblowing and colleague conduct

Whistleblowing – helping colleagues to Speak Up

Lloyds Banking Group promotes a culture where people feel safe, supported, included and empowered. Our values lie at the very heart of that culture, and we rely on our colleagues to be bold and challenge anything that doesn't feel right by speaking up when they see or become aware of misconduct.

Speak Up is the Group's whistleblowing programme. It is available to all colleagues across the Group, including suppliers, contractors and third parties. Speak Up helps colleagues who feel unable or are unwilling to report their concerns to a manager directly. Concerns are raised via an independent third party, 24 hours a day, 7 days a week, either confidentially or anonymously and in a variety of ways. Reporters are protected from any form of retaliation after raising a concern.

Our whistleblowing arrangements were independently benchmarked by Protect in 2023 and received a score of 99%.



The Speak Up arrangements provide a safe and confidential environment for reporters to raise concerns of wrongdoing or inappropriate behaviour, but there are also several other complementary routes to report concerns including:

- Raising concerns with a line manager or people representative, where it may be possible to resolve concerns quickly and effectively
- Using 'Let's Talk', a programme that provides colleagues with support on personal employment issues and helps resolve most personal employment issues informally

Speak Up Policy

The Group's Speak Up Policy was refreshed this year to include the recent changes reflected in the EU Whistleblower Directive (2019/1937).

Our Speak Up Policy is clear that the Group will not tolerate any form of retaliation against reporters, and our procedures designed to protect colleagues after raising a concern. Anyone who does so may be subject to

disciplinary action. Our Speak Up procedures also includes pro-actively contacting reporters, throughout and following an investigation, and acting on any concerns of retaliation.

Speak Up Champions and Speak Up Officers

Three non-executive directors (NEDs) support the Group as Whistleblowing Champions for our legal entities: Group; Insurance, Pensions and Investments; Lloyds Bank Corporate Markets. They are individually responsible for oversight of Speak Up arrangements in their respective legal entities and ensure that the confidential reporting system remains a reliable and independent channel for colleagues to report suspected wrongdoing. The whistleblowing champions are also responsible for ensuring that colleagues are protected from any form of victimisation, should they report a concern. The Group whistleblowing champion presents an annual whistleblowing report to the Group Board on the effectiveness of our Speak up arrangements. Each business area also has its own Speak Up Officer, who supports Speak Up activity in their area and shares themes and insights arising from recent cases.

Group Audit Committees

All the Group's Audit Committees receive regular updates on the effectiveness of these arrangements, in line with their terms of reference. Updates include commentary on the continued independence, integrity and effectiveness of Speak Up policy and procedures. The committees are also briefed on the volume and types of cases received, outcomes of investigations and any emerging trends and process improvements.

Improving our processes

Lloyds Banking Group is delighted to be a constituent of Protect, the UK's Whistleblowing Charity, and is committed to continuously improving and maintaining its speak up culture.

All colleagues, contractors and third parties receive annual training on the Speak Up programme and have access to a dedicated website with details of our services. An optional survey conducted following Group-wide annual training this

year showed that 95 per cent of colleagues believed their concern would be taken seriously and treated sensitively through Speak Up.

In 2023 we delivered a comprehensive communication plan to promote colleague awareness and confidence in Speak Up. We have also worked closely with our Speak Up Champions and Speak Up Officer network to deliver tailored communications to business areas, colleague networks and line managers. We have worked with colleagues to build advocacy and promote awareness, trust and confidence and paid particular attention to any groups of colleagues, who may be less inclined to Speak Up.

Our case triage process prioritises reports by differentiating between the more serious allegations of wrongdoing, and any other important matters. Where investigation is necessary, it is carried out by highly-trained and empathetic investigators and a report produced for business leaders, disciplinary hearings or the Group's Conduct Investigations Committee (GCIC) for non-disciplinary cases. Our highest priority investigations are reviewed by a hearing manager or the Chair and members of GCIC, comprising experienced senior executives.

We also recognise the importance of sharing lessons from investigations, to help prevent their reoccurrence. Themes and lessons from recent investigations have been shared with a broad range of senior leaders across the Group, and a forum has been established to facilitate further organisational learning.

2023 Performance

In 2023, 511 concerns were reported via Speak Up and 61 led to the need for a formal conduct investigation. The remainder were managed via other established processes, including 21 per cent passed to line management and 13 per cent referred to one of our people processes.

55 per cent of the investigations closed in 2023 were substantiated and resulted in remedial action. This included 14 colleagues dismissed from the Group in 2023 following disciplinary as the outcome of a whistleblowing report.

Supporting our customers to ensure good outcomes

Lloyds Banking Group is committed to delivering good outcomes for our customers and, as we continue to move towards becoming a truly purpose-driven business, this remains at the heart of our strategy.



Consumer duty

The FCA's new Consumer Duty Regulations, which came into force in July 2023, sets higher and clearer standards of consumer protection across financial services, requiring firms to put their customers' needs first.

As an organisation, we are already focused on the delivery of good outcomes for our customers – the Consumer Duty is the next step in the evolution of how we do this and will drive broader cultural change. There will be greater focus on the outcomes customers receive – whether products and services meet customer needs and offer fair value, if customers understand the information with which they are being provided and if customers are given the support required to meet their financial objectives.

The Responsible Business Committee (RBC), under delegated authority from the Board, provides oversight of the implementation and ongoing consideration of Consumer Duty, with the Board Risk Committee overseeing related risks. The Board (via RBC) have been engaged on the Group's implementation of Consumer Duty, including agreeing with the steps the Group has taken to meet the requirements of the Duty in line with the July 2023 deadline, a similar approach will be taken to the July 2024 requirements. In addition, the Group are working closely with the Financial Conduct Authority to ensure they are fully apprised of our progress in embedding the Consumer Duty.

The Group has appointed two Consumer Duty Champions who will help ensure Consumer Duty is considered in senior leadership strategic discussions. Amanda Mackenzie, as Chair of the Responsible Business Committee, is the Group Consumer Duty Champion, with John Reizenstein, who is a non-executive director on the Scottish Widows Board (and Chair of its Risk Oversight Committee), fulfilling a similar role within the Insurance, Pensions and Investments business.

Customer complaints

The business continues to focus on initiatives that will improve servicing accuracy and speed alongside customer journey digitisation across the servicing and complaint handling journeys.

Preventing complaints

The Group have a well-established robust framework to continually address the root cause of complaints, taking action to mitigate the drivers, improving our customers experience. In 2023, 147 new improvement initiatives specifically targeting complaint drivers mitigated around 17,000 customers having cause to complain. Additionally, improvements to our service stability have reduced 'wait time' complaints by 41 per cent year-on-year.

These improvements have allowed us to manage an increase in business growth and increasing demand driven by the external economic environment. Cost of living impacts are being seen more commonly in root cause analysis, in particular, complaints from customers with 'money worries'.

These have increased by 71 per cent from 2022 (4.3 per cent of all complaints compared to 3.3 per cent at the start of 2023). Multiple increases in interest rates are driving higher demand for mortgage product transfers and pushing an increasing number of customers into financial difficulty, in addition to existing customers in arrears worsening their position. Group complaints per thousand saving and PCA accounts has improved year-on-year due to associated journey improvement actions informed by strong root cause analysis.

The business continues to focus on initiatives that will improve servicing accuracy and speed alongside customer journey digitisation.

Responding to complaints

As a minimum standard we aim to meet the FCA's Dispute Resolution: Complaints Sourcebook rules and respond to non-payment complaints in eight weeks and payment complaints in 15 days; however, we continue to focus on improvements to the journey to make it easier for colleagues to respond faster.

Our focus in 2023 has included improving our customer communications, by launching a new letter writing application for our bespoke complaints letters. This helps our colleagues create consistent and quality communications, whilst improving efficiency. We're also testing new customer communication solutions and challenging our thinking about how and when we communicate with a view to provide more digital correspondence. This not only responds to what customers tell us they want but also reduces reliance on paper and post, which is a small part of our commitment to achieving sustainability targets in our operations.



The ethical use of Artificial Intelligence

In March 2023, the Group took a further step towards ethical practices in data and Artificial Intelligence (AI) by introducing its inaugural Data and AI Ethics (DAIE) Council. The formation of this council marked a significant milestone for the Group. The primary purpose of the council is to always ensure we use data in ways our customers would expect, regardless of whether it is legal and compliant to do so. As a secondary objective, it helps protect the bank from reputational risks.

The council comprises a diverse range of senior executives drawn from across the Group. While conventional risk assessment often categorises cases into 'low', 'medium' or 'high' risk, categories, the DAIE council introduced an innovative risk indicator, also known as 'edge case'. These are specific instances where the use of data or AI systems, despite meeting all legal and regulatory compliance requirements, might still pose a potential risk to the bank or to its customers. The overarching ethos of the council is encapsulated in a pivotal question: "We know we can deploy a model or use data in the way described in the edge case, but the question is, should we?"

To further strengthen our capability, we have created a dedicated data and AI ethics team led by a head of data and AI ethics. The team's purpose is to ensure ethical guardrails are developed and implemented across the Bank. This team is augmented by technology experts, who specialise in creating ethical tooling and technology components which are made available across the bank.

Simultaneously, as the financial sector's interest in a new class of AI technologies, so-called 'Generative AI', has surged during 2023, our commitment to safe, responsible and ethical deployment of these technologies has increased. To harness this growing innovation, the Group



has initiated a Bank-wide Generative AI assurance programme, which draws upon expertise from many teams across the bank including legal, internal audit, conduct compliance and operational risk, chief technology office and the chief data and analytics office teams. This programme not only reinforces established risk controls that oversee data and machine learning algorithms but additionally mitigates new emerging risks specific to Generative AI. The programme aims to scale the use of AI to support and augment our colleagues' roles, and create better outcomes for our customers, whilst doing so under carefully implemented ethical guardrails.

We are adopting Generative AI by paying close attention to the impact it may have on our sustainability targets – Generative AI is very compute-intensive (i.e. it consumes considerable power to operate), therefore our adoption is being carefully calibrated to ensure it aligns to the Bank's sustainability targets. To help with this, we are partnering with the open-source community to use less carbon-intensive Generative AI systems, which are optimal in both performance and energy consumption.

Our frameworks

Frameworks in place across the Bank and Scottish Widows provide details on how we consider sustainability in our banking products and services, investments and stewardship activities.



Bank frameworks

Sustainable Financing Framework

The Bank has developed a Sustainable Financing Framework which sets out our methodology for classifying whether certain financial products and services offered by Lloyds Banking Group may be described as sustainable for the purpose of tracking and disclosing the Group's progress against its sustainable financing targets.

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



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

- Use of proceeds products (finance and/or refinance provided exclusively for Eligible Green Activities and/or Eligible Social Activities)
- Sustainability-linked products (finance that incentivises improved sustainability)
- Sustainable business financing products (finance and/or refinance provided to a business which has 90 per cent or more of its revenue generated from eligible green activities, eligible social activities or a mixture of the two)

The framework covers the Group's Retail lending, Business and Commercial Banking and Corporate and Institutional Banking eligible products and operates alongside the Group's Sustainable Bond Framework and the Group's Housebuilding Sustainability Finance Framework.

Sustainable Bond Framework

The Group's Sustainable Bond Framework facilitates the issuance of Use of Proceeds Green and Social Bonds of any seniority within the capital structure by Lloyds Banking Group or any of its subsidiaries. It covers five categories of lending: Green Buildings, Renewable Energy, Energy Efficiency, Clean Transportation and Affordable Housing; setting out the methodology for classifying whether products may be described as sustainable, supporting the funding of eligible assets and the Group's sustainability strategy. The updated framework will be published in 2024.

Sustainable Housebuilding Framework

In 2022, the Group published Housebuilding Sustainability Finance Framework which sets out the underlying eligible qualifying purposes, themes and activities to classify the Group's loan propositions as sustainable finance in the housebuilding sector. The Group's intention is to make sustainable finance accessible and available to as many housebuilding sector operators as possible – from some of the smallest developers to the largest housebuilders – and to ensure that the resources available to each sized operator are considered when designing the relevant loan proposition. The framework covers two types of financial products: Use of Proceeds (Green Loans) and Sustainability-Linked Loans and establishes a consistent and comprehensive methodology for the classification. We will closely monitor emerging market and policy standards, such as the Future Homes Standard consultation, and update the framework as appropriate.

Responsible Investment and Stewardship Framework

The Scottish Widows Responsible Investment and Stewardship Framework articulates our ambition, which includes six principles of Responsible Investment and our Stewardship Commitments.

Our decisions on asset allocation, manager selection, fund research and engagement activity are guided by this framework and these principles are integrated into our overall investment policy.

Responsible investment allows us to manage risks and returns in a more effective way in the funds we offer, to safeguard our customers' long-term savings.



Our stewardship and responsible investment strategy, including ensuring alignment with the FRC's Stewardship Code, is set by the Board of Scottish Widows. Board-level scrutiny ensures responsible investment is embedded into our activities throughout the entirety of the business.

Our Stewardship Policy applies to all Scottish Widows investments other than a very small proportion, which is comprised of direct loans in our shareholder funds, where Lloyds Banking Group external sector statements are applied.

We believe Stewardship is integral to our business and investment philosophy. As a large UK asset owner, we want to ensure we play our part, not only in the responsible oversight of our own assets, but in driving industry-wide transition for better long-term outcomes for our customers and clients, benefiting the UK and global economy as a whole.

We target our Stewardship initiatives across three core pillars:

- Monitoring and oversight of our appointed investment managers
- Direct and collective engagement with material investee companies
- Contributing to industry-wide initiatives like those related to policy advocacy

We aim to underpin this activity through dialogue and engagement with our customers and members.

For further information and updated reporting – please visit [Scottish Widows Responsible Investment](#).

Responsible Investment Framework



01
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.

02
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.

03
We will aim to reduce the carbon intensity of our whole portfolio by 50 per cent by 2030 and achieve net zero by 2050.

04
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.

05
We will seek to extend our responsible investment principles into all asset classes over time.

06
We will work with policymakers and industry participants to promote direct investment opportunities required to successfully transition to a lower carbon economy.

Upcoming regulation

The Group continues to monitor the evolving sustainability reporting landscape. This section details activities undertaken to date to prepare for upcoming regulatory reporting changes.

International Sustainability Standards Board (ISSB)

We have reviewed the ISSB standards IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 'Climate-related disclosures' and are supportive of the ISSB objective to develop a comprehensive global baseline of sustainability disclosures.

We note that the disclosures will look to focus on disclosures that:

- Are understandable, relevant, reliable and comparable for investors
- Are technically feasible to prepare
- Can be prepared on a timely basis and at the same time as general purpose financial reports
- Are expected to generate benefits that are proportionate to the costs that are likely to be incurred

We have undertaken a gap analysis based on current Group capabilities and will be looking to close material gaps identified during 2024 in readiness for preparation of disclosures in line with the UK government endorsement.

Corporate Sustainability Reporting Directive (CSRD)

Our EU operations are in scope for CSRD reporting from 2024, with the Group providing guidance on ESG material topics to support a double materiality perspective. We continue to explore the use of tools available to complete the double materiality assessment, the Group is looking to complete a gap analysis against the CSRD requirements in 2024. In scope EU subsidiary teams are looking at implementation of CSRD reporting from 2024, with the remainder of the Group falling into scope for CSRD reporting from 2028.

Corporate Sustainability Due Diligence Directive (CSDDD)

The Group continues to monitor the development of the Corporate Sustainability Due Diligence Directive and its anticipated implementation including how the requirements will impact the Group and our EU subsidiary teams.

Taskforce on Nature-related Financial Disclosures (TNFD)

The TNFD is a set of voluntary disclosure recommendations, launched in September 2023. The Group continues to monitor TNFD developments within the UK and Europe. We expect the structure of reporting against the TNFD will be very similar to how the Group has and is continuing to embed sustainability into the business according to the four pillars of TCFD, including: Strategy, Governance, Risk Management and Metrics & Targets.

Sustainability disclosure requirements and investment labels

In November 2023, the FCA confirmed a substantial package of measures to improve the trust and transparency of sustainable investment products and minimise greenwashing. The FCA will introduce:

- An anti-greenwashing rule for all FCA-authorized firms to make sure sustainability-related claims are fair, clear and not misleading
- Product labels, based on clear sustainability goals and criteria to promote consumer confidence when choosing sustainable products to invest in
- Naming and marketing requirements to ensure product names accurately reflect sustainability characteristics of qualifying funds

The anti-greenwashing rule applies to the whole Group, with the provisions on labelling and marketing applying to Scottish Widows. The Group continues to review these proposals to ensure capabilities are embedded into business-as-usual to manage and monitor compliance.

As one of the UK's largest financial services provider with more than 27 million customers in the UK, we have an important role to play in creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.

Inclusive future

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In 2023 we have remained committed to building an inclusive future focusing our efforts on where we are best-placed to act.

The progress and performance that we have delivered on these priorities in 2023 will enable us to drive further progress in 2024, ensuring that our Purpose is at the heart of everything we do.



Drive revenue growth and diversification



Promoting financial inclusion and resilience

£2.5m

of potential additional income for customers through our partnership with Citizens Advice

Launched additional support for customers who do not speak English as a first language

C.3.9m

savings accounts opened in 2023

4,750

tablets, training and mobile internet access to be provided to participants in Liverpool

Increasing the access to quality housing

£2.7bn

of new funding support to social housing sector

>£12bn

of funding provided to first-time buyers

Established a two-year partnership with Crisis

Launched Citra Pathways to expand shared home ownership support

Supporting regional development and productivity

Launched our Start up Scale up programme for small businesses

3,898

apprentices, graduates and engineers trained through MTC Training Centre

Launched our Liverpool City Region Housing Initiative



FOCUS



Strengthen cost and capital efficiency

Supporting our customers, clients and communities through challenging times

>7.5m

customers contacted to offer support since April 2022

c.600,000

businesses supported with customer resilience resources

8.8m

customers have registered for Your Credit Score service since 2021

£24.7m

donated to our Foundations and supported over 2,400 charities



change



Maximise the potential of people, technology and data

Supporting and engaging our colleagues

>6,300

colleagues trained to be change catalysts to support our Grow with Purpose initiative

Launched our Flexibility Works colleague proposition

Launched our Inclusive Everyday campaign for colleagues

Diversity, equity and inclusion

12.4%

representation of colleagues with disabilities in senior manager roles

40.1%

of our senior roles were held by women in 2023

Launched Black in Business initiative in partnership with Channel 4



Promoting financial inclusion and resilience

The Group continues to progress our commitment to increasing financial resilience and promoting inclusivity in the UK's financial sector.



We are leveraging our position as a large financial service provider in the UK and collaborating with partners, having the potential to make a significant impact on individuals and businesses.

Proactively supporting retail, insurance and commercial customers is crucial in ensuring their success and stability. We offer accessible and inclusive products, processes and services that are inclusive by design. This not only helps people and businesses navigate financial difficulties but also empowers them to make informed decisions and pursue their goals.

2023 highlights

c.3.9m

savings accounts opened in 2023

£2.5m

of potential additional income for customers through our partnership with Citizens Advice

513

tablets, training and mobile internet access provided in Liverpool by digital pilot project



Supporting customers

By providing the right tools and resources, we are actively working to prevent financial difficulties from arising in the first place. This proactive stance can make a meaningful difference in people's lives.

Our goal is to strive towards a more inclusive and financially resilient future for our customers, clients and communities.



In recent years, the high cost of living in the UK has forced many to make considerable changes and difficult choices. Our customers and clients are at the heart of what we do, so we continue to support them through financial challenges.

The Group continue to identify those of our customers who are most likely to need help now and in the future, and assist them with the right level of support. By doing so, we are enabling individuals and businesses to use financial services to their fullest potential, ultimately improving their overall wellbeing.

Supporting our customers to save

In 2023, we have increased our instant access rates and expanded our savings offering for customers, with c.3.9 million savings accounts being opened in 2023.

We continue to support our customers and have contacted more than 15 million deposit customers to ensure they are aware of their savings options, including limited withdrawal products offering higher rates than instant access, whilst retaining flexibility in how savings are accessed. Each year, we contact over 200,000 customers on variable rate mortgages to tell them how much they could save by transferring to a lower fixed rate.

The size of our fixed interest rate savings book has more than doubled in 2023 as we have launched new products and helped customers benefit from higher rates.

We are committed as a Group, to the Government's Mortgage Charter, a series of measures which are very much in line with our well-established approach to supporting customers who are concerned about their finances.

Support through a range of tools

The Group continues to develop ways to support our customers in their daily lives and developed a range of customer support services in our mobile banking apps and tools. Giving customers access to information that will help them to make good decisions is important. We've lots of brand-new tools available on our Money Worries and Money Management pages such as the Support Tool and Budget Calculator to support with this.

Lloyds Bank, Halifax and Bank of Scotland are offering customers the ability to manage and cancel subscriptions (e.g. video streaming, recipe boxes) within our mobile banking app without having to contact their provider. This can help with household budgeting. Since its launch in June 2021, more than 6 million unwanted subscriptions have been managed.

Through the app, customers can also freeze and unfreeze different types of transaction on debit or credit cards and can set their own contactless limit on their debit card. Customers can select controls for gambling, spending abroad, online and remote payments, as well as in-person payments including digital wallets and contactless transactions.

Spending alerts in addition allow customers to see when money is paid in or out of their accounts and they can receive reminders, spending insights for regular payments, and alerts when a debit card is used, as well as a weekly spending summary. Every month more than half a million customers are using spending insights on our mobile banking apps. A clear view helps them to identify where they might want to cut back or invest more.

Your Credit Score, a free service we provide in partnership with TransUnion, gives customers access to their credit information including credit score, information about factors which may impact their score and hints and tips to improve it over time. 8.8 million customers have registered for Your Credit Score since 2021, of which 5.2 million customers opted in for push notifications. This allows us to notify customers when their credit score has been refreshed.

Over 500,000 customers have improved their score band using the tool. We have also started capturing customers' reasons for registering for Your Credit Score and in 2023, 3.3 million customers have shared their reasons for registering. These insights will be used to personalise future engagement with customers.

Supporting our customers when they need it most

Customers can access support through multiple channels to seek help with their financial wellbeing or navigate the cost of living.

The Group aims to talk to anyone who feels like they might be facing difficulty so that we can help find a solution that suits their individual circumstances. The earlier we talk to someone who might be struggling, the more tools we have to help. Customers can engage with us directly either online, over the phone with one of our specially-trained colleagues, or in branch.

Throughout 2023, we proactively helped customers to manage the challenging economic environment and financial uncertainty, recognising the impact on their overall wellbeing, health, relationships and general sense of security.

Since April 2022, we have contacted more than 7.5 million customers most in need in need of support with the cost of living through a mix of emails, direct mail, outbound calling

and internet banking prompts. By using data and insights to gain a deeper understanding of customer needs, we are able to refine and expand our support.

Our partnership with Citizens Advice is a significant step in revolutionising our support offering for customers in vulnerable financial positions. Through our partnership with Citizens Advice, 4,000 customers have received dedicated support and advice, helping them access £2.5 million of potential additional income.

Through our Lloyds Bank, Halifax and Bank of Scotland branches, customers can book an appointment with a specially trained colleague who can support them with any money worries. We also had more than 4,000 colleagues helping to provide financial assistance to customers in financial difficulty through tailored treatments and products.

We also offered customers in financial difficulty support through:

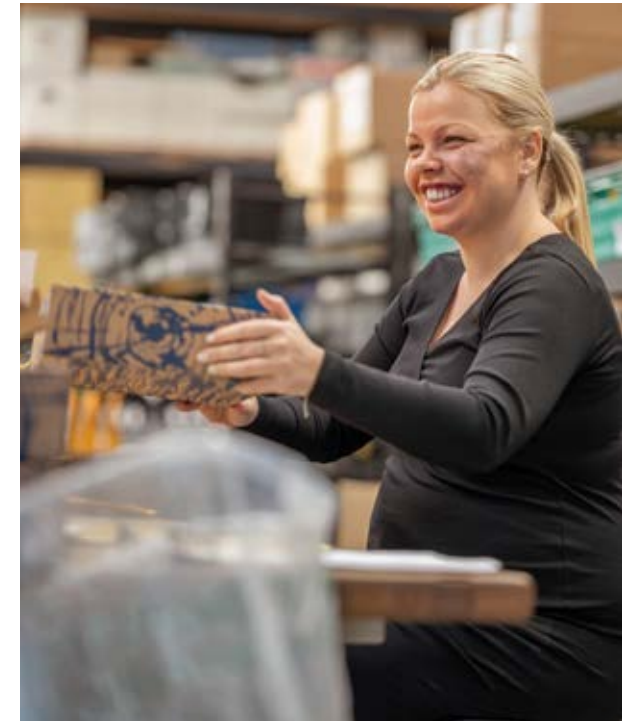
- **Allowing time to seek support:** Credit card, loans and overdraft customers who needed time to seek support and guidance were offered a temporary pause on all interest and fees, with no contact regarding payment during that period.
- **Repayment plans:** Mortgage, motor, credit card, overdraft and loan customers were able to discuss a range of support options, including allowing more time for repayment, making reduced payments for a period of time, or changing the product term of their mortgage to help support them.
- **Consolidating debts:** Credit card, loans and overdraft customers have been able to consolidate their outstanding debt into a lower interest loan.

Mortgage customers were particularly affected by high interest rates so we offered a range of support and products to help those coming to the end of a deal including:

- The option to secure a new mortgage rate up to six months in advance, which provides more flexibility and choice. If these rates fall during those six months, customers can then switch again to the lower rate.
- Lloyds Bank, Halifax and Bank of Scotland customers on a variable rate, whether they're up to date with payments or not, can switch to a new fixed rate. This option is currently saving some customers up to £185 a month.
- We also remained committed to the Mortgage Charter measures and continually enhanced customer journeys to enable them to get support.



>7.5m
customers have been proactively contacted through a mix of emails, direct mail, outbound calling and internet banking prompts since April 2022



Making sure that our customers have easy access to information to make informed decisions is important.

Our Money Worries and Money Management website pages across our Lloyds, Halifax, Bank of Scotland and MBNA brands are also an invaluable resource for the over 1.5 million annual visitors. Money Worries pages provide guidance for customers likely to be in financial difficulty or concerned about keeping up with payments, while Money Management pages contain resources, tools and tips to help customers stay on track and manage their finances.

We also signpost customers to organisations such as StepChange which provide independent help, debt advice as well as support with income maximisation.

Supporting customers continued

Making it easier for customers to tell us what they need

The Group is placing a strong emphasis on understanding and meeting the specific needs of its customers.

Creating an environment where customers feel comfortable discussing their support requirements is crucial, so we have focused on making it easier for them to tell us about the support they need.

The introduction of features on our online and mobile banking platforms that allow customers to record their support needs, such as special formats for letters and statements, or indicating speech difficulties, use of British Sign Language, or mobility support, demonstrates our thoughtful approach to accessibility.

Additionally, providing options for customers with more complex needs to communicate their requirements over the phone or in person further demonstrates our commitment to financial inclusion.

Across Halifax, Lloyds Bank and Bank of Scotland we have 3.1 million specific customer support needs registered across our channels, enabling us to better meet our customers needs.

The emphasis on recording customers' support needs and sharing them with relevant teams is a practical way to ensure that customers don't have to repeat difficult conversations. This not only streamlines the process but also shows empathy and consideration for the customer experience.

Our Help and Support hubs across customer websites are a rich resource for individuals seeking advice and guidance on various financial situations. The inclusion of information regarding key life events, health issues and money worries, along with signposting to independent organisations and charities, is a valuable service for all customers.

3.1m
specific customer support needs registered



Upskilling and training our colleagues to support our customers

The Group training provided to all customer-facing colleagues to support them in understanding vulnerability and addressing it with empathy, is a crucial step in ensuring that customers in vulnerable circumstances receive the support they need.

Tailoring our inclusion training to specific business areas and upskilling colleagues according to their needs is a key part of our inclusion strategy. Our vulnerability and capability training modules were completed over 209,000 times in 2023.

Our customer vulnerability support tool

We are committed to supporting both colleagues and customers in vulnerable situations. Through the expansion of our Colleague Vulnerability Support Tool incorporating additional vulnerabilities such as speech impediments, addiction and modern slavery, we have taken a proactive approach to guide colleagues in conversations with customers, ensuring a comprehensive understanding of their financial practical and emotional needs. Where we are unable to help, we signpost or refer to external organisations and partners, assisting customers to additional support.

The tool aids in identifying appropriate solutions based on the impacts and needs identified, empowering colleagues to have meaningful conversations with customers about their circumstances.

Purpose in action

Support through challenging times and Home Insurance

Paying bills upfront can be financially challenging for many of our customers, however, opting to pay monthly can incur an additional charge to their insurance premium. We want our customers to choose payment structures that work best for them.

Since January 2023, there has been no cost of borrowing (APR) on any of our home insurance policies. This gives confidence to more than 1 million Lloyds Bank, Bank of Scotland, Halifax and MBNA customers that they are not negatively impacted by paying in instalments over the year.

However, we recognise that sometimes it can still be tough for our customers to meet their monthly payments. As part of our purpose of Helping Britain Prosper, all our home insurance customers are eligible for payment deferral should they require this additional support during challenging times. As part of this response, we have permanently embedded a specialist team to work with these customers, enabling them to protect what is important to them. In 2023, we were able to support 539 customers with this.



SDG 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Our specialist support initiatives

Our specialist support teams are trained to handle specific circumstances requiring extra care and bespoke support which demonstrates our dedication to addressing individual needs.

The provision of dedicated phone numbers for these specialist teams, publicly accessible on our customer websites, ensures ease of access for those who require specialist assistance.

Furthermore, the ability for colleagues to make referrals into these specialist support teams underscores a collaborative approach to providing the best possible support for customers. This ensures that customers in need are identified and connected with the appropriate resources and expertise.

In 2023 our specialist support teams provided dedicated support to all customers affected by:

- Serious illness and ill health, offering support to customers affected by ill health through the provision of fee suppressions, waiver of fees and charges, payment holidays and more
- Bereaved customers, assisting them to navigate the practical and money-related matters they need to deal with following the death of a loved one
- Domestic and financial abuse

Supporting customers impacted by gambling

We are committed to providing support for customers with gambling support needs, developing strategies to help customers control their spending and manage their finances effectively.

We offer support tools that enable customers to regulate their card spending in a practical and impactful way. This empowers individuals to set limits on their spending and take charge of their financial wellbeing.

Customers are able to sign up directly from our customer websites with Gamban. This initiative provides an accessible resource for individuals seeking additional help in managing their gambling habits.

Additionally, our customers can access GamCare, for confidential online support and access to forums, providing an alternative avenue for those who may not be comfortable speaking directly with someone.

Our specialist support initiatives demonstrate our dedication to understanding individual customer needs.



Supporting customers continued

Trusted persons

The Trusted Person Card, introduced in 2020, was a significant step towards providing additional support for customers who may need assistance in managing their finances. This card offers a practical solution for friends, family and carers to help with everyday purchases and accessing cash on behalf of those who need it such as the ability to have a different card number and PIN, allowing the customer then to monitor how the card is being used and provides the ability to cancel it at any time, offering peace of mind.

The introduction of Trusted Person Alerts in 2023 is another step in providing further support mechanisms for customers and their trusted individuals. This service allows customers to select someone they trust to receive text messages about their current account activity. Importantly, this trusted person does not have access to the accounts for making payments or viewing balances, ensuring privacy and security for customers. By giving customers the ability to pre-agree on the content of these text messages, we're providing a customisable and flexible way to keep trusted individuals informed about account activity, while respecting privacy and confidentiality.

Domestic and financial abuse

Our Domestic and Financial Abuse team, set up in 2019, has now supported over 8,500 victim-survivors to rebuild their finances. Specially trained by domestic abuse charities Surviving Economic Abuse and Tender, our colleagues support customers in the way that best suits their needs, including separating finances and setting up new accounts.

The team also signposts to domestic abuse charities for emotional and practical support where needed and taking direct referrals from domestic abuse charities.

In some instances, the Domestic and Financial Abuse team will refer customers to our Exceptional Circumstances Panel, who are there to help resolve the most complex financial abuse cases.

We work closely with Surviving Economic Abuse, learning from their experts, including survivors of financial abuse, to inform our strategy, embedded a colleague from Surviving Economic Abuse into the Group to help us to evolve our support for colleagues and customers. Throughout 2023, we have supported 3,784 victims of domestic and financial abuse.

Recognising the link between mental health and debt

Lloyds Bank, Halifax and Bank of Scotland were the first organisation to receive the 'Mental Health Accessible' accreditation (Advanced Level) from the Money and Mental Health Policy Institute in 2023.

They praised our strategy of equipping colleagues with the skills to identify vulnerable circumstances and how these are applied so that we have great conversations to understand the financial, practical and emotional impact of a customer's situation.



Purpose in action

Macmillan cancer support

Since the launch of the Scottish Widows and Macmillan Partnership, Scottish Widows have referred nearly 600 customers to Macmillan for cancer support. Our partnership allows for a two-way referral system: Macmillan will refer an individual to our claims team if they identify a Scottish Widows policy. At the same time, Scottish Widows offers referrals to Macmillan's Financial Guide team for our customers with cancer. Customers, who were signposted to this service, are now collectively better off by over £242,000. Due to the benefit to our customers, Scottish Widows announced an extension to its partnership with Macmillan Cancer Support in October 2023.

Scottish Widows is Macmillan's first insurance partner to offer both referrals, and an improved critical illness claims process for the customer. Our partnership enables some Scottish Widows customers to verify their cancer diagnosis through their Macmillan Cancer Nurse Specialists, which can speed up the claim. Moreover, to ensure our colleagues are confident in holding empathetic conversations with their colleagues, we have worked with Macmillan to develop training that builds the necessary resilience and capability to do so. We also encourage all of our line managers to complete training, of a similar nature, on how to best talk to their colleagues affected by cancer.

In 2023, Scottish Widows continued to provide in-the-moment support for colleagues impacted by cancer and support three key Macmillan initiatives – World Cancer Day, Mighty Hikes and the Coffee Morning. We also built an allyship with Access, the Lloyds Banking Group's Disability colleague network, to promote Macmillan activity on our internal Volunteering hub. Consequently, between January and August 2023, there were 471 referrals between Macmillan and Lloyds Banking Group brands.



SDG 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Supporting businesses

During 2023, we targeted support for our business customers to help them navigate challenging times. We have leveraged our data to understand customer resilience in a way that allows targeted outreach to those who would benefit most.



Supporting businesses through challenging times

In 2023, we have supported c.600,000 businesses with guidance on the cost of living and how to build financial resilience.

We continue to provide support via 1,100 business specialists in communities nationwide to help business customers develop appropriate recovery and growth plans. For customers with Bounce Back Loans we have provided additional support through Pay as You Grow, including extensions and payment holidays.

We are working with key partners to be there for customers, including via Mental Health UK and the Soil Association Exchange for the Agriculture sector, see **page 109** for further information on our work with the Soil Association Exchange.

Through our partnership with Mental Health UK, we have launched a hub to support small business leaders and owners. In addition, through this partnership, we have supported businesses to build their resilience through coaching sessions as well as providing financial support across financial initiatives, including fee waivers and increased telephony resourcing to support inbound and outbound activity.

We conducted a colleague-led outreach programme focusing on the clients, within the Business and Commercial banking business, who are more likely to be impacted by high inflation and higher interest rates and we have directly supported nearly 8,500 business customers.

We also provide regular economic and market insights to help businesses make more informed decisions. This includes our Business Barometer, which measures business and economic confidence each month, UK Sector Tracker, and our series of Business Insights.

c.600,000
business customers received support in 2023

Supporting the productivity and resilience of businesses



3,898

apprentices, graduates and engineers in the manufacturing sector trained and upskilled through our annual investment into the MTC Training Centre to date

Start up Scale up

In 2023 we successfully piloted and rolled out our Start Up Scale Up programme by Lloyds Bank Academy. Since the programme launched in May, we have supported over 150 businesses in our Regional Development cities of Birmingham, Liverpool and Leeds. Helping the business owners to build a roadmap to growth, this eight-week programme is designed with a mix of 1-2-1 coaching, online learning and in-person sessions, which provide businesses with the opportunity to network with other local business leaders.

Be the Business

In 2023, we extended our strategic partnership with Be the Business to help hundreds of UK SME business leaders achieve sustained productivity growth and success. We have sponsored 125 businesses to receive support from a Be the Business Mentor or 'The Productivity Programme', benefitting from the advice and guidance of executives from some of the UK's leading companies. We have also committed to providing Be the Business with 24 colleague volunteers, further supporting small businesses. Since we first partnered in 2019, our contribution has helped to generate an estimated £37 million boost to UK SME productivity.

The Manufacturing Technology Centre

The Manufacturing Technology Centre's (MTC) programmes aim to help businesses be more productive, innovative and reduce costs. They can help address practical, technical and strategic engineering challenges including: productivity, supply chain robustness, digitalisation and new product, and process development.

Manufacturing businesses nationwide can take up the opportunity to have a free consultative line walk at their facility to discuss current challenges and identify potential solutions. 594 Lloyds Bank manufacturing clients have taken up this opportunity to date. There is no obligation for future collaboration but over 100 of our clients have utilised further support programmes to embed innovation and new ways

of working into their operations. This has delivered c.£7 million in additional benefits from increased revenues, reduced costs and driven profit growth.

Manufacturing plays a critical role in the journey towards sustainability and net zero decarbonisation, but identifying the challenges and solutions can be a daunting task for businesses. The MTC has a range of sustainability services to help manufacturers identify sustainability improvements in their business.

The MTC offers manufacturers nationwide a complimentary Sustainability Line Walk for Lloyds Bank Customers to explore how their business could make sustainability improvements, as well as identifying energy and cost-saving opportunities.

The review identifies energy and cost saving opportunities and highlights opportunities for sustainability improvements in key areas such as waste, lifecycle impact, resource and reporting.

Supporting the skills required for the future at the MTC Training Centre

Lloyds Bank continues to promote the importance of bringing new skills into the manufacturing industry through the apprentice support service in conjunction with the MTC Training Centre for companies across England. Established in 2015, the Lloyds Bank MTC Training Centre is a state-of-the-art centre designed to create a new generation of engineers and technicians to help the UK realise its potential in advanced manufacturing. The Lloyds Bank MTC Training Centre connects apprentices with high-calibre manufacturing and engineering employers who are looking to employ the best talent in the industry.

The Group has extended its long-term investment to £15 million over 15 years, which is on track to support the training and upskilling of over 6,000 apprentices, graduates and engineers in the manufacturing sector by 2030. Through our annual investment in the MTC Training Centre, we have trained and upskilled 3,898 apprentices, graduates and engineers in the manufacturing sector to date.

Lloyds Bank and MTC Training Centre apprenticeships have also teamed up to create a partnership to deliver fully funded high-value engineering apprenticeships to SMEs in Coventry, Warwickshire and the surrounding areas. In 2019, the Group agreed a further £9 million of support over three years to help SMEs to invest in apprenticeships through our levy transfer initiative.

Skillssoft

Businesses continue to face new challenges, and are operating in rapidly evolving environments with a shortage of critical skills. To help businesses adapt and acquire new skills, with the support of Skillssoft, we have created access to an online training platform through the Lloyds Bank Academy, offering training in leadership and personal effectiveness to improve productivity as well as creating attractive propositions to acquire new talent. We have made 20,000 licences available to small and medium-sized businesses and not-for-profits to support skill development.

Levy transfer

The UK job market has continued to remain turbulent and during this period we have continued to equip SMEs through our levy transfer initiative to invest in skills within their business and create new opportunities for young people and adults faced with reskilling in an evolving market. The Group is amongst the largest private sector donors and through the initiative, we're helping to resolve critical skills gaps and provide opportunities for future UK economic success. By the end of 2023, we committed financial support to more than 1,300 apprentices employed by over 900 businesses in areas of critical skills shortfall, to a cumulative value of £13.3 million.

Increasing access to banking

Our commitment to financial inclusion is reflected in the Group being the largest provider of Basic Bank Accounts in the UK, with c.114,000 accounts opened across our brands in 2023, we are taking a significant step in promoting accessibility to essential financial services.



People experiencing homelessness, financial abuse, survivors of modern slavery, refugees, asylum seekers and prisoners are all demographics that may face greater difficulties in accessing banking services.

By acknowledging these challenges and showing an understanding of the barriers that exist for some individuals we have simplified our processes to make it easier for colleagues to support these vulnerable groups in a practical and effective way.

By offering support for customers with non-standard identification documents, we are directly addressing a common hurdle that people may face when trying to establish a financial foothold.

We are testing additional support for customers who do not speak English as their first language, introducing a telephone translation service along with an in-branch app translator that supports auto-translation between colleague and customer. The Lloyds Bank, Halifax and Bank of Scotland websites now have dedicated pages that explain how we can support people who have recently arrived in the country gain access to a bank account. In response to the crisis in Ukraine, these pages have been made available to download in Ukrainian and Russian, with translations into more languages to follow soon.

To support customers who are deaf or have hearing loss we launched basic British Sign Language (BSL) training for all colleagues. In addition to this we have partnered with Signly to translate our customer websites and where a web page has not yet been translated, customers are able to request the page is translated and we'll provide a BSL version in less than a week.

Purpose in action

When English is not a first language



We know that language barriers may result in customers managing their products without the confidence we would like them to have. Our customer-facing colleagues are encouraged to use their own bilingual skills, where they match the needs of the customer. However, we understand that we can't always connect the customer's language requirement to a colleague with the existing skillset.

To make our interactions more efficient and better cater to our customers, Scottish Widows is piloting the use of a third-party translation service. Two of our customer-facing business areas are using the service, which allows a three-way call with an interpreter in real time, providing tailored support for our customers in over 150 languages.

SDG 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

SDG 10.3: Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard.



Increasing access to banking continued

Supporting financial and digital capability

Our commitment to becoming a digitally accessible financial service provider, ensuring that our digital channels are usable by everyone regardless of their abilities, is a significant step towards financial inclusivity.

The development of training for individuals, businesses and charities not only supports customers who may not have prior experience with the internet but also empowers businesses and charities to harness technology for their benefit.

Furthermore, extending this support to businesses and charities demonstrates our commitment to building inclusive communities.

Resources for our customers

Our digital initiatives and tools demonstrate our dedication to providing practical support and resources to individuals facing various financial challenges and life events. We are helping businesses and communities scale and grow through building their digital skills.

With our partners, we have developed tailored training for communities to get online as a strategic and impactful approach. The pilot programme that took place in Liverpool during 2023, provided tablets and in-person training to 513 local individuals who are unemployed or economically inactive, showcasing a tangible effort to bridge the digital divide.

Together, we continue to expand this initiative, and will be providing 4,750 tablets, training and mobile internet access to digitally excluded individuals across the city region, demonstrating our commitment to improving digital literacy and accessibility across the UK. We have a collaborative approach, involving partners from the community and voluntary sector, local authorities and members of the Digital Inclusion Network.

Our involvement reflects a comprehensive approach to addressing digital access and inclusion. Our efforts to provide practical support, resources and training to individuals facing financial challenges and digital exclusion are making a tangible difference in communities.

513
tablets, training and mobile internet provided in Liverpool in 2023



Purpose in action

Donna's story



SDG 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

SDG 10.3: Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard.

Donna, a participant in the digital skills training in Liverpool, has been a recipient of Jobseeker's Allowance for several years with no previous work history. She has a hearing impairment which can create an additional barrier to employment.

"I am made up to be getting closer to employment, but the tablet and internet has not just helped me with that. It has also allowed me to stay connected with friends easier, I can do things like FaceTime friends, and we can sign to each other."

"It might sound a little bit cheesy but that really is life-changing."



Increasing access to banking continued

Consumer Digital Index

As part of our dedicated effort to understand and address the digital and financial capability landscape in the UK, we make use of and review unique datasets, along with our analytical capabilities and research partnerships. By sharing our findings with partners, we aim to actively contribute to raising awareness about the profound impact confidence and proficiency in digital and financial capability can have on people's lives.

The annual publication of the Consumer Digital Index report, now in its eighth year, highlights our commitment to tracking and analysing people's behaviours and attitudes towards technology, online services and financial wellbeing. This report serves as a significant resource for understanding the evolving digital landscape in the UK, utilised by the Department for Education and other organisations.

The integration of the Essential Digital Skills Benchmark into the Consumer Digital Index Report provides a comprehensive view of the digital skills necessary for independent internet access and for navigating everyday life and work. This benchmark is a crucial tool for assessing, informing and improving digital literacy.

Supporting the Department of Education through our proactive approach in measuring the Essential Digital Skills Framework, we aim to reinforce our broader commitment to Helping Britain Prosper through supporting societal wellbeing and education.

2,500

students supported through face-to-face financial education lessons

Making money meaningful with financial education

We continue to offer help to children and young adults across the UK to better understand the value of money and manage their finances day-to-day as they transition to financial independence. Our activity is primarily delivered face-to-face by colleague volunteers in schools and further education establishments.

We also have a range of free, newly Quality Mark accredited resources that are available for download via the Lloyds Bank Academy site. Employers can also use the content to build it into their apprenticeship and graduate enrichment programmes, and our materials are available for colleagues to support their own families/friends, networks and communities.

In 2023, over 350 colleagues used their skills and the resources to deliver face-to-face financial education lessons to over 2,500 students in 22 different educational environments across the UK. We continue to work with Young Enterprise to ensure that the learning outcomes of our resources are in line with recommendations from the Money and Pensions Service, and work collaboratively with our peer organisations through our engagement with UK Finance. We also continue to actively promote Talk Money Week.

Purpose in action

The Digital Helpline

Partnering with We Are Group to provide a digital helpline for Lloyds Bank, Halifax and Bank of Scotland customers, as well as people across the UK, has allowed the Group to take a collaborative approach to addressing digital inclusion.

In 2023 we were able to provide assistance through this initiative, covering a wide range of essential digital skills, from basic tasks like switching on a device and connecting to the internet, to more advanced functions like setting up online banking and booking appointments.

The free initiative to provide tablet devices, along with a SIM card with a data allowance, for those who do not have access to a device or cannot afford one, is a significant step

towards bridging the digital divide. Coupled with training from the Digital Helpline, this ensures that individuals not only receive the necessary tools but also the knowledge to use them effectively.

The personalised approach of trainers spending up to two hours at a time with individuals acknowledges that each person may have different learning needs and speeds.

By providing telephony support and comprehensive training through The Digital Helpline we are empowering individuals to navigate the digital world.



SDG 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.



Access to quality housing

Access to housing is increasingly being recognised as a core condition in the creation of a sustainable and inclusive UK society – providing household and financial security, and supporting healthy lives, strong communities and economic productivity.



The Group operates across the full UK housing ecosystem, supporting housing development and access, through to improvements and protection. This means that the Group has the capability, scale and external relationships to drive positive change in this sector.

2023 highlights

340

The Group supports over 340 housing associations across the UK

£2.7bn

of new funding supported to the social housing sector

>£12bn

of funding provided to first-time buyers



Supporting the UK housing market

Supporting the UK housing market

Underpinning the Group's social purpose is a desire to be part of building an inclusive and sustainable society. Access to quality housing is a fundamental human need with affordable and stable homes giving people a foundation on which they can thrive. The Group is one of the largest funders of the UK housing sector and we are committed to expanding the availability and affordability of safe, quality and sustainable housing. The Group is an integral part of the UK's housing landscape with millions of people benefitting from stable and genuinely affordable homes.

Access to secure and quality housing is becoming increasingly challenging. We're uniquely placed to enact change and want to explore the opportunities to increase access to the benefits of home ownership, including through shared ownership, supporting a quality rental and social housing sector, taking the building of housing that supports inclusive communities further and increasing the availability of specialist housing.

Supply and accessibility of social housing

Research tells us that social housing adds value to society by reducing unemployment, improving health outcomes and improving educational performance. This is why we continue to champion social housing in the UK – we know the importance of a home and we are here to Help Britain Prosper.

We have been by the side of the social housing sector for decades and our vision is to enable accessible, quality and sustainable housing that meets the UK's long-term needs, and our strategy is focused on the three core pillars of Supply, Accessibility and Sustainability.



Hear more on discussions, insights and challenges in social housing in our 'Making Sense of Social Housing' podcasts

Social housing is an integral part of the UK's housing landscape with millions of people benefitting from stable and genuinely affordable homes. We support over 340 housing associations across the UK, from small local associations of several hundred homes to larger regional associations with tens of thousands of homes. Since 2018, we have supported over £17 billion of new funding to the sector. In 2023 we have supported £2.7 billion of new funding to the social housing sector, of which £1.4 billion is sustainable (green or social use of proceeds) or sustainability-linked (including key ESG performance indicators).

Our funding is used by our housing association customers to continue to invest and improve the quality of their homes, through to building new homes as well as supporting energy efficiency and retrofit improvements, helping to reduce energy bills to tackle fuel poverty.

During 2023, we reviewed our social housing lending policy so that, where applicable, associations can accelerate spending on tenant safety, damp and mould, retrofit and increasing the supply of new homes. Reflecting this, we have migrated a range of clients who are benefitting from a combined year 1 increase in financial capacity of over £500 million, a cumulative increase of c.£3 billion over a five year period.

We want to use our scale and reach to help shape a housing market that works for all. During the year we created a national housing convening group, and as part of this process we are engaging with key stakeholders to understand what more we can do to support the challenging aspects of financing retrofitting of properties to improve tenant wellbeing and to increase the amount of affordable housing developments.

>£17bn

of new funding supported to the social housing sector since 2018

Supporting small to medium-sized housebuilders

Housing Growth Partnership (HGP) is an equity investor and part of the Group. HGP invest patient capital with the purpose of delivering social impact through partnership with selected residential developers and housebuilders to increase the number of homes being delivered and help our partners grow. Find out more about the impact we have already made on [page 52](#) and at **Social Impact Investor**.

Supporting the rental market

The Group is working to improve quality in the private rented sector. In 2022 we published research in collaboration with Social Finance exploring how lenders can improve the private rented sector. The report concluded that a National Landlord Register in England will have a significant impact on housing quality and conditions for tenants, and emphasises there is a golden opportunity to design the register in such a way so that mortgage providers can use it to inform lending decisions, influence landlord behaviour and help reduce the burden of the enforcement. We have continued to engage the industry and political stakeholders on the opportunity for mortgage providers to use a Property Portal in England.

Our BM Solutions business have teamed up with the Energy Savings Trust to help clients make changes to their properties to become more friendly for the environment, as well as guidance for landlords to make energy efficiency improvements to their properties, how to manage current and proposed EPC changes and guidance for our clients on the government grants and schemes available to fund energy efficient property improvements. Our BM Business Development Managers frequently educate brokers on private rented sector regulation and proposed standards relevant to landlords in the different nations of the UK.

Purpose in action

The Good Economy

During 2023, Scottish Widows commissioned specialist impact advisers The Good Economy (TGE) to develop a framework which can be used to measure and report on the social impact of the housing and real estate portion of its loan book. Ultimately, the aim of this was to provide insight into the real-world impact for people and places delivered through Scottish Widows' lending activities in these sectors.

Through a mix of qualitative and quantitative data – including staff and client interviews, client survey and analysis of lending data – TGE developed a social impact framework and undertook an assessment of Scottish Widows existing real estate and social housing loan book, which was published in January 2024.

Key findings from the report include:

- 69 per cent of homes financed located in the 40 per cent most deprived local authorities in terms of housing deprivation
- c.57,000 full-time equivalent jobs supported across Scottish Widows' commercial portfolio
- 45 per cent of the estimated jobs fall within local authority areas where the need for 'good jobs' is higher

Full analysis and methodology can be found in the [Scottish Widows housing and real estate investment impact report](#)



SDG 8.10: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

SDG 11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

Our partnership with Crisis



SDG 11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

SDG 11.3: By 2030, enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.

SDG 17.7: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

In 2023 Lloyds Banking Group and Crisis, a UK national charity for people experiencing homelessness, joined forces through a new two-year partnership to help tackle the shortage of good-quality, affordable homes in Great Britain (working with Simon Community in Northern Ireland), which is leaving hundreds of thousands of people trapped in homelessness.

Access to decent quality homes is a fundamental part of solving homelessness. Good-quality social housing in the UK is becoming increasingly scarce, with not enough homes being built to meet demand and too many homes in disrepair and in poor condition. With a severe shortage of good, genuinely affordable homes, millions of people across the UK are trapped in poor-quality housing.

Increasing the provision of social homes can help some people on the journey to home ownership. Those in social housing pay lower rents than if renting privately, which for some people gives more of an opportunity to save for a deposit on a first home. We recognise the urgent need for more genuinely affordable and secure homes to be made available to those on low incomes.

Driven by our purpose of Helping Britain Prosper, we want to help Crisis achieve its aim to end homelessness for good. Making sure that everyone has a safe and affordable home is not only the right thing to do, it creates a stronger and more productive society and benefits us all.

Together, Lloyds Banking Group and Crisis are calling for one million new genuinely affordable homes to be built and made available to those on the lowest incomes by 2033, with a focus on supporting people at risk of and experiencing homelessness.

Lloyds Banking Group will also support Crisis to partner with Homes for Good to develop and launch a new lettings agency, Good Place Lettings, in response to the chronic affordable housing shortage. This innovative new agency will match and support both tenants and landlords and avoid poor and exclusionary practices in the private rented sector. It will be fair for tenants and for landlords.

“Our partnership with Lloyds Banking Group will ensure we can take the bold action that is desperately needed to begin tackling the biggest issue facing the people we support – the chronic shortage of good-quality, affordable housing. Our new lettings agency will mean we can help people experiencing homelessness directly into a safe, settled homes, the essential foundation they need to rebuild their lives.

We are delighted to have the support of Lloyds Banking Group and its staff in our mission to end homelessness. The money raised and expertise shared through the partnership will also enable us to continue our vital support for people experiencing homelessness, helping more and more people to leave homelessness behind for good.

Matt Downie
Chief Executive at Crisis



Working together to end homelessness



Access to quality housing continued

Citra Living

To help boost the supply of high-quality homes in this market, the Group launched Citra Living in 2021, which aims to increase new housing supply and the availability of sustainable, quality homes while supporting our regional regeneration ambitions.

Citra Living is working with leading housebuilders and developers through strategic partnerships to accelerate the delivery of housing, with Citra Living providing homes for private rent.

In 2023 Citra launched 'Pathways', which provides renters the ability to buy their home through Shared Ownership, and will be looking to expand this offer through 2024. Citra has also undertaken its first retrofit scheme as well as an initial 'zero bills' pilot with Octopus Energy.

As well as ensuring continued support for the housebuilding sector, Citra aims to respond to the increase in demand for rental properties, provide renters with a route to home ownership, while also taking steps to decarbonise existing homes. The properties will provide modern, good-quality living to meet the demands of a growing market, and they will be within easy reach of local transport, amenities and leisure facilities.

Sustainability in housing

The UK has a commitment to achieve net zero by 2050. The decarbonisation of buildings, which currently contribute 17 per cent of the UK's total carbon emissions, will be key to achieving this¹.

With the help of WPI Economic and Censuswide, we produced a report: Decarbonising the UK's Homes: A Housing Stocktake, dealing specifically with UK housing stock to provide a thorough look at the current state of decarbonisation across UK homes and residential properties. The research identified the main barriers to decarbonisation and, importantly, contained knowledge gleaned from homeowners and landlords who have gone through the process already.

Since launch, we have provided over 3,000 customers with cashback for approved energy improvement initiatives through our Halifax Green Living Reward and Lloyds Bank Eco Home Reward. As part of our recent Making Homes Greener initiative, we are calling on the UK government to deliver a clear, five-point plan to help make the UK's homes more energy efficient. Yet despite the progress we've already made in supporting our customers to boost the energy efficiency of their homes, we know that now is not the time for complacency.

Reducing carbon emissions and helping our customers make their homes warmer and cheaper will require collective action and collaboration from policymakers, energy companies, house builders, landlords and banks to tackle the challenges ahead.

Retrofitting plays a key role in achieving the UK government's net zero targets while also helping tenants improve their quality of life, as well as reducing their bills. This is especially important when considering the needs of vulnerable customers with low financial resilience – many of whom are social housing tenants.

Since 2021 we have supported around £4.8 billion to accelerate sustainability ambition, including investment in making the UK's social housing stock more energy efficient. However, more still needs to be done to both increase the supply of new social homes while urgently retrofitting existing stock to increase its thermal efficiency. This would not only help to reduce the UK's carbon footprint, but could also bring about a better standard of living and improved health outcomes for social housing tenants.

Our role is to work closely with our clients to support them in striking the right balance between building new homes and improving existing stock, to bring about the best outcomes for social housing tenants, and to Help Britain Prosper.

To help support a move towards sustainable buildings, our customers have free-of-charge access to our Green Buildings Tool – a digital insights calculator that helps to identify, evaluate and understand the estimated outcomes of potential investments to make properties greener. Since 2019, 2 billion square feet of real estate has been assessed using our [Green Buildings Tool](#)¹.

Purpose in action



Supporting Pobl Group

The largest housing association in Wales, Pobl Group ('Pobl' is Welsh for 'people'), is developing 10,000 new sustainable homes across South Wales over the next 10 years. In 2023, Lloyds Bank supported Pobl Group with a sustainability-linked loan of £100 million. Pobl's goal is to increase the energy efficiency of 95 per cent of the new homes developed over the next four years with a target to have an Energy Performance Certificate (EPC) rating B or above, while delivering close to 1,000 homes which meet EPC A standards.

The sustainability-linked loan from Lloyds Bank incentivises Pobl Group to meet its targets on energy ratings for new homes, invest in retrofitting its existing properties, and help to achieve Pobl's ambitions for 10,000 new green homes across South Wales in a decade.

As parts of its efforts, Pobl is undertaking the UK's largest solar energy retrofit scheme – equipping hundreds of homes with solar panels, battery storage and zero carbon energy from renewable sources.

Across the UK, residential housing accounts for 16 per cent of carbon emissions, which is why the leadership of Housing Associations such as Pobl is so critical to the Group's net zero targets. They are creating strong, sustainable communities which will work for and with residents long into the future.



SDG 7.3: By 2030, double the global rate of improvement in energy efficiency.

SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmental-sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

SDG 11.1: By 2030 ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

¹ Estimated 2022 direct emissions as reported in the Climate Change Committee's June 2023 Progress Report.

Access to quality housing continued

Sustainability reporting standards for social housing

In 2021 Lloyds Bank and Scottish Widows adopted the Sustainability Reporting Standards for Social Housing 'SRS', with board representation on Sustainability for Housing Ltd which governs and oversees the SRS and its continued evolution. It is a voluntary reporting standard that has seen increasing adoption by clients. It seeks to increase transparency and reporting consistency to create common reporting standards, with the ultimate aim of driving increased investment and capital into the sector.

Since the launch of the SRS in 2021, over 100 housing associations have adopted the framework with nearly 70 additional funders, investors and endorsers; this includes housing providers overseeing over 2.2 million homes across the UK and funders with more than £1 trillion of assets under management. A second version of the standard was launched at the end of 2023 placing a greater focus on sector priorities as well as helping the sector keep pace with relevant international frameworks, making it easier for adopters to demonstrate their ESG credentials.

“The Sustainable Reporting Standard for Social Housing has grown from a great ESG partnership between the finance and social housing sectors to influencing communication, ambition and strategy across social housing. Lloyds have been key players on this journey.”

They have provided critical sponsorship, but more importantly they have provided leadership, counsel (from across the whole organisation not just Housing) and support. They have walked the talk and believe that integrating the net zero journey is part of maximising commercial success.

Brendan Sarsfield
Chair of Sustainability for Housing Ltd

The updated version places even greater emphasis on the sector priorities, and particularly resident issues, with specific questions aimed at improving transparency around how adopters are dealing with the issues of damp and mould in the sector, along with questions around net zero targets and a greater focus on equality, diversity and inclusion.

Sustainability across real estate and housing

In 2022 we supported the creation of national sustainability standards for new build homes, as part of our role on the NextGeneration Executive Committee alongside Homes England and the UK Green Building Council. We contributed to the development of two new sustainability standards – NextGeneration Project and NextGeneration Core – both being created to support small and medium-sized housebuilders to assess their own sustainability performance. These new standards help them begin or accelerate their sustainability journeys by reducing complexity and focusing on the areas that will make the most difference.

To complement these new sustainability standards for UK housebuilders, we have launched our own Housebuilding Sustainability Finance Framework. This framework sets out how we will help housebuilders access green and sustainable finance to build more sustainable homes. We believe that our framework was one of the first sector-based financing frameworks issued by a financial institution in the UK and illustrates the real focus we have on this important sector. Our ambition is that we work with housebuilders to help build modern homes to a high standard that are cheaper to live in and less damaging to the environment.

During 2023 we supported the delivery of £2.4 billion of sustainable or sustainability-linked finance to the housebuilder sector. We also sponsored the inaugural Future Homes Conference held in November, which announced the alignment between the Futures Homes Hub and the NextGeneration Initiative to support the housebuilding sector to deliver and comply with the Future Homes Standard which is being established by the government.

Purpose in action

Supporting Stonewater



Stonewater secured £200 million funding from the Group to support its continued development and improvement programme. Stonewater owns and manages around 36,000 homes for more than 78,000 customers, predominantly across central and the south of England. The social housing provider also took the opportunity to transition to a sustainability-linked loan where it will be measured against three key performance indicators to benefit from savings on its funding.

It has committed to investing in retrofitting existing homes to exceed the current minimum regulations. As part of the new agreement, Stonewater has also pledged to deliver new

affordable homes that surpass minimum planning regulations in relation to energy efficiency measures, with a high percentage reaching SAP 86 and above.

“This is an important agreement for Stonewater as it continues the progress we are making towards more affordable, lower-carbon homes for our customers. It is also a clear demonstration of the financial strength of our organisation, which allows us to focus on existing customers, while delivering much-needed affordable homes for others in society.”

Anne Costain
Stonewater’s Chief Financial Officer

SDG 7.3: By 2030, Double the global rate of improvement in energy efficiency.

SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.



Access to quality housing continued

Industry partnerships and supporting skills development

Real Estate Balance

In 2023, we announced a partnership with Real Estate Balance, a campaigning organisation working to improve diversity and inclusion in the real estate industry with a target of 50 per cent representation of women on boards. Real Estate Balance works closely with industry leaders to support them in making cultural changes and identifying best practice, contribution to the enhanced performance of the industry.

Importance of just transition using Onward Homes

We recognise the importance of increasing digital access within our communities and supporting all of our customers to access services online, so that they can benefit from the opportunities that digital brings, as well as tackling social isolation.

In 2023 we partnered with Onward, one of the largest registered providers of social housing based in the north-west of England, with 35,000 homes, to deliver free in-person digital skills classes for residents living in their sheltered schemes in Merseyside. The pilot programme has been rolled out to three of the housing associations over-65s schemes to help close the digital gap often encountered by older residents.

During the sessions, the Lloyds Bank Academy provided expert-led training on internet basics, how to use tablet devices, as well as digital apps and features such as social media and video calling. Other practical tips included online banking safety, sending emails, keeping in touch with friends and family through video calls and social media, and being cyber-secure. More than 30 residents signed up for the course, each receiving a free tablet and, through Lloyds Bank Academy's partnership with Vodafone, free data for six months.

363

young people from under-represented backgrounds reached through Regeneration Braineries in 2023

Purpose in action

Regeneration Braineries

In 2021, we announced a three-year headline partnership with Regeneration Braineries, an award-winning, non-profit academy for school leavers from underrepresented backgrounds. Regeneration Braineries is aimed at tackling the skills shortage by boosting diversity in the property, construction and regeneration industries and combatting the lack of hands-on experience for young people in the sector. The free Regeneration Braineries academy offers interactive week-long workshops, bootcamps in schools and colleges, as well as practical real-world work experience.

To date, Regeneration Braineries has inspired over 6,000 young people and grown their ambassador network to over 300, alongside over 500 industry mentors. In 2023, with our support, Regeneration Braineries reached 363 brainees via 14 braineries and bootcamps across key regional cities, with further braineries planned across the UK in 2024.

Michele Steel, Chief Executive Regeneration Braineries, said: "Our partnership with Lloyds Bank has enabled us to expand our reach far beyond our initial expectations. The commitment and support from all the team at Lloyds has helped shaped future career paths for hundreds of young people, providing opportunities that they would not normally have and changing lives, literally."

Lewis, now a graduate of the Regeneration Braineries Academy, had really struggled with what to do with his studies and future career. Following studying at a specialised engineering academy and starting a Construction and Built Environment Diploma course at college, Lewis was recommended to the Regeneration Braineries Bootcamp in Stoke, where he learnt about a whole raft of roles in property and regeneration.

Lewis said: "Regeneration Braineries is honestly life-changing if you capitalise on the opportunities they offer. They offer opportunities in areas that need it the most and help to

show you that it doesn't matter what your background is or where you're from, there's a place for everyone in the industry. My advice would be to grasp every opportunity associated with Regeneration Braineries with both hands and the results will speak for themselves."

Regeneration Braineries secured work experience for Lewis across the country. He attended UKREiIF with Regeneration Braineries and used his networking skills to secure more work experience with a project manager. He is now planning to complete the second year of his Diploma and work with Regeneration Braineries to secure a degree apprenticeship in construction project management.

Through our active contribution, Regeneration Braineries have gone from strength to strength, winning the Social Impact Award at the 2022 ESG Estate Gazette Awards as well as 'Social Impact Initiative of the Year' at the RESI Awards 2023 and Property Week Awards 2023, and have been shortlisted for Social Mobility Initiative of the Year at the British Diversity Awards 2024.


We will continue to work with them to provide young people from different backgrounds with an introduction to the property world, helping to inspire the next generation of talent whilst bridging the future skills and diversity challenges in the sector.



SDG 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.



 See **page 93** for details on the Group's approach to a Just Transition

Access to quality housing continued

Home ownership

Supporting our mortgage customers

As the UK's largest mortgage lender, we are supporting more and more of our customers to buy their first home. We currently support one in five first-time buyers to get on the housing ladder and in 2023, we have provided over £12 billion of funding to first-time buyers.

Through our family of brands, we offer savings tools and provide a range of deposit-saving options. We provide a range of mortgages for first-time buyer and home mover mortgages. For those aspiring to own their own home but struggling to find a deposit, intergenerational options such as our 'Lend a Hand' mortgage from Lloyds Bank allows a family member to put down 10 per cent of the purchase price of a home into a three-year, fixed term savings account.

>£12bn
of funding provided to first-time buyers in 2023



Shared ownership

Shared ownership offers a potential pathway into home ownership for those initially unable to access full ownership. In our mortgage offer, we are enhancing eligibility for our shared ownership proposition through a review of affordability and eligibility parameters.

We are committed to helping more renters and first-time buyers own their own home and have been convening conversations across the housing industry to explore how shared ownership, including expansion to older homes and private schemes, can be made more accessible to potential first-time buyers.

We have expanded our shared ownership support in 2023 through the launch of a partnership with Citra Pathways, providing customers with an opportunity to rent, with an option to move to shared ownership through a mortgage with Halifax or Lloyds.

We also support a range of government-sponsored affordable housing initiatives, including Right to Buy, and the First Homes initiative, which aims to help young people and key workers get on the housing ladder by being able to purchase a home with at least a 30 per cent discount to market value.

We have been supporting the Mortgage Guarantee Scheme, since its launch in April 2021, which helps customers with less than a 10 per cent deposit looking to borrow up to £570,000.

Supporting regional development and communities

Our success is intrinsically linked with the success of the UK's regions and nations.



We have a significant regional presence, supporting communities across the country every day.

The Group has made a number of public commitments to support our local communities, engaging them and ensuring that they positively benefit from our societal ambitions. We encourage colleagues to volunteer their time and expertise to support our programmes, many of which involve local charities and community organisations as well as social enterprises.

2023 highlights

Launched our Liverpool City Region Housing Initiative

>£46m

in community investment in 2023

£120m

donated to our Foundations since 2018

Supporting regional development

The Group's objective is to become a leading partner in the regeneration of low-income regions and communities, helping to address regional inequality as part of our purpose of Helping Britain Prosper.



Our regional impact

We are committed to supporting the UK's regions and nations and we want to play our part to address the considerable disparity which exists between different parts of the UK.

The Group already has a significant regional presence across the nations of the UK, whether this be lending to local businesses, funding critical infrastructure projects, supporting the education sector or helping to build more homes, alongside our personal customer relationships across all communities. However, we are directing incremental resources to support the priorities of lower income regions, stretching us to go even further in these places. Our aim is to stimulate increased investment, working closely with business leaders and local and regional government to help create thriving communities.

We have identified three particular areas where the Group is best placed to make a contribution:

- Creating economic opportunity
- Regenerating housing and communities
- Capturing the benefits of net zero transition

High-growth clusters are key to boosting regional productivity. Enabling similar sectors, such as the life sciences, technology and advanced manufacturing, to work together in close proximity can have many benefits including sharing knowledge and innovating but also attracting investment, which further boosts productivity. Clusters often emerge around universities and science parks and we are developing a detailed understanding of where the UK's clusters exist and in which sectors. This will enable us to best direct our resources to invest in and support these clusters so that they can maximise their potential, delivering on our Group purpose of Helping Britain Prosper.

Some examples of how we have supported the regions of the UK in 2023 to be more sustainable and inclusive include:

- The **HGP** (Housing Growth Partnership) announced the launch of a £390 million joint venture with Thriving Investments, with the aim of **delivering 1,200 sustainable homes** across regional city communities. Its first investment is the initial phase of a highly sustainable 400-home development Dundashill in Glasgow. The HGP is backed by the Group and Homes England, supporting housebuilders and developers to address the UK housing shortage.
- **Power Roll Ltd** has created and patented a lower cost alternative to solar panels. The company is based in County Durham and its innovative solar photovoltaic film uses proprietary micro-groove technology which is lighter and more flexible than traditional panels and can be deployed on almost any surface. As a small business, there was a limited capacity to employ financial experts, so we have supported them with treasury services and deposit accounts.



Artist impression of Dundashill development, Glasgow

Supporting regional development and communities continued



We are working together to unlock opportunities which include assessing regeneration sites with the potential for new homes.

- We are supporting **Brockwell Energy** with the construction of North Kyle Wind, an onshore windfarm in East Ayrshire. Our £60 million funding commitment will see 49 wind turbines built on land previously used for coal mining in southwest Scotland, supporting our carbon reduction target for the power sector.
- **Waxman Energy Ltd** has grown its distribution capacity for its range of solar and battery storage products due to increasing demand. Our funding enabled the acquisition of three additional warehouses in West Yorkshire to store and supply more energy efficient products.
- We continue to support **social housing providers** across the UK, helping them to both build new sustainable homes as well as making their existing housing stock more environmentally friendly. One example is **Adra Housing Association** in North Wales which received a £40 million sustainability-linked loan, with loan pricing linked to meeting sustainability targets.
- **Viscose Closures** is a leading UK manufacturer of tamper evident packaging that provides visible security to demonstrate that products have not been tampered with. The firm employs 45 people in Swansea and is the world's only producer of a tamper evident band that is biodegradable, compostable and completely plastic-free. Our funding has supported the purchase of 250 solar panels and has also enabled the purchase of new machinery to improve productivity and reduce waste.
- We've enabled **Russell Homes** to support the delivery of **103 new, affordable family homes** in Wincham, Cheshire. There is a shortage of affordable homes in the area and the development has received a silver rating from Next Generation, backed by Lloyds, Homes England and the UK Green Building Council where housing developments exceed minimum sustainability standards.
- We have provided £75 million of liquidity funding to support **Newcastle University** with its capital investment programme. The university is renowned for its research quality, academic excellence and global impact and it enjoys a strong reputation in subject areas such as computer science and engineering, enabling students to acquire skills of growing importance for the future workplace.

Spotlight on Liverpool

We have developed a close relationship with stakeholders in the Liverpool City Region as we deepen our engagement in one place, enabling us to understand the challenges faced and how we can support the region to fulfill its potential.

The city of Liverpool has a powerful global brand in sport and music, and its world-class research facilities, especially in health, life sciences and technology, have led to the creation of a high-growth cluster in the city.

During 2023 we launched our flagship Liverpool City Region Housing Initiative. The Initiative is being driven by the Group, Liverpool City Region Combined Authority, and key city housing partners. It aims to deliver practical action to address housing challenges.



Following a research phase, we are working together to unlock opportunities which include assessing regeneration sites with the potential for new homes and determining options for more enduring housing partnerships. We are already seeing national interest in our innovative approach to tackling the housing challenges in Liverpool, with the intention that our proposals could be replicated in other cities across the UK's regions and nations.

Liverpool's Knowledge Quarter (KQ) has become one of the UK's leading innovation districts, with the state-of-the-art Spine building at its centre. Working closely with KQ, we are helping Liverpool's entrepreneurs and small businesses to navigate the early stages of their journey. We support KQ's Start-up initiative as well as offering drop-in sessions at the Spine building, providing guidance on banking and finance, net zero transition, and skills and mentoring programmes, including our Start Up Scale Up initiative. This initiative was launched during 2023 and was attended by 37 businesses, all looking for their springboard to growth via a tailored 8-week programme, held in the Spine building. You can read more about our productivity and skills programmes, including Start Up Scale Up, on [page 40](#).

We have developed a close relationship with stakeholders in the Liverpool City Region.

Supporting regional development and communities continued



Purpose in action



SDG 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.

Enabling better digital connectivity

Gigaclear provides ultrafast broadband to underserved communities

High-speed, reliable broadband drives growth and productivity in the UK's regions, widening job opportunities and encouraging people to stay in their local area.

Digital connectivity is of growing importance in our increasingly digital world. It has the potential to allow high-productivity technology clusters to emerge, such as fintech and e-commerce. In addition, it supports a net zero transition, by enabling workers to work from home if they choose, thus reducing travel-related emissions.

Gigaclear designs, builds and operates ultrafast, pure fibre, broadband networks to underserved rural communities and harder to reach locations across the UK, providing high speed internet access to both retail and business customers. Established in 2010, Gigaclear is now the UK's largest rural fibre-to-the-premises provider, laying more than 12,000km of fibre cabling.

Building on our existing funding to Gigaclear, during 2023 we supported the UK Infrastructure Bank in providing a debt guarantee covering £240 million of bank commitments to help Gigaclear achieve its aim of doubling its network size to cover nearly one million rural homes across the UK by 2025.

Supporting the net zero transition in the UK's regions

Accelerating the transition to net zero is an important part of our Regional Development ambition as we work alongside the UK's regions to capture the benefits of transition, including harnessing jobs and economic opportunities that come from a low carbon economy.

During 2022 we launched the Local Low Carbon Accelerator where we worked alongside Octopus, National Grid, Shell and the UK Infrastructure Bank. This identified opportunities to accelerate regional net zero infrastructure which focused on the retrofitting of homes in Leeds, zero emission bus franchising in Liverpool and electric vehicle charging infrastructure in the West Midlands, working with the local authorities in these places.

We built on this in 2023 with a series of regional roundtable events, sharing the outcomes and lessons from this work with other local authorities, central government and key industry players as we help to identify and share replicable solutions to these key energy challenges.

As a direct result of this activity, we are partnering with Octopus, and working with Leeds City Council with the aim of testing whether a local, place-based vehicle to provide retrofit services and access to finance can unlock increased pace of delivery in retrofitting the UK's housing stock.



Supporting our communities

Sitting at the heart of communities across the UK and Channel Islands, we play an active role in helping them in a number of different ways including: colleague volunteering; support for community groups and organisations; donations to our independent Foundations; and fundraising for local charities.

Our investment into communities takes on many forms, including direct cash donations, colleague time and fundraising. Aligned to B4SI standards, we invested more than £46 million into the community last year.

>£46m

in community investment in 2023



Purpose in action

Group colleagues add further value to our Foundations' grants through volunteering and skills sharing.

Our partnership goes much further than traditional funding; we share skills, time and expertise with the Foundations, with hundreds of colleagues getting involved. This deepens our colleagues' sense of connection with their communities, enables them to develop a greater understanding of the needs, aspirations and strengths of people facing complex issues, and develops skills that they can bring back into their roles at the Bank.

Caroline Moorhouse, Product Manager, Homes Demand Generation became a Treasurer/Trustee for Leeds-based charity, Basis Yorkshire, in summer 2023. They are one of the many charities supported by the Lloyds Bank Foundation for England and Wales. The charity aims to end stigma, create safety and promote empowerment for women and young people. It provides information and support for women working in the sex industry and offers intensive one-on-one support to young people involved in or at medium to high risk of child sexual exploitation. The Foundation has supported the charity since 2015 with grants totalling £216,864 and a package of organisational support.

“Upon hearing that Basis Yorkshire were looking for a Treasurer/Trustee, I jumped at the chance. It’s been a fantastic experience getting to know the team, learning about their impactful work and being able to add value to the charity through my network and knowledge. The time I give the charity not only helps them but I have benefitted significantly in my own journey from this experience too.

Caroline Moorehouse
Product Manager, Homes Demand Generation



SDG 16.2: End abuse, exploitation, trafficking and all forms of violence against and torture of children.

SDG 17.7: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

Our Foundations

Tackling social disadvantage in the communities that need it most

Our four independent charitable Foundations have been providing vital support to small charities across the UK and Channel Islands for the last 38 years, helping tackle social disadvantage in the communities that need it most, partnering with us in our purpose of Helping Britain Prosper.

The Foundations provide an invaluable contribution to the third sector by working with hundreds of small and local charities in their area, providing core funding and other forms of support to help people overcome complex social issues. The Foundations also share their insights, expertise and best practice with the Group to help inform our customer and colleague products and propositions.

Last year, over 2,400 charities were supported through a mix of grant-making and colleague matched giving for their local fundraising and volunteering. In 2023, we donated £24.7 million to our Foundations. In the last five years, we have donated over £120 million.

>2,400

charities supported through a mix of grant-making and colleague matched giving for their local fundraising and volunteering in 2023

Supporting our communities continued

Purpose in action

Skills-based volunteering
By sharing existing skills and knowledge colleagues build greater confidence in their own expertise, learning something new and giving back at the same time.

When the Halifax Foundation for Northern Ireland wanted to update their own website, Experience Design colleagues Steve Heron, Ed Mitchell and Steve Gladwin stepped up with the perfect skills and expertise from their day jobs, and the desire to give something back.



Realising the skills we can offer

Angus Gray, Strategic Workforce Planning, in our People and Places team, reflects on his experience as a mentor for a charity supported by the Bank of Scotland Foundation.

“CEOs and leaders in charities do amazing jobs and that’s probably why I thought that I couldn’t do anything to help. But through monthly conversations I realised I can give a different perspective, a view to consider, an ear to listen. I can help. I have learned that I shouldn’t undervalue the experience and opportunities that we have access to in the Group. Through my network I can open up a huge range of support and access for a charity and I can learn a lot in return.”



 BANK OF SCOTLAND Foundation

Mentoring and trusteeships
Colleagues sometimes gain a real affinity for a charity they have worked with and we encourage them to consider supporting on a longer-term basis.



Charlotte Atkins, Senior Business Support Manager in Customer Channels, began as a mentor at Advocacy Services North East Wales and is now a Trustee



“I have been surprised how my day job at Lloyds Banking Group has provided so much support to a small charity, I love spending time with the team at ASNEW and knowing I am giving something back to my local community makes the difference.”

A charity response forum is a 2,5 hour virtual collaboration between a group of colleagues and the senior leader from a charity that our Foundations support, helping the charity to explore solutions to current issues, shape ideas and direction for the charity.

Theresa Carruthers, Strategic Relationship Manager, Intermediary Sales, Insurance, Pensions & Investments, supported Wonderfully Made Woman, a Manchester-based charity that seeks to help women of all ages and backgrounds that have faced significant adversity build confidence and thrive:

“We had a great group of colleagues, each with a different perspective, so we were able to add value in different ways. I was able to draw on current and past experience and bring forward ideas and suggestions. We all bounced off one another and built on ideas, coming up with some great actions for the charity to take forward. It felt so good to be able to help.”

Our Foundations fund matched-giving
Colleagues can claim up to £1,000 matched giving against fundraising or volunteer time.

Natasha Kowalewska, Lloyds Bank Capital Markets, Islands, braved an abseil and fundraised more than £500 for the Jersey Cheshire Home, which is the only residential facility on the Island caring solely for adults with disabilities. She claimed the matched £500 through Lloyds Bank Foundation for the Channel Islands.



Suzy Webb, Lloyds Bank Capital Markets, Islands volunteers for Caring Cooks, a Jersey-based charity providing a weekly Community Meal Service for Islanders who are experiencing hardship. Suzy says, “As well as volunteering my time, the Group’s Matched Giving Programme means Caring Cooks have the added benefit of £10 per hour for my time, which will really help towards the cost of the food they are providing.”



 LLOYDS BANK FOUNDATION England & Wales

Supporting our communities continued

Colleague volunteering

As we continue to see growing interest from colleagues eager to service local communities, we have taken the opportunity to closely align our primary volunteering themes to our Group’s purpose and strategic partnerships to support our impact as a Group on our key focus areas to Help Britain Prosper.

In 2023, we have rebranded our volunteering programme as ‘Time to Make a Difference’ – highlighting both that the Group supports a minimum of eight hours a year within work time to volunteer and that in the current economic climate there really is no time better to get involved.

Throughout 2023, 6,273 colleagues gifted more than 90,000 hours of volunteering, including using a wide variety of their skills across our Purpose aligned themes of sustainability, charitable foundations, financial education and housing/homelessness.

90,000

hours of volunteering gifted by colleagues in 2023



Charity partnerships

Woodland Trust

Since January 2020, the Group has been working in partnership with the Woodland Trust to plant 10 million trees in the UK by the end of the decade as part of our commitment to finance a greener future and support the transition to a low carbon economy. These trees are estimated to have the potential to absorb around 2.5 million tonnes of carbon dioxide in their lifetime.

This partnership has planted 4 million native trees across the UK since 2020 – in our new ‘woods within woods’, in partnership with the agriculture sector and communities. Around 1,100 colleagues have planted over 22,000 trees at 65 tree planting events during 2023.

4m

native trees planted in partnership with Woodlands Trust since 2020

>£1.3m

fundraising raised by colleagues and customers to support Crisis

22,000

trees planted by colleagues in 2023

Our partnership is supporting the agriculture sector to decarbonise by offering preferential funding for more than 0.5ha of new woodland which brings down the cost of trees and hedges to farmers, and also supports communities to plant trees locally with the Woodland Trust’s Free Trees programme, planting 100,000 trees during 2023.

Crisis and Simon Community

It is estimated that over 227,000 families and individuals across the UK are facing homelessness. Through our partnership we are working with Crisis (and Simon Community in Northern Ireland) to help them to provide the support that will help people to leave homelessness behind for good.

Through our partnership, Crisis will launch Good Place Lettings Agency, breaking down the barriers that people face in accessing affordable housing. Our partnership will also help people to rebuild their lives and become financially secure through a Changing Lives grant programme.

These grants will help people to make their house a home and support financial stability through support to access further education, employment or for people to start their own business.

Finally, through our work together we aim to support Crisis to ‘Activate the Nation’ aiming to equip the UK with the solutions to end and prevent homelessness.

Through colleague and customer fundraising, over £1.3 million has been raised to support Crisis (and Simon Community in Northern Ireland) with over 300 colleagues also volunteering their time to support Crisis activities across the UK.

Diversity, equity and inclusion

As a Group, we strive to create a fully inclusive environment for all our colleagues, customers and communities.



Getting this right is at the heart of our purpose to Help Britain Prosper and we have made inclusion a group value to be considered in all our activities.

In 2023, we have continued to take our work forward, expanding our focus and have seen significant recognitions for the work we are doing. As we now seek to transform our business and reshape our ways of working, systems and processes, we have an opportunity to ensure we do so with diversity, equity and inclusion always in mind. We remain committed to driving this vital work forward and ensure we are a business that reflects the society it serves.

2023 highlights

40.1%
senior roles held by women in 2023

1.7%
of senior roles held by Black heritage colleagues

12% by 2025
Our new goal to double the representation of colleagues with disabilities in senior manager roles



Building an inclusive organisation

Inclusion is a core part of our Group values – we learn about and embrace our differences, and seek out diverse perspectives.



Supporting this, we were pleased to be the first FTSE 100 company to set goals to increase both gender and ethnic diversity at senior levels and we continue to commit ourselves to stretching targets, having also set a goal in 2023 to double the representation of senior colleagues with disabilities, the first public commitment of its kind to be launched by a UK bank.

Integrating diversity, equity and inclusion into the way we run our business has been core to our success to date. Beyond our Group-wide goals we also have individual business unit level targets and delivery against these forms a core part of the Group Executive Committee member's individual scorecards and performance conversations.

Our data led approach, which is grounded in key metrics and insight gathered through colleague feedback, helps us to identify opportunities to accelerate progress, by developing bespoke initiatives which help to address business unit or industry specific challenges.

We have launched new colleague advisory panels for Disability, Gender, LGBTQ+ and Life Stages alongside our existing Race and Ethnicity panels. They have been involved in a variety of activities including reviewing campaigns, giving feedback on the latest TV advertising, and supporting system design and new propositions, putting inclusion at the heart of everything we do.

Inclusive Everyday

In our most recent colleague survey, 76 per cent agreed that the Group is an inclusive place to work where diverse perspectives are valued. But we also know from this survey and through listening sessions that we have more work to do.

Colleagues have told us that non-inclusive language and behaviour continue to exist in the Group, and that colleagues don't always feel comfortable challenging this, particularly from senior leaders and customers.

That's why in September 2023, we launched Inclusive Everyday, our ongoing internal campaign to help colleagues understand how they can be more inclusive in their everyday behaviours, language and leadership and support making our business a place we all love to work.

The campaign brings to life our Group values and demonstrates how inclusion is central to creating the conditions for success and increased productivity, where our people can grow with purpose. This is vital as we enter the next phase of our journey to deliver the largest transformation ever in financial services.



We believe a more diverse company is a stronger and more successful company.

Our 2023 diversity, equity and inclusion performance

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

Our 2023 diversity, equity and inclusion performance¹

		Number 2023	% 2023	% 2022
Gender¹	Board members	Men	6	54.5
		Women	5	45.5
	GEC	Men	8	53.3
		Women	7	46.7
	GEC and GEC direct reports	Men	71	53.8
		Women	61	46.2
Senior managers	Men	4,801	59.9	
	Women	3,216	40.1 [✓]	
All colleagues	Men	29,957	43.7	
	Women	38,550	56.3	
Ethnicity¹	Board members ethnicity ²			
	White British or other White	9	81.8	81.8
	Asian Heritage background	1	9.1	9.1
	Other Ethnic group	1	9.1	9.1
	GEC ethnicity ³			
	White British or other White	13	86.7	93.3
	Asian	2	13.3	6.7
	Senior managers from a Minority Ethnic background	890	11.3 [✓]	10.2
	Senior managers from a Black Heritage background	135	1.7 [✓]	1.4
	All colleagues from a Minority Ethnic background	10,362	15.3	13.4
Disability	All colleagues who disclose that they have a disability	8,183	12.2	6.5
	Colleagues in senior roles who disclose that they have a disability	981	12.4	NR
Sexual orientation and gender identity	Colleagues who disclose their sexual orientation	49,085	72.9	68.6
	Colleagues who disclose that they are LGBT+	2,431	3.6	NR
	Colleagues who disclose their gender identity	40,915	60.7	49.6

Methodology and definitions:

- Data is sourced from the HR system (Workday) containing all permanent colleague details
- All data is representative as at 31 December 2023 and diversity calculations are based on headcount, not full-time employee value
- All diversity information for ethnicity, disability, sexual orientation and gender identity is based on voluntary self-declaration by colleagues through our HR system. Our systems do not record diversity data (excluding gender data) of colleagues who have not declared this information and is for UK payroll only
- Ethnicity data excludes non-UK colleagues
- Gender data includes international, those on parental/maternity leave, absent without leave and long-term sick and excludes contractors, Group non-executive directors, temporary and agency staff
- LGBT+ includes 'Asexual/Ace Spectrum, Bisexual/Bi, Gay Man, Lesbian/Gay Woman, Pansexual, Other Sexual Orientation and includes Transgender'
- The Group Executive Committee (GEC) assists the Group Chief Executive in strategic, cross-business or Group-wide matters and inputs to Board. GEC includes the Group Chief Executive and excludes colleagues who report to a member or attendee of the GEC, including administrative or executive support roles (personal assistant, executive assistant). GEC and GEC direct reports includes the Group Chief Executive and colleagues who report to a member or attendee of the GEC, including administrative or executive support roles (personal assistant, executive assistant)
- Senior managers: Grades F, G and Executive (F being the lowest)
- A colleague is an individual who is paid via the Group's payroll and employed on a permanent or fixed-term contract (employed for a limited period). Includes parental leavers and internationals (UK includes Guernsey, Isle of Man, Jersey and Gibraltar). Excludes leavers, Group non-executive directors, contractors, temps and agency staff

1 Data is collated and reported in compliance with the provisions of section 414C(8)(c) Companies Act 2006 and Listing Rule 9.8.6R(10) and (11)

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

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

NR Data point not publicly reported in that period, new disclosure in 2023.

✓ Indicator is subject to Limited ISAE 3000 (revised) assurance by Deloitte LLP for the 2023 Annual Responsible Business Reporting. Deloitte's 2023 assurance statement and the sustainability metrics basis of reporting 2023 are available online at [our download centre](#).

Gender diversity

We are committed to becoming a leader in gender diversity and we're working hard to have a leadership team that reflects the society we serve.

As we continue to work towards our aspiration to have 50 per cent women in senior roles by 2025, our progress has been recognised externally. At the end of 2023, 40.1 per cent of our senior roles were held by women, showing continued year-on-year progress to improving our representation.

During 2023, we were named in the Bloomberg Gender-Equality Index for the fifth year in a row, the Times Top 50 Employers for Gender Equality for the 12th consecutive year and won the Insead Balance in Business Award for Most Impact.

Gender diversity in leadership

We continue to be proud co-sponsors of the FTSE Women Leaders Review. In 2023, we achieved all of the FTSE Women Leaders' recommendations two years ahead of the 2025 target date achieving at least 40 per cent women on the Board, at least 40 per cent women in executive leadership roles and at least one woman in one of the four key roles on the Board. We are aligned to the FCA listing rule 9.8.6 R(9). More information on the gender diversity of our Board is available on page 32 of our [annual report and accounts 2023](#).

Ensuring a gender-diverse recruitment strategy

We have continued to drive progress around developing our talented women and are committed to their progression and recruitment through our existing activities and networks. We use artificial intelligence to improve the tone and language of job adverts to create gender neutrality and, for senior appointments, gender diversity is monitored.

Lloyds Banking Group Returners

Our Returners programme, now in its eighth year, targets professionals who have been on a career break for 18 months or more. It enables Returners to resume their career in a role that matches their skills and experience.

In 2023, we moved from recruiting in cohorts to a business-as-usual model, which has allowed an uncapped number of Returners to join when it suits them. To support hiring managers, we launched a Group-wide learning suite and reviewed and improved our processes to make everything as easy as possible for Returners.

90 per cent of Returners hired by the Group to date are women and 60 per cent are Black Asian or Minority Ethnic, supporting our goals to ensure our teams reflect the society we serve.

Our Returners programme has been recognised externally, winning the Most Successful Returners Strategy at the Women in Banking and Finance Awards 2023 and being named the Best DE&I initiative for Returners at the Business Culture Awards 2023.

Gender Advisory Panel

Along with our other colleague advisory panels, our Gender Advisory Panel launched in 2023 has provided us with support in shaping plans, initiatives, reports and advertising during the year, ensuring we are applying a gender-inclusive lens across all activities.



Gender Pay Gap Report

We have continued to meet our commitment to publish our Gender Pay Gap report.

Continued progress has been made in closing the gender pay gap with the gap reducing by 2.6 per cent to 26.7 per cent (April 2022 to April 2023), the largest improvement since we started reporting. The full pay gap report is available on [our download centre](#).

Supporting our colleagues

In 2023, our women's network, Breakthrough, has continued to support the development of our colleagues and to help them achieve their career aspirations.

The network has run a series of virtual and face-to-face events, including Girl Power Half Hour, a 12-week programme to help with personal and career development, sessions around working in tech, and joint events with our other colleague networks, including senior role model events. They have also provided sessions around health, menopause and financial wellbeing.

Breakthrough now has a GEC Executive Ally who champions the network and its goals.

Building an inclusive organisation continued

Ethnic diversity

In today’s multicultural society, we can only truly become the best bank for our customers if our workforce reflects the ethnic diversity of the customers we support.

Our aim is to increase the ethnic diversity of our workforce and unlock the potential of our Black, Asian and Minority Ethnic colleagues. We’re building a truly inclusive organisation where all colleagues can speak up, challenge and act to take an active stance against racism and discrimination of any kind.

11.3%

of our senior manager roles were held by Black, Asian or Minority Ethnic colleagues in 2023

15.3%

of our colleagues were from a Black, Asian and Minority Ethnic background in 2023

We’re working towards our goals to increase representation of Black, Asian and Minority Ethnic colleagues to 13 per cent at senior management levels and to increase Black representation in senior roles to at least 3 per cent by 2025.

Our Race Action Plan, launched in 2020 to drive recruitment, progression and cultural change across the Group continues to build focus across the Bank. As part of this plan, we also work beyond our own internal boundaries by actively supporting Black heritage communities through our partnerships with Foundervine and the Black Business Network.

During 2023, we have continued to see an increase in Black, Asian and Minority Ethnic and Black Heritage representation in senior roles. At the end of 2023, 11.3 per cent of senior manager roles were held by Black, Asian or Minority Ethnic colleagues, and 1.7 per cent held by Black Heritage colleagues.

Board ethnicity

We continue to exceed the Parker Review recommendation of having at least one Black, Asian or Minority Ethnic Board member. More information on our Board ethnicity can be found on our [annual report and accounts 2023](#) on page 32.

Colleague engagement

We have continued to have valuable listening sessions and engagement with our Black, Asian and Minority Ethnic colleagues and with our Race Advisory Panel, who support us to shape our initiatives, programmes and propositions, helping to ensure we deliver sustainable and impactful solutions.

Our thriving Race, Ethnicity, Cultural and Faith colleague networks, REACH and BOLD are also key in supporting us and both networks now have GEC Executive Allies to support in shaping the agenda.

Purpose in action

Race and ethnicity mental health advocates

Nicola Bailey (she/her) Head of Operations & Assurance

I am mixed race of Caribbean heritage and growing up I faced into a lot of adversity and issues, while trying to navigate where I fitted best. I also watched as my mum and many around me suffered with depression – many people from a Black, Asian and Minority Ethnic background live with poor mental health for many reasons, including racism.

When I joined the Group, I became a Mental Health Advocate (MHA) straight away. I liked that they are working hard to remove the stigma surrounding mental health issues and I wanted to help. After additional training, I am proud to also be a Race and Ethnicity MHA. I have been mentoring younger colleagues on our Graduate and Apprentice schemes supporting with everything from voicing issues to recognising the signs of burnout. Supporting these colleagues is essential for us to strengthen our cultural environment.



Jing Chang (she/her) Senior Financial Risk Manager

Having been a MHA at Lloyds Banking Group for a few years, becoming a Race and Ethnicity MHA was an obvious next step for me. As well as supporting individuals, I run group sessions to promote awareness and allow safe space discussion and have also supported our Race, Ethnicity And Cultural Heritage (REACH) colleague network in a Group-wide session too.

Having experienced burnout myself, being able to support others is so important to me. The existence of Race and Ethnicity MHAs has encouraged many colleagues to ask for help, who may otherwise have remained silent. Since it’s launch, more colleagues from a Black, Asian or Minority Ethnic background have asked for support around a variety of topics, such as increasing stress, unconscious bias and lack of empathy and understanding. This is an invaluable programme I look forward to continuing to support.



SDG 3.4: By 2030, reduce by one-third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.

SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Building an inclusive organisation continued

Our 2023 progress against our Race Action Plan

Race education programme

- We launched our 'Embracing and Valuing Each Other' culture, faith and religion mandatory training programme, replacing our previous cultural awareness training.
- We continued to run our successful Line Manager Race Education sessions, giving line managers the confidence to tackle inappropriate behaviour and manage more inclusively.
- To broaden understanding and raise colleague awareness of culture, faith and religion, we launched our Faith and Religion fact sheets, a cultural events and awareness days calendar and the Colleague Faith Works round table series.

Career progression

- We continue to invest in our Black heritage talent through our bespoke Senior Leadership and Career Acceleration programmes, with over 40 per cent promoted or having made a lateral move to progress their career.

Recruitment

- In 2023, we welcomed another cohort of summer interns who joined us from the 10,000 Black Interns programme, 10,000 Able Interns programme and Sutton Trust. We increased our intake of Black Interns from 19 in 2022 to over 97 students in 2023.
- Continuing our support for young talent, we also welcomed 70 T Level students on a nine-week paid work placement, providing valuable work experience for them and giving us access to continue to develop a diverse talent pipeline, with 60 per cent of students from a Black, Asian or Minority Ethnic heritage background. Those who enjoyed a successful placement will have the opportunity to join us as a permanent apprentice when they complete their studies.
- We continue to work with ethnicity-focused recruitment partners to help better reach Black, Asian and Minority Ethnic talent.
- Our 2023 graduate programme delivered an increase in the diversity of graduates, with 43 per cent being Black, Asian or Minority Ethnic of which 7 per cent were specifically from a Black heritage background.

Race and ethnicity mental health advocates

- In 2023 we trained over 40 Race and Ethnicity Mental Health Advocates to better support Black, Asian and Minority Ethnic colleagues at moments that matter. Our advocates have been sharing their experiences to raise awareness and have supported our 2023 Mental Health Awareness events.

Race Advisory Panel

- Our Race Advisory Panel continues to support us with shaping of initiatives, programmes and propositions, helping ensure we deliver sustainable and impactful solutions.

Partnerships and awards

- We are a signatory to the Black Talent Charter and in 2023 hosted a Careers & Development Event together and hosted their Black History Month Review.

- We are a signatory to the Business in the Community Race at Work Charter, working together on our joint objective of equitable Black representation and identifying ways to support, retain and progress Black talent.
- Our colleagues continue to be recognised: Abdur Rahman was included in the 2023 Empower role models list and Mahari Hay was recognised with the Financial Services, Insurance and Banking Award at the 2023 Black Talent Awards.
- At the 2023 Ethnicity Awards we were once again listed as one of their Top 10 Employers. We have achieved this every year since the launch of the awards in 2018, and have been recognised as their overall Outstanding Employer three times.

Community

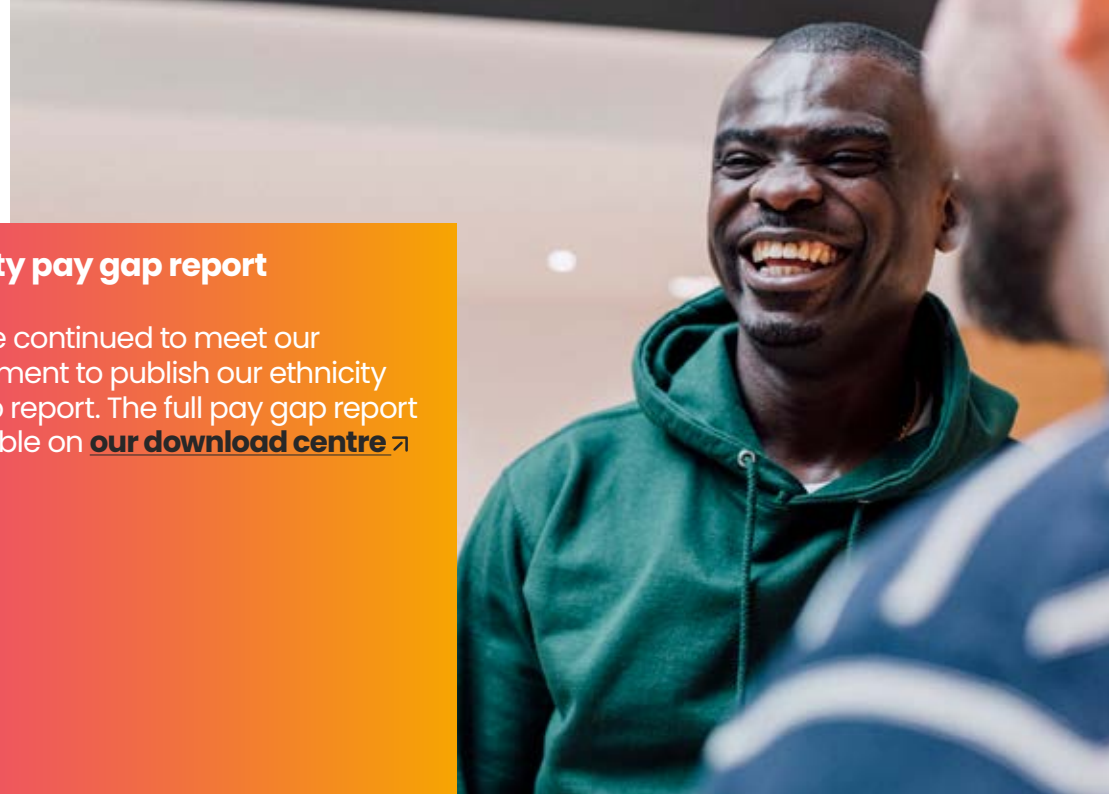
- Our Lloyds Bank Foundation for England and Wales dedicates at least 25 per cent of their core grants to charities led by and for communities experiencing race inequity.
- 'Coaches for Interns' is a new initiative in partnership with LinkedIn and 10,000 Black Interns. We have trained over 100 colleagues to support Black Interns who have not been able to secure a paid internship. They benefit from coaching on enhancing their professional image on LinkedIn and gain other additional support to secure future employment.

Supporting colleagues and allies

- Our Race, Ethnicity, Cultural and Faith Networks play an essential role in supporting colleagues in their career ambitions, running events year-round, including a full and varied programme for Black History Month, and continue to run an annual Role Model list. Our Race, Ethnicity and Cultural Heritage (REACH) Network has expanded to include a number of race/ethnicity groups which include groups for Muslim, Sikh, Hindu, Jewish and Christian colleagues, and new for 2023, a Network supporting East and South East Asian colleagues.
- We spotlighted South Asian Heritage Month and East and South East Asian Heritage Month in 2023, celebrating with colleagues, customers and communities and working with external partners to bring together communities to network and celebrate.

Ethnicity pay gap report

We have continued to meet our commitment to publish our ethnicity pay gap report. The full pay gap report is available on [our download centre](#) ↗





We continue to encourage colleagues to share their sexual orientation and gender identity with us, and we have seen an increase in 2023 of colleagues choosing to do so.

This is helping to ensure we create inclusive experiences for our people.

Sexual orientation and gender identity

We strive to continually improve our employment experience for our LGBTQ+ colleagues. Pride continues to be an all-year celebration of all sexual orientations and gender identities.

We run visibility and awareness events throughout the year, such as the International Day Against Homophobia, Transphobia and Biphobia, LGBTQ+ History Month, Trans Visibility Day, Bi Visibility Day and Lesbian Visibility Day.

Support for colleagues and allies

Our LGBTQ+ colleague network, Rainbow, plays a pivotal role in supporting our LGBTQ+ colleagues. In 2023, Rainbow launched its fifth LGBTQ+ Ally Role Model list, which shines a light on colleagues within the Group who've been nominated for their positive impact on LGBTQ+ inclusion.

Following the successful launch of the LGBTQ+ Mental Health Advocate programme in 2022, Rainbow has now trained 150 Mental Health Advocates who offer tailored support for LGBTQ+ members and allies.

To support further, in 2023, Rainbow launched a new tool to help more colleagues make connections with advocates that best work for them, whether that be by location or by a specific experience or subject matter.

Rainbow runs numerous activities in support of key awareness days, they hosted a Trans Men's Health talk and ran the Group's first LinkedIn Live session. Rainbow now has a GEC Executive Ally to advocate and support the network and their goals.

Pride continues to be a focus with thousands of colleagues taking part in face-to-face and virtual events nationwide. One of the highlights was the CEO Event Series, which saw a series of special guests being interviewed by executives from across the business.

LGBTQ+ Advisory Panel

Our LGBTQ+ Advisory Panel was launched in 2023 to ensure we are understanding and tackling the specific challenges faced by LGBTQ+ colleagues and customers. The panel is made up of colleagues from a mix of grades and with a range of divisional experiences. The panel has met collectively with our other advisory panels to drive intersectional thinking with a focus on creating a more inclusive place to work and a more inclusive society for all.

Partnerships

To support our LGBTQ+ colleagues and encourage allyship among colleagues and communities we have continued to partner with PinkNews. We were proud to be the headline sponsor of the 2023 PinkNews Awards, which aims to highlight the work of campaigners, businesses, organisations and individuals across the globe in advancing LGBTQ+ equality. We also supported a series of webinars run by PinkNews covering LGBTQ+ as well as neurodiversity, bisexuality and race.

Understanding our LGBTQ+ colleagues will help us to improve support

To better understand the workforce diversity of the Group, we continue to encourage colleagues to share their sexual orientation and gender identity data with us, and we have seen an increase in 2023 of colleagues choosing to do so.

We've also run a series of listening sessions with some of our Asexual, Bisexual and Pansexual colleagues, with our CEO Charlie Nunn.

In 2023, following colleague feedback and consultation, we launched a working group to understand more about the Queer, Intersex and Asexual communities and the support we could offer going forward.

Building an inclusive organisation continued

Supporting disability and neurodiversity

Our aim is to create an inclusive and accessible working environment in which all colleagues have access to a psychologically safe environment, equal opportunities, and where everyone is supported to reach their full potential.

A key part of our bold ambition to be a leading UK business for diversity, equity and inclusion is dialling up our focus on disability, mental health, and neurodiversity. This is championed by the GEC and through our new GEC Executive Ally for our disability colleague network, Access.

We have received external recognition for the progress we have made so far, as the Group continues to hold the Business Disability Forum Gold Standard accreditation and Disability Confident status from the Department for Work and Pensions in 2023. The City Mental Health Alliance has accredited us with 'Going Beyond the Standards' against their Thriving at Work Assessment. We are also a founding member of Neurodiversity in Business, and a member of Valuable 500.

Understanding more about our colleagues

In April 2023, we committed to doubling the number of colleagues with disabilities in senior management roles by 2025. It's the first public goal of its kind to be set by a UK bank, and an important step in becoming more inclusive.

Since launching our goal, we have seen a significant uplift in colleagues sharing their disability data with us. We believe the announcement of our goal has played a key role in this, raising awareness and encouraging colleagues to share their disability data with us.

At the time of setting our goal, 6 per cent of our senior management colleagues had shared that they had a disability, making our ambition to double representation feel like the right first step. At the end of 2023, 12.4 per cent of our senior management colleagues had shared their disability, meaning that we have achieved our representation of senior colleagues with disabilities goal earlier than anticipated.

We will continue to encourage our colleagues with disabilities and neurodiverse conditions to share their data with us across the course of 2024, helping us to build a true picture of the diversity of colleagues within our organisation, whilst continuing to strive for greater representation.

Our Disability Colleague Advisory Panel

To support the creation of an inclusive culture, we have worked closely with our new Disability Colleague Advisory Panel to influence and inform our ongoing diversity strategy and ensure we are making the right progress.



12.4%
representation of people with a disability in senior management roles in 2023

Building an inclusive organisation continued

Building an inclusive culture and working environment

We take pride in being a leader in flexibility and offer a wide array of flexible working options for different circumstances, including from a health, wellbeing and disability perspective. We also continue to make improvements to our colleague wellbeing services, including: Workplace Adjustments, Occupational Health, and the Employee Assistance Programme.

To support the inclusivity of our working environment we have implemented a new set of baseline design standards to support inclusivity of our offices for our colleagues with disabilities and have opened two more Changing Places facilities in our Bristol and Andover offices.

Colleague training

The training of our colleagues remains vital in building our inclusive culture. In addition to refreshing our Equality Act training this year, we have also launched suicide prevention e-learning for all colleagues with the ambition to equip colleagues to take action if they're concerned about someone's mental health. The importance of this is brought to life through the testimonials of five colleagues who share their lived experiences.

As part of our support for the #WorkingWithCancer pledge, we have worked with subject matter experts to upskill our leaders, line managers and our people, so that they can better support others living with cancer and their caregivers in the moments that matter.

Access

Access is our network for colleagues with disabilities, long-term health conditions or neurodiverse conditions. It's open to all colleagues and looks to raise awareness, upskill and support key populations, and reduce stigma.

Members of Access receive regular communications, can get involved in awareness campaigns, and are given the opportunity to attend a range of events: including listening sessions, lunch and learns, and the annual National Event.

In 2023 Access launched its second Role Model list, which shone a light on 100 colleagues across the Group for their outstanding contribution in championing disability inclusion with our colleagues, our customers, our clients, and our communities.

We also have an established Neurodiversity Working Group, with colleague-led squads working with business sponsors to understand the barriers neurodivergent colleagues face, and develop potential solutions.

Making our recruitment more accessible and inclusive

We know that to be fully representative, our end-to-end colleague experience needs to be fully inclusive and supportive to people with disabilities, regardless of where an individual is in their career.

We embed inclusivity and accessibility into our recruitment process, such as offering the Disability Confident Scheme – this guarantees an interview for those who share their disability with us and meet the minimum requirements for the role.

Additionally, this year we have refreshed our mandatory training for recruiters and hiring managers, alongside providing new inclusive hiring resources and guidance in recruiting candidates with disabilities, long-term health issues or neurodiverse conditions.

In 2023, we welcomed our pilot internship cohort of the 10,000 Able Interns programme, providing eight weeks paid work experience to 10 students/recent graduates with disabilities. The Group had the largest Able Intern cohort of any organisation partnered with the 10,000 Interns Foundation.

Supporting colleagues' progress

In addition, we launched our new Career Pathway programme pilot for colleagues with disabilities, in partnership with APS Intelligence Leadership Consultancy. This nine-month bespoke career development programme has been designed to provide colleagues with the tools, resources and support to help grow and drive their careers forward and achieve their aspirations. This is in addition to our continued commitment to Generation Valuable, as part of Valuable 500's future leaders programme.

We have begun to look at the socioeconomic diversity of our colleague base.

Social mobility

In addition to the more traditional diversity characteristics, we have begun to look at the socioeconomic diversity of our colleague base and what we need to do to ensure that opportunities for progression to senior roles are accessible to individuals from all backgrounds.

Inclusion is core to our purpose and values and gives an important lens through which we view outcomes for customers, communities and colleagues.

In 2023, we asked colleagues via our colleague survey to disclose their socioeconomic background for the second time, and saw a disclosure rate of 60 per cent. We know that

overall, we have a fairly diverse workforce compared to the broader financial services sector but, in line with other firms, diversity does decline with seniority.

We are still in the early stages of our work on improving social mobility, but our approach to apprenticeships and broader attraction specifically targets those from non-professional backgrounds. We are aware, and supportive of the greater focus of our regulators on social mobility, and we are actively involved with the financial services Progress Together group, which is focused on improving diversity at senior levels in the sector.



Supporting diverse businesses, supply chain customers and suppliers

Since 2021 we have been developing strategies to support minority or disadvantaged business owners as part of our focus on building an inclusive future.



Inclusive business

Black entrepreneurs

We continue to build on the successes of our Black entrepreneurs programme we started in 2021, focusing on long-standing grass-roots partnerships, extensive research and deep Black business community engagement.

In 2023, we engaged more than 5,000 Black entrepreneurs with c.23,000 hours of support through the events and initiatives we played our part in, exceeding our 2022 performance. We also had over 12,000 visits to our **Black business hub**, which acts as a central resource that we signpost businesses to.



Our actions remain centred around the recommendations and calls to action from our research reports – **'Black. British. In Business & Proud'**.

Some of the highlights include:

- We have partnered with Channel 4 to launch the 'Black in Business' initiative where five businesses are the beneficiaries of £100k worth of TV advertising each, their own TV commercial and senior sponsorship from the Group and Channel 4 in order to support their intention to scale. The TV adverts will go live in Q1 2024. In addition, grant funding, promotional opportunities and bespoke consultancy have been offered to a cohort of five 'Rising Stars' and a mass outreach programme to c.600+ applicants that opted in for further support to grow has been initiated, whilst providing a series of masterclasses to the 1,000+ businesses that applied.
- In partnership with Foundervine, we launched year two of the Immerse programme, including: two accelerators for early-stage and growth businesses with grant funding distributed to the winners of the end of programme demo day; community gatherings; access to finance spotlight events; a podcast series; and retail sector roundtables discussing the challenges and opportunities to access retail sector supply chains.
- We have expanded support across the regions, particularly in Birmingham, by engaging local changemakers and ambassadors, and by supporting grassroots organisations and events such as Birmingham Black Business Show and BOB Expo in Manchester.
- We sponsored or self-organised 19 events in the Black business calendar, aligning to the diverse needs of Black entrepreneurs in different stages of their lifecycle.

Supporting diverse businesses, supply chain customers and suppliers continued

Women entrepreneurs

Building on our investing in Women Code commitments, we are investing in initiatives that support growth and scaling businesses, regional ecosystem connections, societally important sectors, such as manufacturing, and enabling better access to finance, networks and resources.

In September we announced a new partnership with **Female Founders Rise**, a fast, a fast-growing community of over 2,500 female and non-binary founders based in the UK. They are an impact-led company focused on closing the gender gap by supporting women to build profitable and financially sustainable businesses. They focus on supporting growth businesses with funding support, meet-ups, community, resources, business fundamentals and raising awareness of women who are running amazing businesses. We will further build out this partnership into 2024.

To support women in manufacturing, we held two roundtables with influential women across the industry, discussing the barriers and opportunities to support our core objectives of: encouraging more women and girls into the sector; helping scale women-led manufacturing businesses; providing more role models; and networking opportunities. We also joined forces with the Women in Manufacturing Initiative, a network of industrial and academic professionals with a shared interest in encouraging diversity and inclusion in the sector to support the 'Changing Perceptions: Women in Manufacturing Initiative' conference in October and the Advanced Engineering conference.

We have announced a new partnership with Female Founders Rise.

Further information can be found in these reports:

[Black, British, In Business & Proud](#) ↗

[Women Entrepreneurs: The Northern Perspective](#) ↗

[Disability & Entrepreneurship](#) ↗

Disabled entrepreneurs

Following the public announcement of our disability representation goal, in April we launched the 'Disability & Entrepreneurship' report in partnership with Small Business Britain. The report highlights that 72 per cent of disabled founders lacked role models to guide them, and 56 per cent did not get any support when starting their business; financially or non-financially.

As a follow-up to the report, we hosted a roundtable in partnership with Small Business Britain at the House of Lords in September that brought together leaders from across business, policy and society, to spark debate and action on disability and entrepreneurship.

Supporting supplier diversity

We have progressed our supplier diversity activity geared towards ensuring that our supply chain matches our goal to further represent the society we serve. The intent is to provide insights into the diversity of our existing supplier base and proactively ensure equal opportunity is provided to diverse suppliers.

Our efforts to achieve this to date involve the establishment of partnerships with key supplier diversity advocacy organisations, proactive identification of diverse-owned businesses with a view of introducing them into our supply chain, hosting a Supplier Diversity Academy, and the creation of a database which will allow us to better monitor and track our spend with diverse-owned businesses.

Understanding and highlighting the issues

In 2023, Scottish Widows compiled two research reports related to thematic research around retirement planning.

Scottish Widows Retirement Report

Our 2023 Retirement Report has highlighted the importance of auto-enrolment, holistic retirement, housing and state pension awareness as policy recommendations to ensure expectations of people's need and living standards during retirement are met. In particular, the report highlighted, that as a result of the cost-of-living crisis, the number cutting back on essentials and long-term savings had risen. 75 per cent of people surveyed remain concerned about making ends meet due to the pressures of the cost of living. As such, addressing the cost-of-living crisis and reducing inflation is an immediate priority to safeguarding people's wellbeing the health of their financial future.

For more information, please see our [Retirement Report 2023](#) ↗.

Scottish Widows Women and Retirement Report

This year's report delved deeper into some drivers of the gender pensions gap such as income and employment, childcare and divorce.

The report highlighted a need for policies that address these underlying causes, that drive wider inequalities, which result in the gender gap. Overall, the Women and Retirement Report 2023 highlights the importance of financial literacy, as well as specific reforms needed to directly address the gender gap and provided recommendations for both the government and employers.

For more information, please see our 2023 report here [Women and Retirement Report 2023](#) ↗.

Purpose in action

iUVO Skincare

Shani Gabbidon, founder of iUVO Skincare, has participated in a number of events and programmes this year for Black entrepreneurs, including one of the Foundervine Immerse accelerators, which supports founders to gain the skills and knowledge needed to scale their business. Launched following her mother's battle with cancer, where they found natural products provided her with important benefits, iUVO is on a mission to provide handmade high-quality vegan skincare to their customers.

"If I could think of a word to sum up my experience having had the support from Lloyds Bank this year it wouldn't exist in the Oxford dictionary. Having access to support and mentoring through Be the Business support and being part of a cohort of like-minded businesses within the Level Up Accelerator has been exceptional. This year's support has been incredible for our business and well appreciated, we look forward to continuing to build our relationship with our bank."



SDG 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Supporting diverse businesses, supply chain customers and suppliers continued

Supporting our customers with disabilities

We want all of our customers to have an excellent service experience and to be able to access our services in a way that is right for them, wherever they are.

In respect of our digital offering, this year we have launched the Recite Me tool on our Halifax website, giving customers a range of tools to help access the website, supporting our neurodiverse customers and those with visual impairments. We were also the first bank to offer Signly, a pioneering British Sign Language (BSL) translation application on our Lloyds Bank, Halifax and Bank of Scotland customer websites, to support our Deaf customers.

Our Digital Helpline is accessible and provides BSL translation and speech to text services for customers who are deaf or have hearing loss. For more information please see **page 43**.

Ensuring colleagues build the skills they need to make all our services accessible to everyone is crucial. In 2023, we launched our the Inclusive Design and Delivery toolkits, a series of practical resources to help our teams adopt inclusive approaches through the planning and delivery process. We ensure our teams have the tools to build and test their content and systems and baking accessibility standards into the methods we use to deliver change. We also work with not-for-profit organisation Digital Accessibility Centre (DAC) to check that our websites and apps are accessible for all customers, in particular those with physical disabilities.

Our branches are not only designed to be as inclusive as possible for all our customers, but we were the first Bank to launch the Hidden Disabilities Sunflower Scheme across all our Halifax and Bank of Scotland and branches. As some disabilities are not immediately visible, the lanyards are used to discreetly indicate that the wearer may need a little more support and prompt a conversation.

We have received a number of accreditations and awards this year to recognise our support for customers with disabilities. This year the Money and Mental Health Policy Institute charity has awarded Lloyds Bank, Halifax and Bank of Scotland an 'Advanced' rating through its 'Mental Health Accessible' programme for banks and essential services. We're the first businesses in the UK to achieve this rating. We have received the National Autistic Society's prestigious Autism Friendly Award, marking our commitment to become the UK's first autism-friendly bank.

Our branches are designed to be as inclusive as possible for all our customers.

Purpose in action

U=U Inclusive Insurance Cover

We are changing our core insurance cover offering to include 'HIV Undetectable' customers and colleagues. As such, 'U=U' colleagues and customers who are HIV Undetectable (c.105,000 people in the UK) will be able to have access to Travel and Life Insurance cover through Lloyds Banking Group.

In addition to supporting impacted individuals, this change sends a strong signal around our commitment to breaking the stigma and myths surrounding HIV by signalling people can access protection when it is needed.

This health and wellbeing consideration for colleagues and customers living with HIV was launched in October 2023 at the Pink News Awards and was linked to our campaigns in support of World AIDS Day on the 1st of December 2023.



SDG 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.

SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.



Supporting our colleagues

We know the success of our business is dependent on our colleagues and we aim to look for ways to help them feel more supported, in control and confident about their future.

Our people make all the difference. We are committed to creating a work environment that encourages and values the unique differences our people bring with them to work every day, and where everyone can reach their full potential.

We want to make sure that every colleague is motivated, feels supported and is excited by the role they can play in Helping Britain Prosper.

Launched our new 'Flexibility Works' colleague proposition.

2,500
trained colleagues as mental health advocates

Launched a new safety, health and wellbeing colleague hub.



Grow with purpose

Lloyds Banking Group is committed to Helping Britain Prosper by identifying profitable solutions to building a more inclusive and sustainable future for people and businesses in the UK.

We believe that focusing on our purpose and doing right by our customers, colleagues and communities will help us identify new areas of growth, build a more resilient and profitable business, and deliver higher, more sustainable returns for shareholders.



Our colleagues are key in delivering the Group’s ambitious transformation and growth strategy, which also sets out a plan to be a purpose-driven business, and we recognise our culture is a fundamental enabler of that.

The Group’s purpose of Helping Britain Prosper is as important as ever, and in order for us to grow our business in a way that delivers good outcomes for customers, communities and colleagues, we need to put our purpose at the front and centre of every decision we make.

Throughout the year, we have been further embedding our purpose and values across the organisation and helping colleagues understand how our values guide not only the way we work together, but also how we make decisions.

Our leaders play a crucial role in the cultural change. In 2023, we completed a senior leadership development programme centred around the organisational shifts we need to make in order to grow with purpose. All 340 senior leaders were brought together in smaller groups allowing a different and more intimate format, and over three days were immersed in our purpose, strategy and behaviours we needed to role-model, setting clear expectations of our senior leadership population. This was reiterated at a senior leadership offsite later in the year where all leaders came together to explore the progress we are making, new ways of working and technologies we are introducing across the business, and the change we need to drive as a Group.

In driving the change, leaders are supported by a movement of over 6,300 colleagues as ‘Catalysts’ across the business. Representing more than 10 per cent of our colleague population, these changemakers role model our values and purpose, share stories and drive improvements by challenging the status quo and unblocking issues that get in the way of how we work. Our Catalysts inspire everyone across the Group to help us become a truly purpose-driven organisation.

340
top leaders brought together to lead our organisational shift

>6,300
colleagues trained as ‘Catalysts’ across the business

Best overall Business Culture Award 2023

The Group was the overall winner at the Business Culture Awards in 2023

Colleague engagement

We want people to love working here. With more than 66,000¹ colleagues working across the Group, we welcome their views and opinions on a range of topics to help them grow, and us to grow as a business.

In 2023, we broadened how we listen to our colleagues to provide a more regular and complete picture of sentiment. This included further embedding regular pulse surveys, providing us with more regular, timely feedback, as well as conducting two additional one-off surveys, one which



allowed our leaders to share their views on how we are progressing as they lead the Group through a significant period of change and one that gained colleagues' views on our new flexible working arrangements. We also introduced new ways of listening to our colleagues by including internal social media comments.

We ran surveys in eight months last year, which enabled us to track our employee net promoter score (eNPS) more regularly than ever before. Our regular pulse surveys enabled us to delve into relevant and timely topics, including processes and bureaucracy, and change. Our annual autumn survey was completed by 81 per cent of colleagues in the Group and gave us a complete view on our progress with our purpose, strategy and culture. Despite engagement declining by 12 points compared to 2022 due to changes to our flexible working arrangements, our in-year advocacy measure (employee net promoter score) is moving in a positive direction. Our line managers continue to be well-regarded, with levels of trust and respect remaining high.

During the year the Group communicated directly with colleagues detailing Group performance, changes in the economic and regulatory environment, and updates on key strategic initiatives. Meetings were held throughout the year between the Group and our recognised unions. Stakeholder engagement takes place at all levels within the Group and is an important part of how we are delivering on our purpose of Helping Britain Prosper.

The Board continues to engage both directly and indirectly with its stakeholders. This engagement helps to provide a better understanding of our colleagues points of view, and the impact the Group has on their day-to-day lives. Please see our [annual report and accounts 2023](#) on page 82, for further examples of how the Board engages with the Group's workforce and why the Board considers those arrangements to be effective.

¹ Based on average headcount figures for 2023. Headcount figure equivalent to over 62,500 FTE colleagues.

Our approach to flexible working

'Flexibility Works' is an important part of our transformation as we strive to create a place where people love to work and feel supported in the moments that matter, while ensuring we are set up in the right way to meet the needs of our customers.



Flexibility Works offers a broad range of options which balance the needs of colleagues and the business transformation underway.

It brings together different aspects of flexibility and supportive working arrangements, helping our colleagues and managers balance personal and team needs, providing even more flexibility when they need it the most.

Flexibility for everyone – All colleagues have access to a range of different flexibility offerings, dependant on their role. Including everyday flexibility, flexible bank holidays and access to compressed working for moments that matter. 14,600 colleagues work reduced hours and over 40,000 have access to hybrid working.

Flexibility for families – Families come in all shapes and sizes and Flexibility Works provides support whatever your situation. 70 hours paid leave for foster carers, six weeks flexible paid paternity leave, improved maternity and adoption leave, access to shared parental leave, as well as providing additional support for parents whose baby arrived early or are undergoing fertility treatment.

Over 3,000 colleagues made use of family leave in 2023. Since September, over 10 per cent of parents returning from family leave have started using our compressed working for new parents, available until their child's second birthday or two years after placement.

Flexibility for health and carers – For our colleagues who need ongoing support either for themselves or as a carer to a family member we provide additional flexibility.

Flexibility for growth – People need different flexibility at different stages of their life, so we are increasing the options available for colleagues in the later stages of their career and colleagues can also take unpaid sabbaticals and career breaks.

Supporting our colleagues continued

Freedom of association and collective bargaining

We support our colleagues' rights to exercise freedom of association and have extensive consultation and collective bargaining processes in place.

We have a recognition agreement with two trade unions who collectively consult and negotiate on behalf of our UK workforce, who represent around 98 per cent of colleagues worldwide, and have engagement with the CEO and Group executives.



Pension schemes

The Group has 98 per cent of our employees participating in the in-house pension schemes.

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.£39 billion investments by 2030, and net zero by 2050.

As part of this, and in response to member feedback, Lloyds Banking Group Pensions Trustees Limited integrated sustainability considerations into its investment strategy, allowing our colleagues in the defined contribution schemes to opt to participate in an ESG-aligned pension investment.

Group Pensions Trustees integrate ESG considerations into its investment strategy for colleagues in the defined contribution schemes to opt into.

98%
of our employees participating in the in-house pension schemes

Supporting our colleagues continued

Performance management 'Your Best'

We believe our people want to do their best for our customers and each other, every day. Under 'Your Best' our colleagues own their performance and our managers coach and support them to achieve it.

Your Best is a framework that builds on our Group's strategy, purpose, and values. It helps us achieve our key aims of making the Group a place that people love to work, do amazing things for our customers and communities, and shape finance as a force for good.

The process starts with goal setting, where leaders and managers help colleagues connect with the Group's strategy. Colleagues understand how their work aligns

to this and create focused performance goals and development goals and ensure they have the relevant skills, both now and for the future.

On a day-to-day basis, colleagues are supported to be their best by in-the-moment feedback and coaching from their managers. This is a two-way dialogue as we encourage managers to ask regularly for feedback on how they are leading their teams.

Our human-centred approach means we no longer rely on admin-heavy processes involving ratings or annualised reviews and it helps our colleagues and managers to build trust and psychological safety, which we see in our continued high levels of our managers' net promoter scores.



Colleague remuneration

The Group was one of the first large UK companies to make a £1,000 payment (pro-rated by worked hours) to all colleagues in August 2022 to help with living costs.

Since our original payment in August 2022, we have continued to support our more junior colleagues with a further £1,000 pro-rated across two payments (£500 pro-rated in each of December 2022 and 2023).

In addition, we worked closely with our recognised unions Accord and Unite to rapidly agree the 2023 pay deal effective from April 2023. The deal brought certainty and support to those that needed it most and helped put pay in our people's pockets faster.

The 2023 deal provided pay increases of between 8 per cent and 13 per cent for around 43,000 colleagues, although the overall increase to the pay bill was materially lower at 6.3 per cent, as spend was directed to our lowest paid colleagues.

Looking forward, the group successfully reached a further agreement with our recognised unions with a sector leading two-year pay deal (effective from April 2024 through April 2025) creating certainty for our more junior colleagues who will receive a minimum pay award of £1,500 pro-rata each year and a new minimum starting salary of £25,000 in 2025 – some 25 per cent higher than our minimum pay at the start of 2023.

To encourage ownership, colleagues are eligible to participate in HMRC-approved share plans.

We also continued to promote our Healthy Finances Hub and Employee Assistance Programme to enable colleagues to support themselves at key personal moments.

Further information is provided in our [annual report and accounts 2023](#).



Our 2023 pay deal brought certainty and support to those that needed it most and helped put pay in our people's pockets faster.

Supporting our colleagues continued

Health and wellbeing

The health and wellbeing of our colleagues remains a key priority for the Group. We use a data-led approach to understand the health needs of our people and emerging issues and trends in the external environment. The data we gain is used to build a wellbeing strategy that meets the needs of our colleagues, as well as the business.

We offer a range of support for colleagues. Our approach continues to deliver support in our four pillars, and in 2022 we refreshed our Healthy Finances Hub to support our colleagues with the increased costs of living.

In 2023 we launched a brand-new Safety, Health and Wellbeing Hub, which will make it easier for colleagues to access the right support during their time of need. At present there are around 85,000 visits made on average each month by our colleagues.

Wellbeing remains a key theme in our internal communications, helping colleagues to feel supported through the wide range of focused wellbeing support on offer, which has assisted colleagues to feel empowered to make healthy choices.

85,000
visits made to our Safety, Health and Wellbeing Hub monthly



Four pillars of our wellbeing programmes:


Healthy bodies

- Bupa private medical cover
- Office equipment support
- Menopause proposition
- Workplace adjustment services
- Occupational health services
- Affected by Cancer support


Healthy finances

- Money Chats service, healthy finances hub and Helping Hands appointments
- Tools and resources to improve financial education
- EAP – debt and financial wellbeing support
- Ongoing review and provision of support through financial wellbeing/resilience colleague campaigns


Healthy minds

- Mental health advocates
- Headspace
- Employee Assistance Programme (EAP)
- Occupational health services
- Internal mental health awareness activities


Healthy relationships

- Domestic and economic abuse support
- Employee Assistance Programme – your coaching and support
- Support for Carers



Menopause support

Approximately 30 per cent of our workforce is made up of women aged over 40, which means many of our colleagues could be experiencing symptoms of perimenopause or menopause. We want to ensure all our people are healthy at work and reach their full potential. Since launching our proposition, we have experienced a major cultural shift as we continue to challenge the stigma around menopause and support all our colleagues to be menopause aware and informed. We became independently menopause-friendly accredited in 2022 and are proud of this achievement. We are committed to providing menopause support to anyone who needs it.

Our proposition continues to focus on the following areas:

- Raising awareness of the menopause and empowering colleagues to support themselves and those around them through provision of colleague learning resources, line manager training, ongoing digital and face-to-face live events, and a thriving peer-to-peer support community.
- Improving day-to-day experiences at work by embedding the guidance found in our 'Menopause Promise', provision of appropriate workplace kit and guidance around working arrangements, and reviewing existing provisions such as our uniform offering.
- Providing medical support through our Bupa private medical benefit and trialling provision of wider menopause wellbeing support through a menopause wellbeing app.

The proposition is not just aimed at those going through menopause, but also those who play a role in supporting someone through it at work and/or in their personal lives. We know there is still more to do, and we aim to continue to push the boundaries and encourage colleagues to improve their understanding and engage in meaningful conversations both at work and with their friends and family.

Supporting our colleagues continued



Financial wellbeing support

As an organisation, we have been conscious of the impact that the increased cost of living has continued to have on our colleagues. In 2022, we launched a Money Chats service to allow colleagues to have a free and confidential conversation with an internal financial wellbeing expert offering support to colleagues to maximise their full reward package. This support helps our people to understand their pensions, access information and guidance on budgeting and money management, and provides proactive signposting to support services where more intensive help is needed.

In 2023 we tested new ways to support our colleagues with rich, transaction-based, financial wellbeing support through Helping Hands appointments.

In addition, to provide further support for our colleagues, the Group's dedicated health and wellbeing hub has significantly improved its financial wellbeing support, consolidating all available financial wellbeing support internally and recommended external support provisions. This content emphasises removing the stigma around talking about money and provides opportunities to understand exactly how the Group can support our people.



Bupa

All colleagues are offered private medical cover provided by Bupa as a core employee benefit, which gives access to good-quality medical care, including accommodation, nursing care and specialist advice. Cover is also available for family members by purchasing additional benefits through our benefits programme, Flex.



Support for parents and carers

We recognise the importance of family life and provide a range of additional support to colleagues with parental and caring responsibilities to manage the impact that this can have on their work and personal life.

Providing care might mean that colleagues require time away from work to do this or some flexibility so that they can combine providing care with their work responsibilities.

Support for new parents

In 2021, we launched a 'Maternity Colleague Journey' on our HR system which brings together all the required information for colleagues in one place. We also created Maternity and Adoption Pay Calculators allowing colleagues to view their projected income whilst on leave. We are now in the process of introducing a Shared Parental Pay Calculator.

Shared Parental Leave & Pay – UK Colleagues

Shared Parental leave enables colleagues to share leave with their partner in the first year of the child's birth or placement for adoption. Partners also have the ability to access up to a total of 26 weeks of paid leave and premature birth paid leave is available to both parents for preterm babies born (weeks 24-37) in addition to their full maternity/paternity paid leave.

Foster care leave

Colleagues who provide foster care for children can access up to 70 hours paid leave each year to help with ongoing training, appointments and settling in.



Domestic and economic abuse support

We believe employers have a very real role to play in supporting individuals who have experienced, and survived, domestic and economic abuse. By raising awareness, acknowledging and responding to the issue, work can be a safe space.

We recognise we are not experts on this issue, so we work with specialist charities including Surviving Economic Abuse and Tender, as well as Employers' Initiative on Domestic Abuse (EIDA) to help us develop our strategy, support tools and resources for colleagues. In 2023, our Foundations supported 82 domestic abuse charities, giving them over £5.4 million over the lifetime of their grants. The insight and support from these charities helps us fully understand the challenges that individuals face, to ensure we can continually improve our support offering for colleagues.



Providing support to colleagues

We have a suite of advanced guidance taking colleagues on a journey to remove any judgement, reflect on the nature of healthy relationships, and consider their reaction to disclosure of abuse. Professional support to specialist charities and support organisations is signposted, including the Bright Sky app.

We have specific guidance for line managers on how to support colleagues experiencing domestic and economic abuse. This guidance aims to increase awareness and understanding of the nature and impact of abuse, and to help them support colleagues in the workplace and to signpost them to access additional help from appropriate third parties.

We also share regular communications to raise awareness, as well as hosting webinars with specialist charities to provide the opportunity for colleagues to ask questions on this topic and find out more about the support available. In 2023, supported by Employers' Initiative on Domestic Abuse (EIDA), Tender, Galop and Crisis we hosted a series of Group-wide webinars focusing on topics such as young people and domestic abuse, domestic abuse through a LGBTQ+ lens and the intersection between domestic abuse and homelessness. We also supported the 16 Days of Action Against Domestic Abuse campaign.

Group emergency assistance

Our established Emergency Assistance Programme for colleagues (and their children) covers the cost of one-to-one support and emergency accommodation for 14 nights. During an emergency stay, the colleague can receive additional support to help them with their next steps. We also offer to change their work mobile number to help prevent the perpetrator contacting them.

For more information about how we support our customers who are experiencing domestic and economic abuse please see **page 38**.

Supporting our colleagues continued



Colleague mental health

It has been a challenging year for our colleagues, and we continue to focus on mental health as a key component of our health and wellbeing strategy.

We continue to build a culture where mental health stigma is consistently challenged and reduced. We listen to colleagues, test and learn, and remain agile to further hone our approach, ensuring all colleagues feel supported to be their best at work.

Mental Health Advocates

Our mental health advocates programme continued for its fourth year, and we now have around 2,500 trained colleagues. These advocates proactively raise awareness of mental health. The mental health advocates network was highly commended in the category of 'Best Mental Health Network' at the This Can Happen Awards in 2022. Our commitment to the mental health of our colleagues has also been recognised by a several external bodies. The City



Mental Health Alliance (CCLA) accredited the Group as 'Excelling' against their Thriving at Work Assessment. In 2022, to better represent the diverse needs of our colleagues, we created two sub-networks to level up our support for LGBTQ+ and Black, Asian and Minority Ethnic colleagues.

LGBTQ+ Mental Health Advocates

Following the successful launch of the LGBTQ+ aligned Mental Health Advocate programme, in 2022 Rainbow launched their Mental Health Hub offering tailored support for LGBTQ+ members and allies. They have worked closely with MindOut who have delivered seven mental health training sessions so far and currently have 93 trained Rainbow Mental Health Advocates available to support colleagues.

Race and Ethnicity Mental Health Advocates

We collaborated with the City Mental Health Alliance on the mental health and race at work report, which seeks to build the business community's understanding of the challenges faced by Black, Asian and Minority Ethnic employees at work, and how this impacts their mental health. The Group has had tremendous success through its training and offering of colleague mental health advocates. By leveraging the mental health and race at work report, we have recruited and trained 42 race and ethnicity mental health advocates to support our Black, Asian and Minority Ethnic colleagues to discuss mental health-related issues and get support directly from colleagues that have lived similar experiences.

Headspace

The Group offers all colleagues a free subscription to the market-leading meditation app Headspace, providing access to mindfulness modules covering a range of topics from stress to self-esteem. Approximately, 23,500 colleagues have registered, along with 1,200 of their loved ones. These initiatives continue to help us to change our culture around mental health, empowering our colleagues to openly talk about, and take ownership for, their own wellbeing and take action to support it.

24,300

colleagues have accessed our free Headspace subscription



Colleague health and safety

Ensuring a safe working environment is key to the operation of the Group as we are an organisation dependent on our people. Our Health and Safety Policy issued by our CEO demonstrates the commitment of the Group to providing a safe working environment.

In 2023 our focus was on embedding our 11 health and safety standards, whilst developing the assurance regime that supports the health and safety framework.

We are continually working to create an environment where employees, customers and contractors are not exposed to harm and in 2023, we have seen a 20 per cent decrease in injuries to our employees and an 46 per cent decrease in injuries to members of the public.

Working with partners

Mental Health UK

Our partnership with Mental Health UK has made a huge difference in communities right across the UK. Our colleagues and customers have demonstrated enormous commitment to mental health by raising over £16 million during the six-year tenure of the partnership.

While our fundraising partnership with Mental Health UK came to an end in December 2022, we continue to work closely with Mental Health UK to ensure that our policies and practices continue to support colleague mental wellbeing.

Crisis

In 2023 we delivered a joint campaign for World Mental Health and World Homeless day to raise awareness of the mental health impact of being homeless. The campaign was linked to our charity partnership with Crisis and also to this year's World Mental Health Day theme: Mental Health is a Universal human right. We delivered educational and fundraising-linked activities internally and externally shared a message calling for policy makers to act, via our social media channels.

Our Employee Assistance Programme (EAP)

The EAP provides colleagues and their families (dependants and children aged 16-23) with free confidential support and advice on a range of issues. It covers topics ranging from emotional support to very practical legal and financial wellbeing. The service is available 24 hours a day, 365 days a year, ensuring that support is always available to our colleagues. On average each month, 1,700 calls are made, and 760 structured counselling sessions take place.

Working with Cancer Pledge

At the beginning of 2023 we became a founding signatory of the 'Working with Cancer Pledge', sponsored by our Chief Financial Officer. The additional support we launched for colleagues affected by cancer, including peer support and manager training, won 'Best Wellbeing Initiative for Business Culture award'.

Colleague learning and development

We recognise that the world of work is changing, technology is advancing and skills needed today will be obsolete in the future. As the UK faces challenges with skills shortages, we are investing in our colleagues to be the key to our future success.

Investing and supporting skills for the future

We have continued to move towards putting skills at the centre of everything we do, mobilising a programme of activity to map skills to all roles.

Our Data & Tech Academy has been implemented, giving over 10,000 colleagues in Data, Security, Engineering,

Technology and Change roles a single place to go to develop their skills and access specific content, and pathways are available for colleagues interested in a role in these areas, supporting those new to role, those looking to develop core skills, through to people wanting become an expert. In 2023 the Data & Tech Academy had 40,000 unique colleague views and over 62,000 courses were completed.

We have also recognised the need to uplift the general technical literacy of all colleagues in the Group. We have introduced a learning solution (Technology Quotient) which is available to all colleagues in the Group to gain a base understand of 12 topics (including cloud, data and sustainability). In 2023 over 78,000 assessments were passed by 11,400 individuals, reinforcing our aim to support colleagues who are looking to reskill into new roles.

Reskilling

Our dedicated reskilling team is helping to bridge the skills gap by investing in colleagues, helping them realise their potential and progress into a new role. The team offers colleague training and support to develop new skills that are unrelated to their current role so that they can successfully change their career to one aligned to future skills needs.

Earlier in 2023, we also launched a career mobility policy which encourages movement and growth of skills across our business. This has enabled colleagues to move more freely around the organisation based on skills.

Whilst the roles have completely different skills, some are similar, e.g. critical thinking, problem solving, so by adding in the technical skills required these colleagues were able to receive an industry-recognised qualification and a new role.

Reskilling uses a different selection process that focuses on potential: what could you do in the future rather than what you can do now. We have reskilled over 290 colleagues this year into roles that have future-focused skillsets.

Skills-based organisation

The world, along with the needs and expectations of our customers and communities, developing technology and our reliance on data, is changing at pace and we know that 40 per cent of core skills will change in the next five years.

We have established a common understanding around skills (our skills library), which provides a consistent way for us to describe the skills we need, aligned to future strategy, with detailed definitions and relevant proficiency descriptors.

Skills and expected proficiency levels are mapped to each role. This ensures there is visibility for both the organisation and our colleagues of what our skillset is today and needs to be for the future. Skills will become the 'currency' that we operate by so that we can grow and move skills around our organisation when and where we need them most.

Leveraging technology to improve our colleague experience

This year we entered into a strategic collaboration with Microsoft to co-create their Viva learning and skills products, which will provide colleagues with hyper-personalised learning pathways and integrate learning into the flow of their work.

In addition, we have also now defined and created a suite of new learning environments, designed to deliver a more immersive and engaging virtual facilitated experience for both trainers and learners. Our new Virtual Delivery Studio is a dual-purpose self-serve film and live delivery studio with industry-standard technology that will transform and revolutionise both our film and broadcasting strategy.

We continue to leverage new technologies to improve the colleague learner experiences including the use of Virtual Reality to deliver new immersive experiences, which enable colleagues to practice in a safe and controlled environment to build confidence and competence.

Colleague insight

A Group wide review was undertaken mid-2023 to understand how we can improve our learner experience and make it clear for colleagues how they build the skills they need for today and tomorrow.

We have spent time listening to colleagues through surveys and co-creation sessions across a mix of grades, tenure, roles, archetype and active/non-active learners.

Colleagues stated that they are positive about the quality of solutions, which tells us when colleagues consume the learning they find it designed to a high quality, pitched at the right level and delivered in a way to suit different learning styles.

Further work is now underway via Ideation sessions to understand what enhancements we need to make to improve our learning culture, ensuring that colleagues have quality conversations, are clear on their learning objectives and have the drive and focus to take ownership for their own development.

62,000
courses completed in 2023 through the Data & Tech Academy



Supporting our colleagues continued

Apprenticeships

Through our award-winning programmes we have continued to extend and enhance our apprenticeship delivery, currently offering apprenticeships in 30 occupational roles from Level 2 (GCSE equivalent) to Level 7 (Master's Degree equivalent). We typically have 1,300 colleagues on an apprenticeship at any time and we welcomed 635 new apprentices this year. The programme recruitment also contributes to our focus on diversity with 22 per cent of external hires coming from a Black, Asian or Minority Ethnic heritage and 48.7 per cent being women.

T Levels

Following a test and learn pilot we provided 70 placements for 16-17 year olds completing a T Level. T Levels are a post-16 qualification aligned to different occupations, the key component being a meaningful and structured industry placement for 45 days. We are proud to be providing paid placements in data, software engineering and finance and providing relevant experience to help young people succeed in their chosen careers. T Levels are a pipeline to apprenticeships and from our test and learn in 2022, we have two-thirds of the students having started an apprenticeship with the Group.

Work experience programmes

The Group coordinates various work experience programmes for school children to engaged with the Group. In the course of 2023, the programme achieved the following:

- Skillsbuilder – essential skills sessions to 8,521 students aged between 6 and 19
- Work experience – virtual, hybrid and on campus for students aged 14 years or older totalling 1,490 places
- Careers fairs, talks and outreach to total audience to date of 19,217 students
- Skillsbuilder Accelerator – 12,000 students

“ This was a miracle to me! Couldn't believe that they had this opportunity to let people like myself get into a role that is a career path for me rather than a job. I couldn't imagine getting into a role like this without this reskill option.

Una Currie, reskilled colleague



Purpose in action

T Level Talent Pipeline

Liz Smite, joined the Group for her Software Engineering T Level placement in 2022, excelling in her nine-week placement and as a result was offered a software engineering apprenticeship.

“It all started with me having an interest in technology which led me to choose Computer Science as a subject in high school. At this point after studying for my GCSE's, I was pretty clear that I wanted to become a software engineer and a digital T Level became the next natural step.

I felt really lucky that I was able to secure a T Level work placement at Lloyds Banking Group. I was able to experience the workplace for the first time and was really positively surprised what a dynamic environment it was in technology.

It opened my eyes on what an apprenticeship could be like and what work I would take on, which made me even more keen to apply. University was always a 'just-in-case' option as I prefer hands-on learning and after seeing how interesting the placement was and reaping the benefits, I decided an apprenticeship was definitely the way to go. I knew I would enjoy the balance of learning and then putting is into practice 'on the job'.

After completing my work placement and working through the selection process, I received an offer for Software Engineer Apprenticeship.

Overall, I'm so glad I decided to choose a T Level course and go on to be one of the first students to do a work placement with Lloyds Banking Group. It has opened up the route into an apprenticeship and hopefully an exciting career ahead in software engineering, something I never even thought I could achieve.”



SDG 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Human rights and modern slavery

The UN Guiding Principles Reporting Framework asks companies to focus their human rights reporting on their salient human rights issues.

A company's salient human rights issues are those human rights that stand out because they are at risk of the most severe negative impact through the company's activities or business relationships.

2023 highlights

We conducted a Group-wide review of our inherent salient human rights risks.

Scottish Widows analysed their portfolio and engaged companies representing £5.8 billion of assets under management on human rights issues.



Our approach to human rights

The Group’s approach to human rights is governed by the Responsible Business Committee.

To date, we have already embedded a number of policies and processes to identify the risks associated with human rights. The effective management of human rights and modern slavery issues relies on the integration of the human rights principles into Group guidelines and policies that set the parameters of operations for topics where there may be a human rights impact.

The Group’s day-to-day management of modern slavery and human rights is coordinated and driven by the Group Human Rights Manager who sits in Group Sustainable Business, and is guided by a cross-divisional working group, the Modern Slavery and Human Rights Working Group. This working group has input from functions across the Group including our Group people and places teams, Group sourcing, Group Economic Crime Prevention, Retail and Commercial Banking teams, as well as external human rights experts.

This approach is supported by several Group policies relating to the management of issues that impact human rights through our operations such as, but not limited to:

- Group colleague policies
- Health, safety and fire policy
- Group data policy
- Security policy
- Harassment and grievance resolution policy
- Group compliance policy
- Group accountability standards
- Speak Up (whistleblowing)
- Anti-bribery policy
- Group sector statements
- Code of supplier responsibility
- Customer policy
- Product governance policy

Salient human rights risks

During 2023, we worked with an external party to identify and prioritise the inherent salient human rights risks that can be connected to the Group’s operations and value chain.

The aim of the activity was to have an external and independent review of potential human rights risk for the Group without taking into consideration any of our current programmes, policies or initiatives, primarily for the Group to ensure that we aren’t missing any key aspects of human rights risk related to our activities.

The scope of this work covered all of the Group’s subsidiaries, and aimed to identify where the Group could cause, contribute or be connected to human rights issues across our value chain.

Affected parties considered included:

- Colleagues and contractors
- Customers and clients
- Workers and communities affected by financing that the Group has provided through our commercial banking, insurance clients and investee companies.
- Workers and communities affected by the Group’s supply chain and sourcing activities.

Our identified potential salient human right risks across our value chain

Modern slavery was identified as a material potential human rights risk across the Group’s activities due to some of the sectors and activities which the Group funds or is involved with.

Having identified the inherent salient human rights risks, the next step will be for the Group to review our current business processes, some of which already consider human rights risks, identify any gaps and implement measures to prevent or mitigate these potential risks thereby embedding respect for human rights into the Group’s core business where it is relevant.

In addition to the salient human rights risks which have been identified, activity within the Group in relation to the protection of human rights is focused on:

- Inclusion and diversity
- Mental health and colleague wellbeing in the workplace
- Supporting vulnerable customers
- Tackling modern slavery through our supply chain
- Protecting customer privacy
- Data security to keep our customers’ money and data safe.

Colleagues	Retail customers	Corporate and commercial banking clients	Sourcing and our supply chain	Investment, insurance and pensions
<ul style="list-style-type: none"> • Discrimination 	<ul style="list-style-type: none"> • Discrimination • Economic exploitation • Inadequate standard of living 	<ul style="list-style-type: none"> • Modern slavery • Migrant labour • Inadequate standard of living 	<ul style="list-style-type: none"> • Modern slavery • Migrant labour and labour rights 	<ul style="list-style-type: none"> • Modern slavery • Migrant labour • Inadequate standard of living

Training our colleagues

Modern slavery and human trafficking is included in our bespoke Fighting Economic Crime Prevention training which is mandatory for all UK colleagues to complete on an annual basis.

Group-wide training is further supported by targeted training for colleagues in specific roles that are more likely to encounter modern slavery, including Sourcing and Supplier Management colleagues.



Human rights issues and how we are addressing them



Economic crime including anti-money laundering and counterterrorist financing

The Group maintains its focus on protecting and minimising the impact on our customers and the Group whilst reducing the harm to communities caused by criminals and terrorists. See [page 19](#).

Data privacy and security

The Group has a Chief Data and Analytics Office which oversees the Group's policies in relation to data privacy and ethical use of data. See [page 23](#) and our [annual report and accounts 2023](#) on page 179.

Modern slavery, forced labour and human rights abuses

For further information on our approach to modern slavery and human trafficking, see page 82 on our modern slavery statement which can be found on [our download centre](#).

Customers who are more vulnerable including due to critical illnesses, the elderly Customers who are more vulnerable including due to critical illnesses, the elderly and customers with disabilities

We are committed to supporting both colleagues and customers through vulnerable situations, see [pages 37 and 69](#).

Domestic and economic abuse victims

Our specialist support teams exemplify our commitment to providing tailored assistance for customers in specific circumstances, see [page 38](#).

Mental health of customers

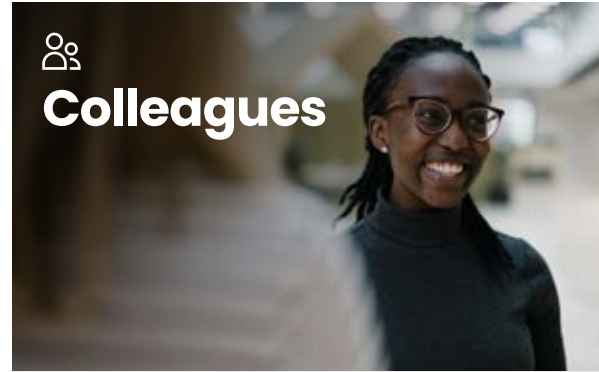
Lloyds Bank, Halifax and Bank of Scotland were the first organisation to receive the 'Mental Health Accessible' accreditation (Advanced Level) from the Money and Mental Health Policy Institute (MMHPI) in 2023, see [pages 38 and 39](#).

Identified environmental, social, labour and human rights high-risk sectors and excluded activities related to lending and investment activities

The Group is cognisant of environmental and social risks as a result of our lending and investment activities. See [page 156](#) and [page 171](#).

Grievance mechanisms and whistleblowing

Speak Up is the Group's whistleblowing programme. It is available to all colleagues across the Group, including suppliers, contractors and third parties. See [page 24](#).



Fair remuneration

Lloyds Banking Group became a UK Living Wage Employer in 2015 and we review our pay rates annually to ensure minimum rates are above the statutory minimum and living wage requirements that are applicable in the countries we operate in. We have worked, and continue to work, with third-party contractors to ensure that they operate in line with our commitments and expect them to ensure that the wages they pay meet legally mandated minimum requirements without unauthorised deductions.

Non-discrimination, inclusivity and equality/harsh or degrading treatment/harassment

The Group has an extensive diversity, equity and inclusion programme and is committed to meeting its statutory responsibilities as an employer. We do not tolerate discrimination on the basis of protected attributes including race, religion, national or ethnic origin, citizenship status, political opinion, age, marital or relationship status, carer responsibilities, sex, sexual orientation, gender identity, intersex status, pregnancy, parental status, breastfeeding, disability,

veteran status, trade union activity or other legally protected status. We expect the same from all our business partners, clients and suppliers. Read more on [page 59](#).

Mental health of colleagues

Our focus on mental health as a key component of our colleague health and wellbeing strategy, see [pages 75 to 77](#).

Freedom of association/collective bargaining

We support colleagues' rights to exercise freedom of association and have extensive consultation and collective bargaining processes in place, both in the UK and overseas. See [page 73](#) of this report.

Health and safety of colleagues, contractors and visitors

Ensuring a safe working environment is key to the operation of the Group as we are an organisation dependent on our people. See [page 77](#).

Accessibility for persons with disabilities

The Group has an extensive diversity, equity, and inclusion programme. See [page 65](#) of this report.

Maternity and paternity protection

The Group has an extensive Diversity, Equity, and Inclusion programme. See [page 76](#) of this report.

Grievance mechanisms and whistleblowing

The Group runs an independent whistleblowing programme, see [page 24](#).

Human rights and modern slavery continued



Purpose in action



SDG 8.7: Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.

SDG 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants and those in precarious employment.

Responsible investment and human rights

Acknowledging the importance of social factors to our investment portfolio and following on from the introduction in 2022 of human rights as a priority stewardship theme, we began embedding human rights material issues into our engagement approach with our appointed investment managers, joining investor collaborations and conducting a qualitative and quantitative analysis on the materiality of human rights risk across our portfolio.

In 2023, following the analysis of our investee companies in order to prioritise them for engagement, we wrote tailored letters to twenty five companies, representing £5.8 billion of assets under management, as of the end of 2022, with ten companies sitting in Scottish Widows' top 100 list (companies which represent our largest investment holdings).

The letters highlighted the in-depth qualitative research on each company identified. Freedom of association, supply chains and working conditions were common themes across a number of the companies identified.

Fifteen companies have replied so far and of those that responded a number have expressed their interest in engagement and we hosted our first engagements during the last two quarters of the 2023, and we will be continuing with this work in 2024.

We believe that engagement ensures that the companies we are invested in understand the standards we expect and that through collaboration we will protect the long-term interests of our clients and investment beneficiaries.



Communities

Access to housing in communities

Through our partnership we are working with Crisis (and Simon Community in Northern Ireland) to help them to provide the support that will help people to leave homelessness behind for good. See [page 46](#).

Domestic and financial abuse

Our Domestic and Financial Abuse team, set up in 2019, supports survivors to rebuild their finances, see [page 38](#).

Drug trafficking and financial exploitation of young people including county lines

We work collectively with industry bodies, law enforcement, regulators and governments. These partnerships are crucial to our ambition to reduce crime across society and to Help Britain Prosper, see [pages 20 to 22](#).

Modern slavery and human trafficking

For further information on our approach to modern slavery and human trafficking and our community-based initiatives, access our modern slavery statement which can be found on [our download centre](#).



Suppliers

Compliance with UK Modern Slavery Act and mitigation of the risk of human rights or modern slavery risks, including forced labour and child labour, in the countries and communities where they operate

We expect suppliers to meet or exceed the provisions in our [code of supplier responsibility](#).

See the code here and more on our approach to responsible and sustainable sourcing on [page 18](#).

Fair remuneration and ethical recruitment practices

We have worked, and continue to work, with third-party contractors to ensure that they operate in line with our commitments and expect them to ensure that the wages they pay meet legally mandated minimum requirements without unauthorised deductions.

Access to effective remedy for individual victims of human rights violations/grievance and whistleblowing mechanisms

Speak Up is the Group's whistleblowing programme. It is available to all colleagues across the Group, including suppliers, contractors and third parties. See [page 24](#).

We continue to work with Unseen, a UK anti-slavery charity, to deepen our understanding of modern slavery risk within our supply chain and enhance our colleague training.

Our purpose is Helping Britain Prosper. We Help Britain Prosper by creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good.



Sustainable future

In this section

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Data, financial planning and controls	105
Banking activities	106
Transition plan by system	112
Risk management and scenario analysis	150
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Overview

Our Group strategy

How we deliver

Inclusive future

Sustainable future

Within this section we provide more details on the specific environmental sustainability strategy objectives and some of our key related activities.

Grow

Drive revenue growth and diversification



Capitalising on inclusive and sustainable financing and investment opportunities

£29bn

Bank sustainable finance lending from 2022 to 2023

£21.7bn

progress towards Scottish Widows 'Climate-Aware' investment target of £20-£25bn invested by 2025

Net zero origination

Helping us to identify our greatest transition opportunities

Greening the built environment and improving access to quality housing

Launched our Effective Home partnership for residential solar

20%

of new Citra projects signed up to Next Generation Project

Green Buildings Tool

An insights calculator to support clients to assess their energy efficiency

Continued our partnership with Octopus Energy for energy efficiency home improvements

FOCUS

Strengthen cost and capital efficiency

Managing our environmental risks and impacts

3 new NZBA targets launched in 2024 for C&RRE, road passenger transport and agriculture

Developed prototype residential real estate model to enhance measurement of physical and transition risks

Exited direct lending to UK thermal coal power by end of **2023**

Net zero operations and supply chain

Launched a pledge to bring nature closer to our people and places

Increased operational Scope 1 and 2 emissions reduction target from 75% to at least 90% by 2030

152 suppliers assessed against the Emerald Standard representing c.76% of supply chain emissions

change

Maximise the potential of people, technology and data



Embedding sustainability in all that we do

Established an internal Nature Task Force and expanded nature training across the Group

Developed credible transition plan (CTP) assessment methodology with 36 assessments undertaken to date

1,000 large clients supported by our partnership with the Soil Association Exchange

Greenwashing training launched for all colleagues

Updated Group carbon offsetting principles

Enhanced control framework established for external sector statements

Supporting and engaging our colleagues

2,500 electric cars through our colleague salary sacrifice scheme since launch

Recycle for good making it easier for colleagues to recycle personal devices

95% of supplier and sourcing managers completed training on our Emerald Standard

Our environmental strategy

Systems approach

We have taken a systems-led approach to consider climate and environmental issues across and between each system in a UK and Group context.

We must be bold in the role we take in the transition, to ensure we de-risk our business and capitalise on opportunities. Through the work we have undertaken to date on developing Net Zero Banking Alliance (NZBA)-aligned sector targets, our first transition plan and considering the opportunities available to support our customers, the need to move from a sector focus to a system-led approach has become clear.

By taking a system-led approach, our strategy seeks to bring focus through greater cross-Group collaboration, and in turn aims to unlock change and progress. The Group has four priority systems where we believe we can leverage our scale, reach in the market and the different financial services we offer to consider climate and environmental issues across and between each system.

These systems are focused on where we live through greening the built environment, how we move through low carbon transport, how we farm with a more sustainable farming and food system, and through the energy we use with an energy transition fundamental to broader decarbonisation. Further to this, we will need to ensure we transition the broader business and manage our own impacts.

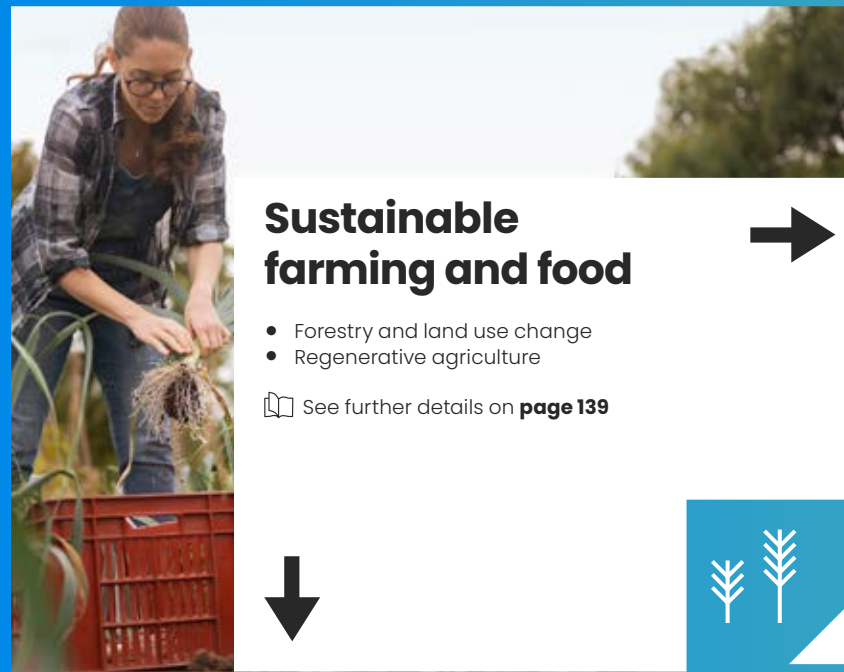
A systems approach requires consideration of value chains for

elements of each system and between systems, seeking to understand the changes and solutions that are needed to unlock impactful progress in support of the transition to address environmental trends.

This means being proactive in shifting focus from climate and carbon, to also include topics such as nature, Just Transition, circular economy, and resilience and adaptation to ensure we capture a wide range of issues that affect all systems.

Systems are interconnected, with progress in one also supporting progress in the other, particularly in the energy transition. As such, different areas of the Group will need to collaborate to support different elements across each system. This approach will support focusing on the most material areas that the Group can play a role in to generate new lending or investment opportunities, or to manage our risks.

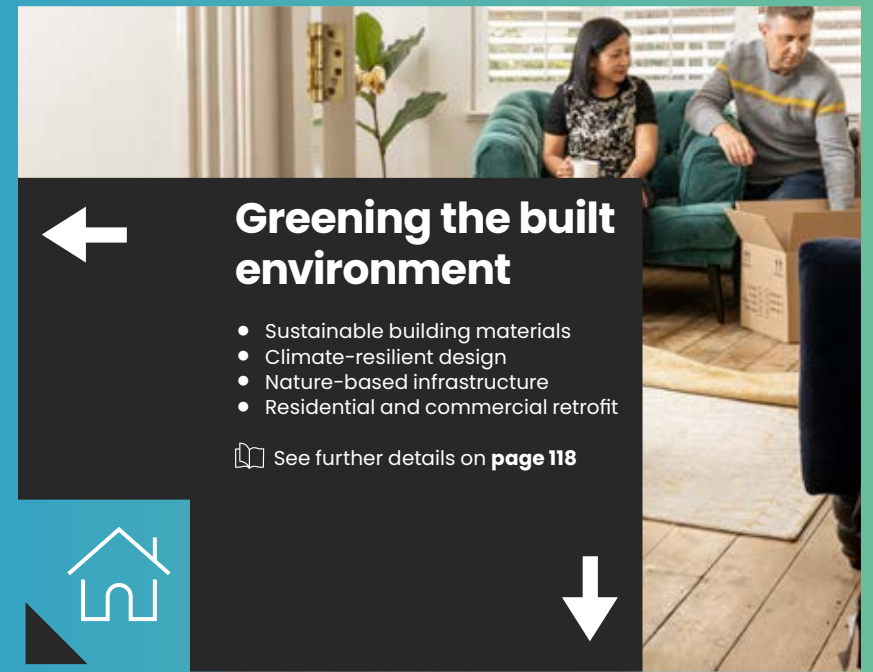
There is further work to do to develop the cross-Group action plans for each system, which we will update in future iterations of our sustainability report and transition plan. This is a universal endeavour and will depend on government, industry and wider society acting together, alongside significant technological advancements. There are many unknowns as part of the transition but it cannot be a barrier to action.



Sustainable farming and food

- Forestry and land use change
- Regenerative agriculture

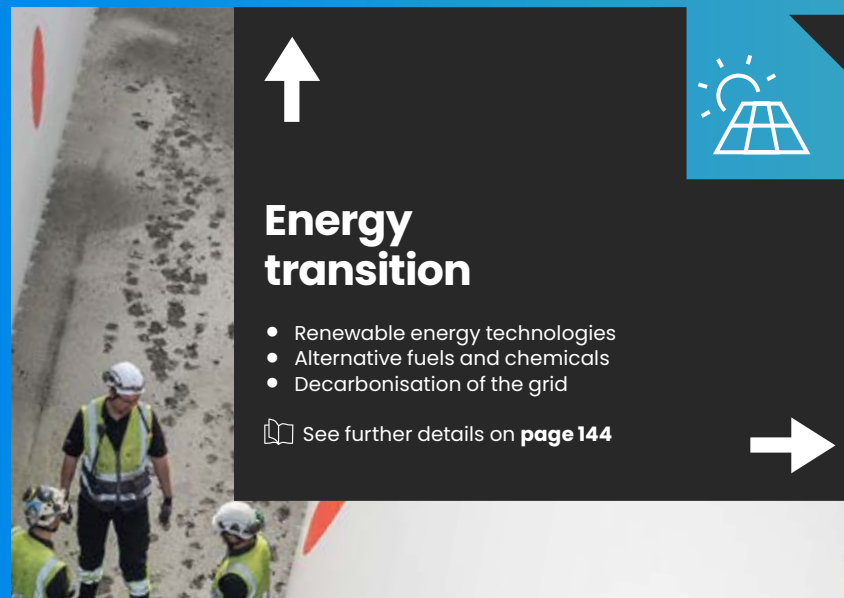
See further details on **page 139**



Greening the built environment

- Sustainable building materials
- Climate-resilient design
- Nature-based infrastructure
- Residential and commercial retrofit

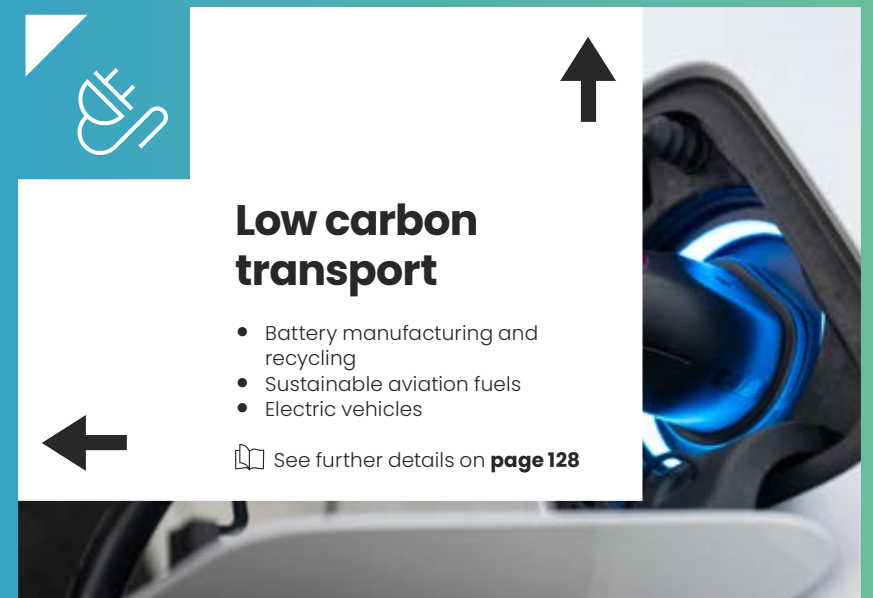
See further details on **page 118**



Energy transition

- Renewable energy technologies
- Alternative fuels and chemicals
- Decarbonisation of the grid

See further details on **page 144**



Low carbon transport

- Battery manufacturing and recycling
- Sustainable aviation fuels
- Electric vehicles


See further details on **page 128**

Foundations We will ensure we 'have our own house in order' so that we can have legitimacy when helping others transition:

Supply chain



Own operations



Wider sector targets and commitments



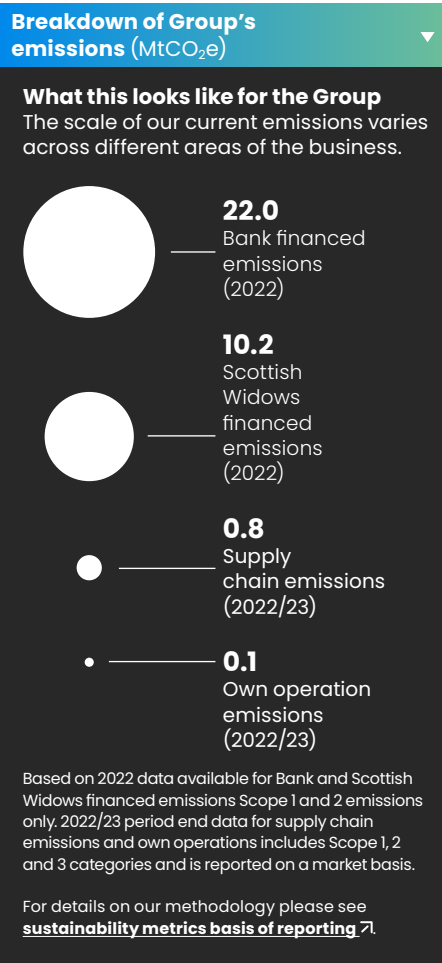
Our environmental strategy continued

Our emission reduction ambitions and targets

We have set several ambitions across our own operations, supply chain and lending and investments to support the decarbonisation of our business in line with limiting global warming to 1.5°C.

While we are making good progress on all ambitions to date, there are significant challenges and external dependencies in many of our sectors and systems that will need to be addressed for us to achieve our targets and our overall ambition to reduce the emissions we finance by more than 50 per cent by 2030 (see pages 106 to 149).

Globally, we are not moving quickly enough to tackle the climate crisis at the speed we know is required and we will need to do more and collaborate with a wide range of stakeholders to unlock the barriers that stand in our way or we will not achieve our ambitions.



Bank financed emissions

Reduce the carbon emissions we finance by more than 50% by 2030

Work with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030 on the path to net zero by 2050¹ or sooner.

For more information on bank financed emissions see [page 106](#)

¹ From a 2018 baseline, covering Scope 1 and 2 emissions.



Scottish Widows financed emissions

Target halving the carbon footprint² of our investments by 2030 on the path to net zero by 2050³.

For more information on SW financed emissions see [page 160](#)

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.

Halve the carbon footprint of our investments by 2030



Supply chain

Working with our suppliers to reduce the emissions generated as a result of our demand for goods and services, on the path to net zero by 2050 or sooner⁴.

For more information on supply chain emissions see [page 101](#)

⁴ From a 2021/22 baseline.

Reduce our supply chain emissions by 50% by 2030



Own operations

In our own operations we will achieve net zero carbon operations by 2030 and reduce our direct carbon emissions by at least 90 per cent, while also reducing energy consumption across our operations by 50 per cent and limiting travel-related carbon emissions by 50 per cent⁵. We have also renewed our ambitious targets for water, waste and nature.

For more information on own operations emissions see [page 95](#)

⁵ All from a 2018/19 baseline.

Achieve net zero operations by 2030 and reduce our direct carbon emissions by at least 90%

Our environmental strategy continued

Our Group sustainable finance and investment

In 2022 we set sustainable financing targets through to 2024 totalling £33 billion across the Bank and for up to £25 billion of investments in climate-aware strategies for our Scottish Widows business from 2020 through to 2025. As shown to the right, we have made great progress against these targets and have already reached our Commercial Banking target one year earlier than planned.

In parallel, as noted on page 27, we have developed our sustainable financing framework to provide greater clarity on what Lloyds Banking Group considers to be eligible types of sustainable finance covering the Group's retail lending, business and Commercial Banking and corporate and institutional banking businesses. Further, we are including our sustainable finance and investment targets as part of our new 2024 to 2026 LTIP assessment as set out on page 26 of our [annual report and accounts 2023](#).

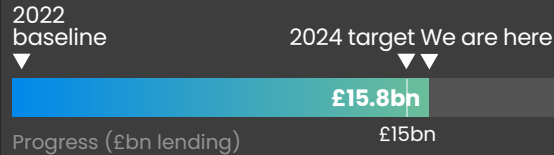
Our existing and new targets

Commercial Banking

Existing target
£15 billion sustainable finance¹ for corporate and institutional customers by 2024

£15.8bn

achieved in sustainable finance for corporate and institutional customers by the end of 2023



A breakdown of our sustainable lending is shown below¹

Type (£bn)	2023	Cumulative for target
Bonds	2.0	3.3
Use of proceeds	2.7	4.3
Sustainability-linked loans	3.2	8.2
Total	7.9	15.8

New target

£30bn

of lending from 1 January 2024 to end of 2026

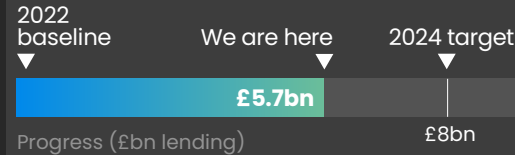
We have launched a new target for sustainable finance for our Commercial Banking customers².

Motor

Existing target
£8 billion financing for EV and plug-in hybrid electric vehicles by 2024³

£5.7bn

achieved in financing for EV and plug-in hybrid electric vehicles by the end of 2023

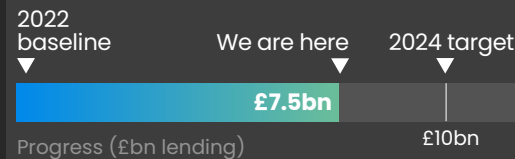


EPC A/B mortgage lending

Existing target
£10 billion of mortgage lending for EPC A and B-rated properties by 2024⁴

£7.5bn

achieved in EPC A/B mortgage lending by end of September 2023⁴

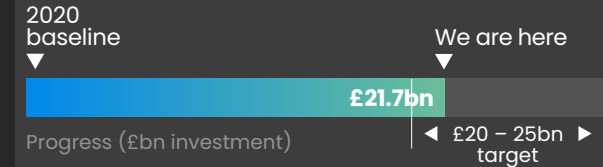


Scottish Widows

Existing target
£20–25 billion discretionary investment in climate-aware⁵ strategies and climate solutions⁵ by 2025

£21.7bn

progress in discretionary investment in climate-aware⁵ strategies by the end of 2023



- As defined within the [sustainable financing framework](#).
- New Commercial Banking target relates to both corporate and institutional customers and small and medium businesses.
- Includes new lending advances for Black Horse and operating leases for Lex Autolease (gross) and operating leases for Tusker (gross, post acquisition by the Group in February 2023 only); includes cars and vans. £3.6bn achieved in 2023.
- New mortgage lending on UK (excluding Channel Islands) residential property that meets an Energy Performance Certificate (EPC) rating of B or higher. The target includes re-mortgages but excludes further advances. £7.5bn covers the period from January 2022 to September 2023. With £2.8bn achieved from 1 January 2023 to 30 September 2023.
- We are working 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.

Our environmental strategy continued

Summary of our activity

We recognise that ambition alone won't support the transition or deliver on our purpose of Helping Britain Prosper. We need a plan to deliver on our strategy.

Our 2023 Group climate transition plan sets out the steps we'll take to reduce emissions to net zero for our operations, supply chain and how we are addressing nature, Just Transition, engagement and data at the Group level. We outline specific activities happening in the Bank in the transition plan section. Our climate transition plan has been informed by guidance from the Glasgow Financial Alliance for Net Zero (GFANZ) and UK TPT, as well as guidance from the Task Force on Climate-related Financial Disclosures (TCFD), all of which continue to evolve.

We don't yet have all the answers and we continue to work with our stakeholders to evolve our approach. We expect to update our plan regularly in the coming years as a result and as guidance converges around more defined recommendations that will inform future versions.

Our transition plan is governed under the same structure and financial planning process as our wider environmental sustainability strategy.

We have set several net zero ambitions across our Group to support the decarbonisation of our business in line with limiting global warming to 1.5°C. Our climate transition plan provides the plan and pathway to how we will achieve our Group ambitions and targets discussed in our strategy section, noting how environmental sustainability milestones align with the grow, focus and change strategy pillars.

See **pages 84 to 149**

1 2023 Citra targets as reported in the prior year have been delayed to 2024. Further details on **page 126**.

2 All items are for 2025 unless stated for 2026.

Summary of our activity

	2021	2022	2023	2024	2025+ ²	2030	2050
Grow	<ul style="list-style-type: none"> Expanded funding available for businesses under discounted green finance initiatives Launched our green mortgage and green living reward offers and green salary sacrifice schemes 	<ul style="list-style-type: none"> Launched sustainable finance lending targets Launched our Build Back Better Scheme to support our home insurance customers' resilience to climate change Launched partnerships with Octopus Energy for home energy efficiency improvements and Soil Association Exchange for agriculture customers 	<ul style="list-style-type: none"> Launched our Effective Home partnership for residential solar Mobilised net zero origination work to identify transition technology financing opportunities (page 117) Achieved Commercial Banking sustainable financing target 	<ul style="list-style-type: none"> £10bn of mortgage lending for A and B rated properties by 2024 £8bn electric vehicle financing by 2024 Launched new 2026 sustainable financing target for Commercial Banking 	<ul style="list-style-type: none"> £20-25bn Scottish Widows investment in climate-aware strategies £30bn Commercial Banking sustainable financing by 2026 	<ul style="list-style-type: none"> Continue to develop new products, services and financing targets to drive the transition 	<h1>Net zero</h1> <p>by 2050 or sooner</p>
Focus	<ul style="list-style-type: none"> No new direct financing of new greenfield oil and gas developments approved post-2021 Maintained travel emissions below 50% of pre-pandemic levels Announced updated operational climate pledges 	<ul style="list-style-type: none"> First round of Net Zero Banking Alliance sector targets published covering seven sectors Supply chain net zero ambition published Supply chain Emerald Standard launched 	<ul style="list-style-type: none"> Developed a credible transition plan (CTP) assessment methodology and assessed existing oil and gas clients' planned activity (page 116) Exited direct lending to UK thermal coal power by end of 2023 Announced two updated operational pledges and new nature pledge (page 98) Enhanced Citra sustainability strategy (page 126) 10% biodiversity net gain for Citra schemes started in 2023¹ Develop Citra operational and supply chain baseline¹ 	<ul style="list-style-type: none"> Publish agriculture, commercial and residential real estate (C&RRE) and road passenger transport targets Publish CTP assessment approach 50% Citra homes started in 2024 developed to NextGen reporting standards 10% of new Citra developments started in 2024 to achieve 10% biodiversity net gain Determine Citra emissions baseline and reporting approach 	<ul style="list-style-type: none"> 75% of new Citra projects delivered in accordance with NextGen reporting criteria 25% of new Citra developments started in 2025 to achieve at least 10% biodiversity net gain All new Citra homes with parking to have EV charge point Establish targets for Citra operational and supply chain emissions based on baselines developed Reduce operational waste by 80% 	<ul style="list-style-type: none"> 50% reduction in bank financed emissions Scottish Widows half carbon footprint of all investments Full exit from all entities operating thermal coal facilities Net Zero Banking Alliance 2030 sector targets 50% reduction in supply chain emissions Net zero own operations 50% reduction in operational energy use Zero waste by 2030 Water neutral by 2030 	
Change	<ul style="list-style-type: none"> Developed first Group-wide colleague e-learning course on sustainability Delivered training to the Board on climate change and climate-related risks Developed specialist training to relationship managers in partnership with Cambridge Institute for Sustainability Leadership. 	<ul style="list-style-type: none"> Published first carbon offsetting approach Delivered training to the Responsible Business Committee and Group Executive Committee on nature and biodiversity 60,000 colleagues completed Group-wide e-learning course 	<ul style="list-style-type: none"> Established a nature task force and expanded training delivered across the Group on nature, including with the Group Board (page 92) Developed Emerald Standard training for supplier and sourcing managers (page 101) Launched new colleague training covering low carbon transition, nature loss and greenwashing (page 15) 	<ul style="list-style-type: none"> Publish sustainable financing and sustainable bond frameworks Publish updated Group carbon offsetting principles Develop an ESG data solution Continue to enhance training 	<ul style="list-style-type: none"> Continue to enhance training, develop Group approaches and refine data as needed 		

Our environmental strategy continued

Our approach to carbon offsetting

Carbon credits, if used responsibly, can be an important tool in combating climate change and can support the financing of climate resilient development.

It is important that credits are deployed as part of science-aligned decarbonisation strategies and are not used as an alternative for abatement. Credits can be used to mitigate remaining residual emissions and can also support mitigation activities beyond a business' value chain. These activities can help support the transition at the pace and scale required, including associated environmental and social benefits.

Our strategy remains focused on reducing emissions before considering the use of carbon credits. To provide clarity and transparency on our approach to carbon offsetting, we have set out a series of nine principles that the Group will seek to follow. These principles have been cross-referenced against external stakeholder expectations and guidance as set out in our principles document.

We recognise that this is a fast-evolving market, so will revisit them regularly to ensure alignment with the latest developments and guidance and update them if we deem that there is a material change needed; we have also obtained a second-party opinion for our principles from ERM CVS. You can read more about our [Group offsetting principles](#) and [second-party opinion in our download centre](#).

Group use of carbon credits:

Financed emissions ambition: We do not currently plan to use carbon credits to offset our financed emissions, but we will monitor and seek to contribute to emerging industry standards in this area as they develop.

Own operations ambition: We will use carbon credits to offset residual emissions from our operations for 2030 and beyond.

Supply chain: We do not currently plan to use carbon credits to offset our supply chain emissions, recognising that we are still in the early stages of our supplier engagement activity. We will continue to evolve and adapt our approach as we learn through our supplier engagement.

Beyond value chain: We may seek to use carbon credits for mitigation beyond our value chain for propositions, customer benefit or for relevant projects that support wider action.

As the voluntary carbon markets (VCM) scale up over the coming years, it is likely that parts of the Group may interact with the market. This will include engaging with our clients and suppliers 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.

2023 carbon credit use

The Group announced its acquisition of Tusker in February 2023, noting the acquisition will support its ambitions to achieve net zero emissions by 2050 or sooner through the promotion of the use of electric vehicles (EV) and ultra-low emission vehicles (ULEV). Since 2013, Tusker has taken measures to offset the tailpipe emissions of all salary sacrifice cars on their schemes. This initiative also includes offsetting the charging requirements from the grid for electric vehicles.

As we continue to integrate the business into the Group, we will continue to report on carbon credit use and drive alignment of Tusker activity to [our Group offsetting principles](#). See [our download centre](#).

Our GmbH business also offsets calculated operational emissions for its [German](#) and [Dutch operations](#).

Any Tusker and GmbH offsetting activity is excluded from our Group reported emissions and considered beyond value chain mitigation (BVCm). In 2023 Tusker retired carbon credits representing 20,106t of CO₂e in support of their offsetting activity using projects that include wind energy, improved cooking and forestry projects. In 2023 GmbH retired carbon credits representing 332t of CO₂e using projects that include safe water and forestry projects. Further details of the carbon credits are located in the [sustainability metrics data sheet](#).



Areas of evolution

Science Based Targets initiative

We continue to explore the requirements to be met to obtain external verification of the science-aligned approach to our sector targets. We have actively reviewed and provided feedback on the public consultation documents released by the Science Based Targets initiative (SBTi) in 2023 related to new and updated approaches for financial institutions.

However, significant challenges still remain with the proposed updates, one of which is the inability to use regional 1.5 aligned scenarios from credible national bodies such as UK Climate Change Committee's Balanced Net Zero Pathway (BNZP), which sets out feasible 1.5 aligned pathways for UK sectors, taking into account economic, fiscal and social circumstances and energy policy in the UK.

We expect to have further clarity from SBTi in the first quarter of 2024 on their planned approach.

Insurance emissions methodology

In relation to the home insurance products we offer there is a role for us to improve the resilience of customer homes in relation to climate change-induced extreme weather. We intend to support customer journeys and industry-wide actions towards greater resilience and adaptation in UK domestic properties. Whilst as a Group we are committed to reducing emissions across all business areas, there is currently no established methodology in the industry to calculate financed emissions on our Insurance liabilities. We will continue to monitor developments in this area.

Facilitated emissions

The Group notes the release of the Global GHG Accounting and Reporting Standard for Capital Markets (Part B) in December 2023. This update will enable the Group to move towards calculating and disclosing its facilitated emissions, the assessment of which will be a focus area for 2024. The standard covers the primary issuance of capital markets instruments, including new issuance of various types of bond issues for general purposes and syndicated loans.

Our environmental strategy continued

Nature

Nature context

Protecting and restoring nature goes hand-in-hand with supporting the transition to a low carbon economy, and ultimately Helping Britain Prosper.

Nature provides us with everything we need to survive and flourish – it provides us with food, energy, medicines and genetic resources, and protects us from floods, storms and overheating. However, the state of nature is rapidly declining, with the rate of global change in nature over the past 50 years unprecedented in human history. Between 1970 and 2018 the average change in relative abundance of monitored species was a decline of 69 per cent globally¹, driven primarily by human activities, including land use change, overexploitation, pollution, anthropogenic climate change and the spread of invasive species.

Nature loss and climate change share direct and indirect drivers and mutually reinforce each other, yet for far too long nature has been a peripheral part of the climate conversation. Climate change is estimated to be responsible for 14 per cent of biodiversity² loss, which is projected to increase over time³. Similarly, the loss of nature reduces the ability of ecosystems to store carbon, and instead releases carbon emissions, amplifying the effects of climate change.

In recognition of the need to address the declining state of nature, at COP15 in December 2022 the Global Biodiversity Framework (GBF) was adopted⁴ which is hailed as the nature equivalent to the Paris climate agreement. The framework is comprised of 23 targets for action over the decade to 2030, with the aim of 'living in harmony with nature'. Companies and financial institutions will be key contributors to the implementation of the GBF, particularly through Target 15 on the assessment and disclosure of biodiversity dependencies, impacts and risks.

A key framework for companies and financial institutions to align to in assessing and disclosing nature-related impacts, dependencies, risks and opportunities is the recently



launched framework from the TNFD. TNFD recognises that nature is no longer a corporate social responsibility issue, but a core and strategic risk management issue alongside climate change. To this end, the TNFD have produced recommendations and guidance that are fully aligned with the GBF. We welcome the publication of the TNFD's voluntary disclosure framework as a key development in supporting consistency and transparency in reporting on nature-related impacts, dependencies, risks and opportunities.

Our activity

The role of Lloyds Banking Group

We recognise that we, like every individual and organisation, have both an impact and a dependency on our natural world. We believe there are several ways that the Group can play a critical role in halting and reversing nature loss and helping the economy transition:

- **Educator:** Educating and supporting customers, clients, suppliers and colleagues to raise awareness on the actions they can take to reduce their impact and recognise their dependencies on nature, for example, through our partnerships with the Woodland Trust and Soil Association Exchange
- **Capital provider and facilitator:** Helping to redirect financial flows away from activities that harm nature, and towards activities that have a positive impact on nature, for example, we have led the co-ordination of and structured some sustainability-linked loans with nature-related KPIs
- **Convener:** Actively take part in partnerships, industry bodies and initiatives to steer and shape appropriate responses and drive change, for example, our involvement with the Sustainable Markets Initiative and the nature workstream under the Financial Services Task Force (for further details see **page 108**)

- **Influencer:** Actively engage with government to help encourage the right enabling policy environment and business behaviours and activities, for example, we have engaged with the UK government directly to shape the UK Transition Plan Taskforce's (TPT) framework, as well as with WWF on the inclusion of nature within TPT requirements

In recognition of the declining state of nature and its relationship with climate change, we have been taking key initial steps in 2023 in line with TNFD recommendations to get started with the identification, assessment, management and disclosure of our material nature-related issues⁵:

1. Building internal capability

As with many organisations, understanding nature and its relevance to the economy and finance is relatively new. We have made an important step on this journey in 2023 by building a nature team to help grow our internal capabilities in this space. The Group welcomed its first head of nature in May, responsible for working to embed nature in decision-making right across the Group.

We have delivered initial training on nature to the Group Board, Insurance Board and Executive Committees. We have also developed and started to roll out training to build awareness and understanding of nature across the Group, with a specific training session organised for our internal nature taskforce (comprised of business and central function colleagues who are currently working on or overseeing nature-related activities). More broadly, the purpose of this internal, cross-Group nature taskforce, which formed in 2023, is to help prioritise key activities, ensure alignment and efficiencies across the Group, agree an approach for nature-related activities, including external engagements, and to share learnings from nature-related activities.

- 1 ¹ **WWF (2022) Living Planet Report 2022** – Building a nature-positive society. WWF, Gland, Switzerland.
- 2 Biodiversity: the variety among living organisms; this includes how different species interact with each other – can often be used as a health indicator of nature.
- 3 ³ **The Royal Society: How do humans affect biodiversity?**
- 4 ⁴ **Convention on Biodiversity (2022)** Final text on Kunming-Montreal Global Biodiversity Framework available in all languages.
- 5 ⁵ **TNFD (2023) Getting started with adoption of the TNFD Recommendations** – v1.0.

Our purpose in action

Woodland Trust

In January 2020 the Woodland Trust and Lloyds Banking Group embarked on a transformational 10-year partnership. Together we have committed to plant 10 million native trees by 2030, making a real difference in our response to the nature and climate emergency. Our partnership is off to a flying start with four million trees planted in the first four years.

As a nature conservation specialist, the Woodland Trust holds a wealth of knowledge for us to tap into, supporting us on our climate and nature journey. Through our partnership we provide volunteering and education opportunities for our colleagues, and support the Woodland Trust's Free Tree Scheme for communities, whilst simultaneously encouraging farmers to plant trees on their land and create new hedgerows or restore old ones.



SDG 13: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.



See **pages 98 to 100** for further details on our bank approach to nature

Our environmental strategy continued

2. Understanding our potential exposure

This year, we carried out a nature materiality assessment which included our retail portfolio, suppliers, and our Commercial Banking portfolio¹. We used the ENCORE² tool to develop a more detailed understanding of our potential material impacts and dependencies on nature across all sectors.

Our initial findings suggest that agriculture and the built environment are two of the most material areas across our business with the highest potential dependencies and impacts on nature. We will be using these results to inform our approach to nature, and have already incorporated these findings into our refreshed environmental strategy. We will be working to learn from these findings and where possible integrate into activities. Our next steps for the assessment itself are to assess impacts and dependencies on a more granular level, for example on a location and supply chain basis, aligned to the TNFD LEAP framework.

3. Exploring nature-related opportunities

We are a Founding Partner of the Projects for Nature initiative, which is an online platform connecting business donors to nature recovery projects. We are excited by the opportunity to shape the future direction of this initiative in collaboration with the UK government, NGOs and other private sector organisations. We look forward to realising our commitment to making positive changes to restore nature by mobilising public and private finance.

1 This assessment did not cover our insurance, pensions and investment portfolio.
 2 ENCORE is a tool that provides an understanding of how different sectors impact and depend on nature, developed by UNEP-WCMC, UNEP FI and Global Canopy.
 3 'What is a Just Transition?'

2024 year ahead

We know there is more to do to execute our environmental sustainability strategy. A key focus for 2024 is continuing work on nature.

Our priority activities

We have developed a Nature Approach for the Group in collaboration with our internal cross-Group Nature Taskforce, which includes a high-level vision and objectives connected to our Group strategy to guide us over the next three years. These three objectives are:

- Grow** Capitalising on nature-related opportunities
 We will explore how we can support nature recovery in the UK and green growth; support the transition to sustainable farming and food systems that protect and restore nature; and support the transition to green building stocks in the UK that protect and restore nature.
- Focus** Managing our nature-related risks
 We will assess and manage nature-related risks, opportunities, impacts and dependencies aligned with the voluntary TNFD disclosure recommendations, and integrate nature as part of both our risk management framework and net zero strategy.
- Change** Embedding consideration of nature in all that we do
 We will continue enhancing our internal capability on nature and explore opportunities to engage our colleagues and customers to take action to address nature loss. To encourage the right enabling environment we will continue to actively engage with industry initiatives and government.

Just transition

A just transition means ‘greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind’³. For Lloyds Banking Group, the just transition is at the heart of our purpose of Helping Britain Prosper and we will strive to ensure no one is left behind as we commit to driving positive change for our colleagues, customers, clients and communities, including through meaningful dialogue.

Our activity

System-level collaboration

We continue to collaborate to drive system-level transformation in relation to a just transition through our engagement within a number of external working groups, committees, roundtables and workshops, with the aim of collectively informing and developing guidance on the just transition and the role of financial institutions in supporting an inclusive transition. Notable contributions include:

- Involvement in the Transition Plan Taskforce (TPT) Just Transition working group, which contributed to the release of the TPT disclosure framework and sector guidance.
- Membership within the LSE Grantham Research Institute’s Financing a Just Transition Alliance, where we participated in workshops focused on housing and agriculture, which has led to the release of a policy publication on how finance can support a just transition in UK agriculture.
- Participation in CISL’s Banking Environment Initiative’s (BEI) just transition project, which culminated in the release of the bank action guide: towards a just transition for small and medium sized enterprises (SMEs) which details the actionable steps banks can take to consider SMEs in the net zero transition.



A just transition is at the heart of our purpose of Helping Britain Prosper as we seek to create a more sustainable and inclusive future.



Read more on our just transition approach within the transition plan pages 118 to 149

Our environmental strategy continued

- Engagement as a member of the Just Transition Consultative Committee, convened by UNEP FI and ILO, which launched Just Transition Finance: Pathways for Banking and Insurance at COP28. This report aims to provide guidance to financial institutions on how to become enablers of a just and inclusive transition.

For further examples of our collaboration on a system-level in relation to transition planning and Scottish Widows, please see **pages 116 and 164**.

Strategic focus

The principles of a just transition strongly align with our Group values, which are there to underpin the way we work and make decisions. To ensure it is prominent in our approach, just transition has been identified as a key cross-cutting theme that sits within our environmental sustainability strategy. To support this, we have developed specific guidance to use within decision-making processes and areas of focus, and we are already considering and prioritising the principles of a just transition in a number of areas, including within our target-setting approach and associated transition plan, whereby just transition considerations are prioritised and used when identifying the levers we can use to influence the transition. See our NZBA target-setting approach on **page 114** for more detail.

Within Scottish Widows, just transition is specifically included in the stewardship policy and outlined in our voting guidelines as part of the low carbon transition.

Client engagement

We recognise the importance of client engagement to support a just transition to net zero. Details on how we have been engaging clients on the just transition can be found on **page 116** and our approach to supporting them in considering just transition principles as part of their transition plans can be found on **page 109**.

Customer consideration

Effectively supporting the transition to net zero will require consideration of many different groups, including vulnerable and low-income households. Our range of products and propositions strive to be inclusive of various customer segments, along with aiming to increase customer awareness and education on the actions that can support their transition. We have detailed examples of the actions we have taken so far across our sector-specific sections of this report and acknowledge there is more to do to continue to support our customers.

Sector-specific transformation

We acknowledge the need to consider the just transition from a sector-specific lens, given the disproportionate impact the transition to net zero will have on high carbon sectors. To date, we have taken some steps to support a just and inclusive transition as demonstrated on **page 143**, but there is more to do and we aim to continue to identify the steps we can take to support a just and inclusive transition.

Financing and investment

We understand our decisions around financing and investment have a role to play in embedding a just transition. We have already started to consider just transition principles within our investment decisions, which is further supported with our sustainable financing framework which aligns with just transition principles. See **page 113** for further information.

Our purpose in action

Portsmouth Water

In May, we announced our support for the construction of the Havant Thicket Winter Storage Reservoir (HTWSR) by Portsmouth Water. This is the first large-scale water storage reservoir to be built in the UK since the 1980s.

The reservoir is expected to take nine years to plan, build and fill with water and once complete will also provide environmental and social benefits to the local community.

This is likely to be the first in a series of major infrastructure projects across the UK looking to address forecast water shortages in the coming decades.



SDG 9: Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human wellbeing, with a focus on affordable and equitable access for all.

SDG 12.2: By 2030, achieve the sustainable management and efficient use of natural resources.



See **page 87** for details of our systems approach

Own operations

Reducing the carbon footprint of our own operations is a key part of our sustainability strategy. This year, we have reviewed and redefined our operational net zero target for 2030.

We have increased our commitment to reduce operational Scope 1 and 2 carbon emissions from 75 per cent to at least 90 per cent by 2030, based on our 2018/19 baseline.



This adjustment reduces our reliance on offsetting residual emissions.

We recognise that there is more that we can do to minimise the environmental impact of our direct operations.

Our actions

We have renewed our commitment to reduce our water consumption, expanded the scope of our operational and waste target to include technology waste, as well as introduced a new pledge for nature across our operations.

While we continue to make strong progress against our targets, we recognise that achieving these goals will not be easy, and we will need to keep investing in our buildings, as well as supporting colleagues in the transition towards a greener future.

In 2024, we will continue to deploy energy-efficient technology including LED lighting and improved building controls. We will remain focused on removing all use of natural gas from our estate, replacing gas boilers with low-carbon heating technologies and creating more sustainable branches in communities across the UK. We will also keep investing in sustainable and active travel facilities across our buildings, while we mobilise our new waste, water and nature commitments, defining a clear roadmap towards our 2030 ambitions.

Own operations continued

We also remain a committed member of the World Green Building Council Net Zero Carbon Building initiative, and the Climate Group's campaigns on renewable electricity (RE100), energy productivity (EP100) and electric vehicles (EV100).



Operational climate ambition and targets¹



Direct carbon emissions²
Net zero carbon operations by 2030

47.8% reduction



Progress (% reduction) 2018/19 baseline



Energy consumption³
Reduce our total energy consumption by 50 per cent by 2030

36.2% reduction

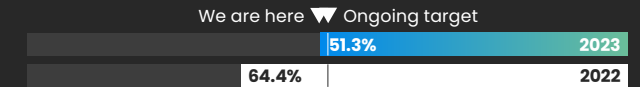


Progress (% reduction) 2018/19 baseline



Travel emissions⁴
Maintain travel carbon emissions below 50 per cent of 2018/19 baseline

51.3% reduction

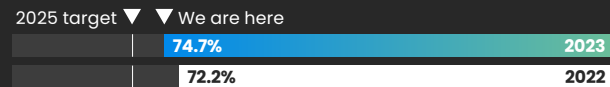


Progress (% reduction) 2018/19 baseline



Operational waste (legacy target)⁵
Reduce our operational waste by 80 per cent by 2025

74.7% reduction

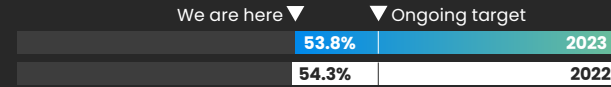


Progress (% reduction) 2014/15 baseline



Water consumption (legacy target)⁶
Reduce water consumption by 40 per cent by 2030

53.8% reduction



Progress (% reduction) 2009 baseline

Further details of our SECR reporting can be found in our [2023 annual report and accounts](#) ⁷ and our [2023 sustainability metrics datasheet](#) ⁷.

- 1 The methodology to derive reported Scope 1, 2 and 3 emissions is provided in the [sustainability metrics basis of reporting](#) ⁷. Emissions reduction is shown for the period 1 October 2022 to 30 September 2023.
- 2 Includes Scope 1 and 2 emissions, market-based approach for electricity Scope 2.
- 3 Includes electricity, gas and fuel usage across our full operational estate.
- 4 Includes business travel (covering flights, car journeys, hotel stays, taxis, buses and underground/overground rail trips), and employee commuting, company cars and mobile branches with WTT. Includes restated flights and rail emissions performance to reflect improving data coverage.
- 5 Includes general waste, plastics, mixed recycling, food waste and confidential paper, as well as lower-volume waste such as glass and wood.
- 6 Includes water consumption across our full operational estate.

Own operations continued

Implementation strategy

Target	 Net zero carbon operations by 2030	 Reduce total energy consumption by 50 per cent by 2030	 Maintain travel carbon emissions below 50 per cent of 2018/19 baseline	 Reduce operational waste by 80 per cent by 2025 (legacy target)	 Reduce water consumption by 40 per cent by 2030 (legacy target)
Achieved in 2023	<p>In 2023, our operational carbon emissions (Scope 1 and 2, measured using the market-based method) fell by 18.2 per cent compared to 2021/22, resulting in an overall reduction of 47.8 per cent from the 2018/19 baseline.</p> <p>Our key activities in the last year include:</p> <ul style="list-style-type: none"> Ongoing energy reduction measures and investment across our estate. Further details are outlined in the 'Reduce our total energy consumption by 50 per cent by 2030' pledge update Reassessment of our decarbonisation path towards 2030, and increasing our existing commitment from 75 per cent to at least a 90 per cent reduction in Scope 1 and 2 versus a 2018/19 baseline Signing a new Power Purchase Agreement for the supply of 50GWh of renewable electricity per year to our buildings, generated by a new UK-based solar photovoltaic development that will be built in 2024 Investment of £110k in five innovation projects selected from over 200 candidates entering our second 'Call for Innovation' event 	<p>In 2023, our building energy consumption reduced by 13.5 per cent compared to 2021/22, resulting in an overall reduction of 36.2 per cent compared to our 2018/19 baseline. This was achieved through continued reduction of energy use in our properties and working with our supply chain to implement energy saving solutions.</p> <p>Some of our key activities include:</p> <ul style="list-style-type: none"> Continuing our energy optimisation programme, resulting in 62GWh cumulative savings in 2023 Building on the previous years' programme, we have continued our LED lighting installs across our offices and branches, resulting in expected savings of 6,406MWh, the equivalent to powering 1,800 UK homes. We have also upgraded our building management systems (BMS) at 225 branches, ensuring minimal energy wastage and resulting in savings of 1,215 MWh Full integration of our Sustainability Framework 360 in the design process of all our office refurbishment programme 	<p>In 2023, our travel emissions remained 51.3 per cent below our 2018/19 baseline. Despite an increase in commuting and business travel related carbon emissions from the previous year, we maintained emissions below the 50 per cent target level.</p> <p>Examples of our key activities include:</p> <ul style="list-style-type: none"> Continuing to build our sustainable travel infrastructure across our sites, with 22 of our offices now accredited by Cycling UK's Cycle Friendly Employer scheme, plus we also have 264 electric vehicle charging points at 40 of our sites, with 79 per cent of our offices now having EV charging points installed Launch of liftshare platform to all UK based colleagues. Over 2,000 journeys already authenticated Development and launch of a travel carbon calculator, allowing colleagues to compare the carbon impact of different types of journey methods 	<p>In 2023, we produced 74.7 per cent less operational waste compared to 2014/15. Our recycling rate is 72 per cent and we diverted 97.3 per cent of our waste from landfill.</p> <p>Some of our key activities include:</p> <ul style="list-style-type: none"> Developed site level MI dashboard across all offices, to support waste bin rightsizing Started to deploy battery waste collection to reduce waste contamination in over 60 offices In our Bristol Harbourside office, we have removed all non-reusable cups, takeaway containers and crockery, avoiding over 50,000 single used items a year Introduced 'Recycle for Good' across our offices. This a scheme for colleagues to bring their own technology device in the office to be recycled Reduce our year-on-year paper waste by 11.6 per cent, and removed 4,200 printers across our operations 	<p>In 2023, we have achieved our water reduction target for the third year in a row. Our water consumption was 53.8 per cent lower than the 2009 baseline, while in 2022 it was 54.3 per cent lower than the baseline.</p> <ul style="list-style-type: none"> Completed a trial of low flow shower at our Bristol Harbourside office, reducing water usage by 5l/minute and with a potential to save c.300,000 litres per annum Undertaken successful trials of water saving devices for urinals. When rolled out across 39 sites, this technology has the potential to deliver water savings of c.40 million litres per annum Continued the installation of percussion taps, instant hot water taps and low flush volume WC systems across our offices and branches, including upgrading 50 per cent of toilets to Propelair system at our Andover Keens House office
Short term (Aim for 2024)	<p>In 2024, we remain fully committed in delivering our net zero operational carbon ambitions, and we will focus on:</p> <ul style="list-style-type: none"> Continuing the rollout of heat pumps and energy-efficient electric heating and cooling solutions across our branches and offices Improving our buildings' fabric and roof insulation across branches and offices Reducing the Global Warming Potential (GWP) of refrigerant gases wherever possible 	<p>Reducing energy consumption remains at the core of our operational climate pledges and net zero journey. In 2024, we will:</p> <ul style="list-style-type: none"> Continue to invest in energy efficiency (e.g. installing LED lighting and improving building controls) and build awareness with our colleagues and suppliers via energy management behavioural campaigns Test new ideas and innovative technologies to deliver transformational clean energy solutions across our estate Deliver additional roof-top onsite solar photovoltaic installations at our main offices 	<p>As colleagues continue to use office spaces more often, our commuting and business travel emissions will increase. This is why our travel carbon reduction pledge remains a key priority, and in 2024 we aim to:</p> <ul style="list-style-type: none"> Continue supporting our colleagues in adopting sustainable commuting habits, focusing on the implementation of our liftshare platform across key hubs Continue to improve cycling facilities for colleagues, seeking Cycle Friendly Employer accreditation from Cycling UK at each of our main offices Assess the opportunity to introduce an internal travel carbon levy, with the intention to create a levelled playing field between cost of trains and flights 	<p>In 2024, as we mobilise activities on our new 'Zero Waste by 2030' target details on page 98, we will also continue our journey to achieve 80 per cent reduction in operational waste by 2025 across our branches and offices by:</p> <ul style="list-style-type: none"> Continuing 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 Continuing to right-size our printer estate in offices and branches Continuing removal of single-use plastic items from our catering and cleaning operations 	<p>In 2024, we will focus on mobilising our 'Water Neutral by 2030' target details on page 98, while also:</p> <ul style="list-style-type: none"> Continuing with the rollout of water-efficient toilets, taps and low water usage urinals across our branches and offices, aligning the buildings with our engineering standards Using the Sustainability 360 Framework, our building design tool, to embed water efficiency for new and refurbished offices across our operations
2025 onwards	<p>From 2025, we will:</p> <ul style="list-style-type: none"> Eliminate the use of natural gas in our buildings by 2030 Continue to purchase 100 per cent renewable electricity and work towards our ambition to increase our electricity sourced directly from renewable projects or onsite generation, to at least 60 per cent by 2025 By 2030, reach at least 90 per cent reduction in Scope 1 and 2 emissions versus the 2018/19 baseline, improving from the previous 75 per cent target Start sourcing high-quality carbon offsets for our residual Scope 1 and 2 emissions by 2030 	<p>From 2025, we will:</p> <ul style="list-style-type: none"> Continue our energy optimisation programme Integrate the Sustainability 360 Framework, our building design tool, as part of the delivery for new and refurbished offices and branches Continue to invest in rooftop onsite solar photovoltaic installations 	<p>From 2025, we will:</p> <ul style="list-style-type: none"> Embed sustainable travel as the main way of commuting and business travel across the Group Establish sustainable commuting as the go-to solution for colleagues Continue our commitment to The Climate Group's EV100 campaign, installing charging points across all our colleague car parks by 2030 	<p>From 2025, we will start reporting our performance against our new 'Zero Waste by 2030' target, alongside our legacy waste reduction target. As more colleagues continue working in our offices, we face a significant challenge in maintaining the low levels of waste measured alongside increasing our recycling rate and decreasing waste contamination. This is why we will:</p> <ul style="list-style-type: none"> Continue focusing on reducing our operational and technology waste to support our zero waste by 2030 ambitions Embed long-term circular economy principles across our operations, to support and expand our ambitious waste reduction target Prioritise strategies to prevent waste, prepare it for reuse, recycle, recover other value (e.g. energy) and finally, dispose only if no other alternatives are available 	<p>From 2025, we will update our reporting to replace our existing water reduction target with our new 'Water Neutral by 2030' measure.</p> <p>Reducing water consumption across our operations remains a key priority for us. In the next phase of our water reduction journey, we will broaden our ambition to embed water efficiency as part of our buildings' design process, ensuring that water conservation principles are included across our operations, major office and branch refurbishments.</p> <p>We will also look at how we can develop and source credible water offsets project in our journey towards 2030.</p>

New operational pledges

Our operational climate pledges reflect our commitment to minimise the environmental impact of our direct operations. This is why we have now increased our ambitions for waste, water and nature with a new set of operational targets that replace our legacy pledges.

New operational pledges		
<p>Zero waste by 2030</p>	<p>Water neutrality by 2030</p>	<p>Bring nature closer to our people and places</p>
<p>By 2025, we will achieve our existing 80 per cent waste reduction target, and by 2030 we will align with the Zero Waste International Alliance's definition of a zero-waste business, diverting over 90 per cent of our operational and technology waste from landfill and incineration, focusing our effort on preventing, reducing, reusing and recycling waste. As part of our pledge, we will:</p> <ul style="list-style-type: none"> • Measure and disclose our full operational and technology waste impact • By 2030, divert over 90 per cent of our operational and technology waste from landfill and incineration, with the ambition to include construction waste when better data is available • Achieve the TRUE waste certification across our larger operating sites 	<p>We recognise the preciousness of water resources, and we want to play our part in minimising the impact of our direct operations. This is why we are committed to reach water-neutrality across our buildings by 2030, reducing our water consumption as much as possible, and offsetting the residual volume. This pledge signifies our dedication to responsible water management, and we will:</p> <ul style="list-style-type: none"> • Invest in our places, prioritising reduction of water consumption across our operations, investing in data and technologies we have tested and making them a standard • Create partnerships to finance, invest and support water reduction projects in the local community, including water conservation projects 	<p>We understand the importance of nature and biodiversity and ecosystems in a sustainable future, both to support wildlife and to deliver all the vital wellbeing benefits that nature can provide for people. This is why we're taking action to bring nature closer to our people and places across our offices, branches and data centres. As part of this pledge, we will:</p> <ul style="list-style-type: none"> • Take action to help deliver nature-positive operations by working to halt and reverse nature loss across our key operational green spaces. This includes adopting a recognised science-based measurement and monitoring approach, exploring external collaborations and partnerships, and developing an operational pollinator strategy • Support nature in our urban spaces by delivering smaller nature-positive habitats on rooftops, balconies and patios using UK native and pollinator-friendly plants to create stepping-stone habitats for urban wildlife • Bring nature closer to our people by developing engaging activities and inspiring learning experiences for our colleagues

Short and longer term goals

Short term (2024–2025)

Longer term (2026–2030)

New operational pledges continued



Zero waste by 2030

- Focus on achieving our legacy commitment on operational waste (80 per cent reduction by 2025, versus a 2014/15 baseline).
- Focus on data quality, increasing granularity and accuracy of operational waste data, working with suppliers to maximise our technology waste capture capabilities.
- Develop a new recycling and single use items strategy across our operations and introduce circularity principle and zero waste policy for our larger sites.
- Expand external waste disclosure to include all operational and technology waste.
- Complete our first TRUE zero waste certification pilot in one of our major offices.

- Remove single-use items from our own operations.
- Embed innovation across our operations and technology waste, with focus on recycling, data, waste audit and gamification.
- Achieve TRUE certification as part of our governance for our larger occupied sites and embed updates into our annual external disclosure.
- Work with suppliers to embed a materials circularity principle across our goods sourcing.



Water neutrality by 2030

- Roll out smart meters into our top water consuming sites.
- Develop reporting and insight on excessive water usage and define a leak repairing strategy.
- Develop our own water efficiency building standard and embed it into the Sustainability 360 Framework design tool.
- Develop water offset guidelines, with the potential to partner with external parties and independent bodies.
- Commence water efficiency technology retrofit across our offices, branches and data centres.

- Define offsetting planning and phasing, and identify and secure offsetting mechanisms and partners.
- Explore opportunities to support colleagues and customers on their water reduction journey.
- Publish case studies and thought leadership and water efficiency and offsetting to inspire and influence others.



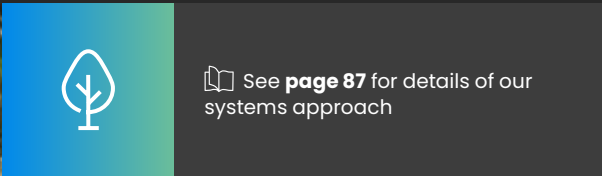
Bring nature closer to our people and places

- Develop a 10-year biodiversity enhancement plan for our larger operational green spaces and continue to protect and restore nature at key sites.
- Focus on data monitoring and insight across our estate to measure our progress and ensure we remain on track to reach our nature-positive goals.
- Deliver a showcase nature project at one of our large green spaces.
- Develop nature-positive volunteering opportunities, engaging activities and inspiring learning experiences for colleagues across our business.
- Deliver more nature-led urban spaces as part of our office and branch retrofit programmes.

- Extend our pollinator strategy to support colleagues and customers, encouraging them to take 'micro-actions' at home and make life better for all pollinators.
- Adopt a recognised measurement and disclosure framework across our estate, supporting annual reporting and facilitating further external collaborations and knowledge-sharing.
- Set a goal to achieve The Wildlife Trusts' 'Biodiversity Benchmark' accreditation at key sites.
- Develop and implement indoor live planting standards across our offices, branches and data centres.

Our purpose in action

We are transforming our operational green spaces across the UK to give nature more space to thrive. Since 2020, we've protected and restored over 19,000m² at 19 offices and two branches.



See **page 87** for details of our systems approach



We are committed to bringing nature closer to our people and places, and to taking action to deliver nature-positive operations by halting and reversing nature loss at our key operational green spaces. Our focus is on increasing the area, connectivity and integrity of habitats at our sites, working to protect native species, including pollinators, and supporting ecosystem services across our estate. Examples of our work this year include:

Keens House, Andover: We have invested in nature-positive enhancements and a new biodiversity-led outdoor colleague collaboration space as part of a refurbishment project to improve the sustainability of Keens House, our main office in Andover. The new garden space aims to support urban wildlife and provide a welcoming and accessible outdoor area for colleagues to meet, collaborate and take a few moments to enjoy the benefits of nature.

We have designed the garden as a vital stepping-stone habitat to support nature's recovery and created 200m² of new planting beds within Andover's urban centre. We've planted the beds with a diverse selection of over 30 different UK

native plant species. These will bloom at various points throughout the year to provide vital foraging opportunities for urban wildlife and to extend the feeding season for bees, butterflies and other important pollinators. We've also included various long-flowering and berry-producing plants and hedges, such as forsythia, lavender, honeysuckle and hawthorn to provide natural 'feeding stations' supporting insects, pollinators, invertebrates and birds, as well as other wildlife that feed on these species, such as bats.

We've planted mature birch trees in the courtyard garden to provide additional nesting opportunities for birds, and have added features such as boulders and rock beds to provide a safe space for invertebrates to find food and shelter, to hibernate or to bask in the sun. The garden pathways were created using self-binding compressed gravel to provide a safe, accessible way for people to access the space. The small gaps in the path surface will allow rainwater to naturally seep through into the soil beneath, helping to prevent flooding.

The new nature-positive courtyard garden at Keens House aims to provide an engaging, biodiversity-friendly outdoor space for all colleagues to enjoy, and a vital stepping-stone habitat for urban wildlife.

Adopting a science-based approach

We're taking a science-based approach to baseline and monitor the biodiversity value of our key operational green spaces. We're working with ecologists and other trusted experts to adopt Natural England's Biodiversity Metric 4.0 measurement framework to measure and monitor our progress.

In 2023, we worked closely with Middlemarch Environmental Ltd., one of the UK's leading ecological consultancies dedicated to helping businesses protect the natural environment. We've now completed measurement activities at eight of our operational sites with green spaces, and have calculated each site's baseline biodiversity value. This included understanding its ecological connectivity, its importance to local and national habitat restoration programmes, and the abundance and condition of wildlife, ecosystems and ecosystem services that are present on site. We then developed 10-year biodiversity enhancement management plans for each site. Implementing the recommendations will enable us to continue to make progress and deliver measurable benefits for nature by restoring and enhancing our vital ecosystems and increasing connectivity between our operational sites and the surrounding landscapes.

From 2024, we'll continue to measure and monitor the maintenance and improvements of natural processes, ecosystem health and species abundance over time, and develop further action plans to ensure persistent, long-term benefits for both people and nature.



SDG 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Supply chain

Our supply chain emissions result from the purchase of goods and services across a diverse range of categories from IT software and hardware through to consultancy services. We are proactively engaging with our suppliers to reduce these emissions aligned to a 1.5-degree pathway.



2023 is the second year of our supply chain sustainability programme in which we have calculated and disclosed our Scope 3 supply chain emissions with the aim of driving a reduction in our supplier carbon emissions and improve their wider ESG performance. During the year, we continued to focus our direct engagement with suppliers who make the biggest contribution to our supply chain emissions to understand their alignment to our Emerald Standard requirements and future plans to meet it where they fall short.

Through this engagement we continue to see varying levels of supplier maturity and ambition in relation to calculating, disclosing and reducing their own emissions. Encouragingly, we have seen positive supplier progress towards meeting our Emerald Standard but recognise the significant challenges ahead in meeting our ambition. Whilst we do not have direct control over our suppliers' transition plans and associated emissions, we remain committed to managing our demand for supplier services effectively and working with suppliers collaboratively on our shared journey to net zero.

2023 highlights

785,237tCO₂e
2022/23 carbon emissions

152
key suppliers assessed against our Emerald Standard representing c.80% of supply chain emissions and spend

Following a third-party review of our methodology and approach for calculating our supply chain emissions, we have re-calculated our baseline emissions for the period October 2021 to September 2022. A key refinement was the exclusion of VAT from our spend data used to calculate supplier emissions. This has enabled us to calculate our October 2022 to September 2023 emissions using a consistent methodology and make our first year-on-year comparison. We have also received limited independent assurance of these emissions disclosures.

As a result, we are reporting an increase in supply chain emissions driven by business growth and investment to transform our business, resulting in increased demand for supplier goods and services. This highlights the challenge of reducing supply chain emissions on an absolute basis whilst growing our business, the need to de-couple emissions from spend by driving greater transparency of our suppliers' Scope 1, 2 and relevant Scope 3 emissions and the importance of credible transition plans. Given the diverse nature of goods and services we purchase, we also recognise that suppliers operate in different sectors and the pace at which new technologies become available to support their transition will vary. Similarly, delivering on our ambition will also depend on the action of governments including developments in public policy. We will continue to drive adoption of our Emerald Standard and will evolve our approach in line with emerging standards and best practice.

Supply chain continued

Our supply chain emissions

We are one year on since announcing our ambition to reduce supply chain emissions by 50 per cent by 2030 on our path to net zero by 2050, or sooner. Against our baseline year, we have seen an increase in our disclosed supply chain emissions of 16 per cent resulting from a 21 per cent increase in spend with our suppliers.

We have seen a 4.3 per cent reduction in the carbon intensity of our supplier spend from 169 tCO₂e/£m to 161 tCO₂e/£m. Analysis of our data shows this reduction is primarily due to inflationary adjustments to the carbon emissions factors used in our calculation.

This highlights the limitations of a spend-based methodology which relies on average carbon emission factors per £1 of spend and supports our objective of moving towards supplier specific carbon emissions data. This will allow us to more readily assess our suppliers progress against our ambition by decoupling spend from emissions, reflecting the action taken by suppliers to decarbonise their business activities. Currently 3 per cent of our disclosed emissions are calculated using supplier specific allocated emissions and a further 19 per cent by apportioning supplier emissions disclosed via CDP.

Our latest disclosed supply chain emissions are calculated from supplier spend totalling £4.9 billion (net of VAT). In the same period, we estimate there is a further c.£4.7 billion (including VAT)¹ of spend with other third parties which requires investigation. We have a programme of work to assess third-party spend which is currently not captured or disclosed in our supply chain reporting. In particular, we will consider the upstream supply chains of our vehicle and property leasing businesses.

We continue to align our supply chain emissions to the GHG Protocol Scope 3 Categories 1, 2 and 4, namely: purchased goods and services, capital goods and upstream transportation and distribution. Other Scope 3 categories are excluded from our supply chain reporting as they are reported elsewhere or not relevant to supplier activities (for example, downstream Scope 3 categories). The only exception is Category 8 upstream leased assets which contributed less than 1 per cent of in-scope supplier spend in our baseline year. The emissions associated with upstream leased assets have been calculated and are reported in Category 1.

The spend-based methodology involves applying one of four possible approaches to spend data.

- **CDP supply chain allocated**

Where a supplier is part of our CDP supply chain membership and has allocated emissions in their CDP Climate Change disclosure to the products and services it provides to the Group, we use this supplier specific emissions data.

- **CDP supply chain apportioned**

Where a supplier is part of our CDP supply chain membership but has not been able to allocate their emissions directly to the Group, we apportion their total disclosed emissions based on the level of spend with that supplier.

- **CDP apportioned**

Where a supplier is not part of our CDP supply chain membership but discloses their emissions publicly via CDP we apportion their total disclosed emissions based on the level of spend with that supplier.

- **Comprehensive Environmental Data Archive (CEDA)**

Where CDP data is not available, CEDA industry factors are applied to calculate emissions for each spend category. CEDA is an Environmentally Extended Input-Output database which provides carbon equivalent emission factors per unit of spend on goods/services.

The use of CEDA factors is considered the least accurate approach, however, to ensure emissions calculations are complete (in line with GHG Protocol requirements) their use is considered appropriate. CDP Supply Chain allocated data is considered the most accurate approach at this time. The proportion of the spend data and corresponding emissions calculated according to each approach is summarised in the table. Given the timing of CDP releasing their annual supply chain data, we have used 2022 CDP supply chain data in both our restated baseline year and our current year. Going forward, we will use our reporting year minus one CDP data (e.g. for our reporting period October 2023 to September 2024 we will use CDP 2023 data).

When making a year-on-year comparison, we have seen a 4 per cent increase in emissions calculated using CEDA factors which is consistent with a 4 per cent increase in spend with suppliers not disclosing Scope 1, 2 and relevant Scope 3 emissions through CDP. However, it is worth noting that whilst emissions calculated using CEDA factors account for 78 per cent of emissions, they only represent 55 per cent of spend. This highlights the importance of driving a shift to more accurate emissions data that results from supplier's calculating and disclosing their emissions inventory, coupled with credible transition plans to reduce absolute emissions.

Scope 3 supply chain emissions (tCO ₂ e)		
	Restatement baseline year	Current year
Scope 3 supply chain emissions by GHG protocol category	2021/22	2022/23
Category 1 – Purchased goods and services (including Category 8 upstream leased assets)	557,047	640,297
Category 2 – Capital goods	61,485	76,946
Category 4 – Upstream transportation and distribution	60,794	67,994
Total	679,326 ✓	785,237 ✓

CDP Supply Chain allocated data						
	Restated baseline year 2021/22			Current year 2022/23		
	Spend %	Emissions %	Emissions (tCO ₂ e)	Spend %	Emissions %	Emissions (tCO ₂ e)
Calculation approach: selection of data sets						
↑ CDP supply chain allocated	16%	4%	24,978	17%	3%	24,978
↑ CDP supply chain apportioned	27%	20%	137,020	26%	18%	143,873
↑ CDP apportioned	6%	2%	16,348	2%	1%	7,716
↑ CEDA	51%	74%	500,980	55%	78%	608,670
	100%	100%	679,326	100%	100%	785,237

More details on this methodology, our assumptions and selected data sets are provided in the Group's sustainability metrics basis of reporting.

1 This spend with other third parties is before any filtering or alignment to the GHG protocol categories.
 2 ✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP. Deloitte's 2023 assurance statement and the sustainability metrics basis of reporting 2023 are available online at [our download centre](#)⁷¹

Supply chain continued

Our Emerald Standard requirements

Our Emerald Standard is the Group's supplier sustainability standard. We ask our key suppliers to:



CDP climate change

- Submit an annual public response to CDP's climate change questionnaire
- Achieve at least a B score from CDP for their response
- Disclose Scope 1, 2 and applicable Scope 3 carbon emissions



Net zero commitment

- Have their own public ambition to achieve net zero by 2050 with interim targets to reduce carbon emissions by 2030, or sooner.
- A net zero target that covers Scope 1, 2 and 3 emissions



Science-aligned targets

- Set science-aligned targets, reducing emissions in line with limiting global warming to 1.5°C
- Have targets which cover Scope 1, 2 and 3 emissions



ESG scorecard

- Have a valid EcoVadis ESG scorecard (or similar) and achieve at least a 'silver' level rating

Annual assessment of key suppliers: 36 out of 152 suppliers met the requirements of our Emerald Standard in 2023



Progress across our key suppliers

Requirements	Movement	2023 insight
<p>CDP climate change: emissions disclosure Greater transparency of our supply chain emissions</p> <p>2023: 137 2022: 104</p> <p>+32%</p>		Of which, 66 per cent of suppliers disclose Scope 1, 2 and 3 emissions
<p>Net zero commitment More than half of our key suppliers have a net zero commitment</p> <p>2023: 98 2022: 69</p> <p>+42%</p>		Of which, 68 per cent cover Scope 1, 2 and 3 emissions
<p>Science-aligned targets More than half of our key suppliers have science-aligned targets</p> <p>2023: 96 2022: 70</p> <p>+37%</p>		Of which, 72 per cent cover Scope 1, 2 and 3 emissions
<p>ESG scorecard EcoVadis network expansion</p> <p>2023: 120 2022: 105</p> <p>+14%</p>		68 per cent achieved at least a silver level rating

Supply chain continued

Engagement strategy

In 2023, we expanded the rollout of our Emerald Standard engaging with 152 suppliers, an increase of 24 per cent from 2022. These suppliers represent circa 80 per cent of our supply chain spend and emissions in the scope of our disclosure made in February 2023.

We took the opportunity at the beginning of 2023 to review our Emerald Standard which led to amending the requirement for suppliers to have a CDP score of at least A- to a score of B. We took this decision as we recognise achieving an A- score was more difficult for smaller organisations and balances the need for attaining a level of quality in responses with being inclusive. A score of B represents a challenge for the broader supply market to achieve and we will keep this under review.

We started the year by engaging with the CEOs, CSOs and executives accountable for ESG of these key suppliers, reinforcing the importance of engaging and collaborating with us on our collective journey to net zero. In June we held our second supply chain sustainability summit hosted by our Chief Procurement Officer, providing a platform to share information on our own supplier activities, our supplier programme and climate transition plans. This included 191 external delegates representing 105 different third-party organisations who joined the online virtual event.

To further our understanding of our suppliers' own climate change ambitions and strategies, we had structured conversations with 143 of these key suppliers during the course of 2023. We outlined our ambition and expectations encapsulated by our Emerald Standard. This included an evaluation of their progress towards meeting our requirements and future plans where they fell short.

We saw an increase in engagement across our key 152 suppliers. In our second year as a CDP Supply Chain Member 90 per cent of our 152 suppliers disclosed via CDP and 79 per cent were rated through the EcoVadis platform.

In November we carried out a final validation of our key suppliers' progress towards meeting our Emerald Standard based on their 2023 CDP Climate Change disclosure and latest EcoVadis scorecards. At that time, CDP had not published their 2023 disclosure ratings however using their 2022 CDP scores 36 suppliers have been assessed as meeting our Emerald Standard requirements.

152

Suppliers assessed against our Emerald Standard representing c.80% of supply chain spend and emissions

95%

of supplier and sourcing managers completed training on our Emerald Standard



143 of our key suppliers shared insights on their sustainability plans.

Additionally, to drive greater adoption of our Emerald Standard, we have enhanced the sustainability questions in our supplier request for proposal templates to ensure sustainability is given consideration in the sourcing process, recognising the importance of including sustainability in our supplier selection decisions. We also developed a sustainability schedule which embeds our Emerald Standard principles and requirements into supplier contracts. The objective is to include this into master services agreements with our 152 suppliers, who complete Emerald Standard Assessments, at the point of renewal. We continue to capture learnings from this activity to inform our approach going forward and future options to incentivise adoption of our Emerald Standard with our suppliers.

The Emerald Standard concepts are pivotal to meeting our ambition to reduce supply chain emissions and we recognise the importance of building the capacity and capabilities of colleagues who engage more widely with prospective and existing suppliers through their day-to-day roles. In 2023 we rolled out a suite of E-learning modules to

relevant supplier and sourcing managers to build their confidence and understanding of the requirements. By the end of November, 95 per cent of these colleagues had completed the training.

Whilst recognising there is more to do to drive environmental sustainability in our supply chain we were delighted to have been shortlisted for the Chartered Institute of Procurement and Supply (CIPS) Excellence Procurement 2023 Awards and the World Sustainability Awards 2023.

We recognise there is more to do to improve our disclosures and reduce the emissions that our supplier activities generate. In 2024 we will be focusing on understanding emissions associated with suppliers which are currently outside the scope of our disclosure and any resulting impact on our ambition to reduce our supply chain emissions.

We will also continue our engagement with our key suppliers, driving Emerald Standard adoption.

Data considerations



Access to good quality climate and environment data is key to addressing the challenges and opportunities associated with the transition to net zero. With 26 million customers across all sectors of the UK economy, the Group faces a number of challenges to ensure we have the right data to support our activities. These challenges can include accessing data for specific high carbon sectors (e.g. agriculture, see **page 142** for related data challenges), data for specific initiatives such as in support of our credible transition plan assessments, as well as ingestion of a significant number of differing data sources to obtain a view of our portfolio.

Additionally when utilising data we are regularly working to improve data quality, timeliness and fragmentation, as well as ensuring calculation methods are robust and up to date. Due to the breadth of our business activities, we must also contend with a constantly evolving landscape of frameworks and standardisation. We carefully select and utilise the most relevant ones to our business, for example, the Partnership for Carbon Accounting Financials (PCAF), so that we can accurately gauge and communicate the quality of our emissions calculations.

To address some of these data challenges we are building a strategic, cloud-based ESG data solution. This will help create a single source of truth for ESG data in the Group in an automated way, enhancing controls and consistency. Data utilised on this platform will extend beyond the use of climate data used for regulatory reporting, allowing us to better support our customers and their net zero ambitions. Examples of data identified for inclusion includes energy performance certificates (EPC) for buildings and CDP submissions. Additionally, we are exploring the use of AI to create insights from unstructured data.

Financial planning and controls

How climate is factored into our internal reporting and planning process

Climate considerations form part of our planning and forecasting activities. We consider climate effects in our base case economic scenario and forecast financed emissions alongside climate risks and opportunities within the Group's four-year financial plan, primarily conducted across three key areas.

Our financial planning process acknowledges the dependencies on both external factors such as policies, technology developments and customer behaviour. We continue to monitor the impact of these external factors on our Group ambitions and targets alongside working in partnership with our customers and other stakeholders to achieve our common goal of achieving net zero by 2050.

How finance is supporting the Bank's reporting of climate-related matters

1. Forecasting our Bank financed emissions to 2030 for our high-carbon-intensive sectors, along with our supply chain and own operations.
2. Building the capability to report our financed emissions and sustainable lending and investments progress on a quarterly basis, to support balance scorecard tracking. With this process aligned to Board risk appetite metrics.
3. Implementing a number of climate-related controls in relation to the calculation and reporting of financed emissions and related regulatory disclosures.
4. Continuing to develop the Group's investment planning capabilities to progress our climate ambitions and targets: reducing the emissions we finance, reducing the emissions from our suppliers and supporting our net zero own operations footprint.

Financial statement preparation includes consideration of the impact of climate change on the Group's financial position. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material short-term impact on its estimates for climate-related risks.

An assessment was performed of the Group's internally-generated economic scenarios used in the measurement of expected credit losses against external scenarios published by the NGFS.

For further details of how scenario analysis was used to support our impairment assessments in 2023 see **annual report and accounts 2023** [7](#) page 156.

There is no material impact assessed on the Group's financial position or performance as at 31 December 2023.

We are continuing to increase the scope of our emissions forecasting to cover more of our balance sheet, leveraging our forecasting process and capabilities to track progress against our published sector targets.

We regularly track sustainability-related investment across key climate, nature and social initiatives through direct engagement with business unit teams ensuring alignment and prioritisation with our strategic objectives. As part of this, the Group has dedicated investment of c.£40 million to support our customers' transition in 2024, in addition to the day-to-day activities integrated into business-as-usual. Regular monitoring of our sustainability-related investment across the Group aligns our financial goals with our purpose, supporting the ability to measure progress and delivery.

Banking activities

As part of our overall ambition to reach net zero by 2050 or sooner, we set ourselves the ambition to work with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030.



Our priority is to be a constructive partner in the transition that supports our clients throughout their own transition journeys.

Unless otherwise stated, disclosures in this section from pages 106 to 159 are not applicable to our Scottish Widows assets and liabilities. See page 160 for Scottish Widows disclosures.

2023 highlights

97%

proportion of Bank assets in-scope of PCAF which have emissions calculated

Our bank lending activity is responsible for the largest share of our Group financed emissions and is a key area of focus for us in supporting the transition to a low carbon economy.

Banking activities continued

Our UK exposure

More than 70 per cent of our banking portfolio's financed emissions are covered by the systems in focus in our environmental sustainability strategy. However, the emissions profile of our portfolio does not mirror the profile of the wider UK economy. Our proportion of emissions is higher for systems such as agriculture and the built environment, systems that are challenging to decarbonise and transition.

In this context we must consider the role we can play and the factors which impact how we can work to reach our climate ambition, while continuing to support the UK as it decarbonises.

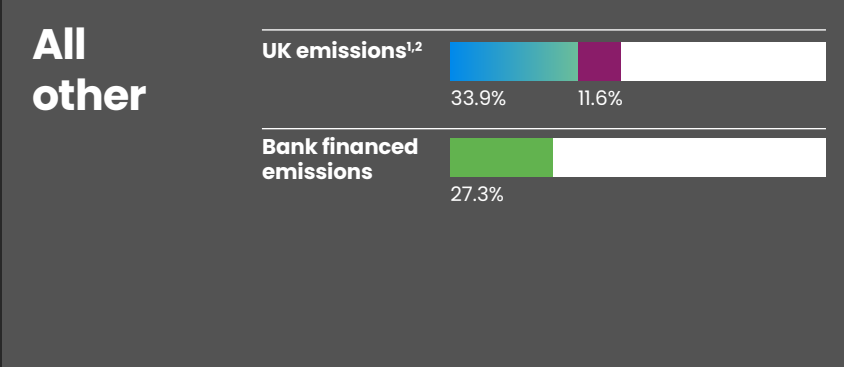
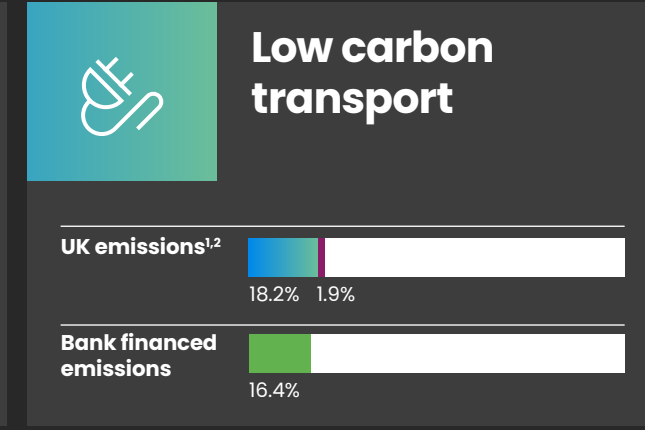
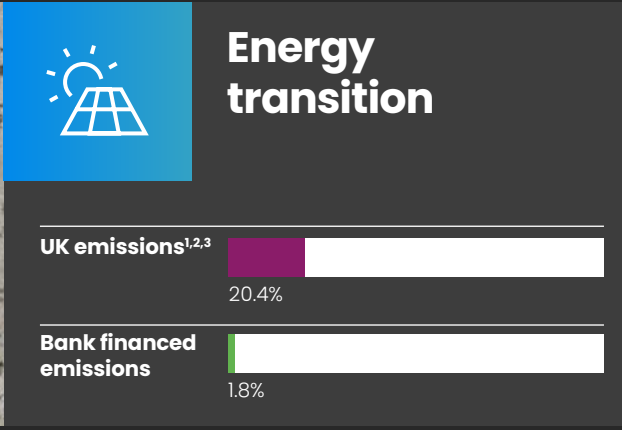
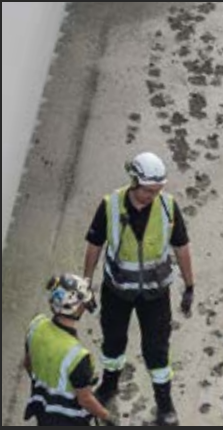
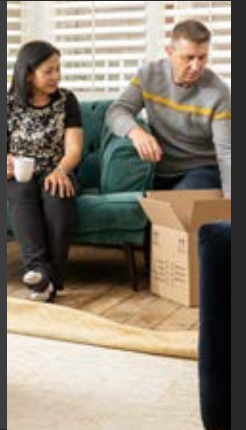
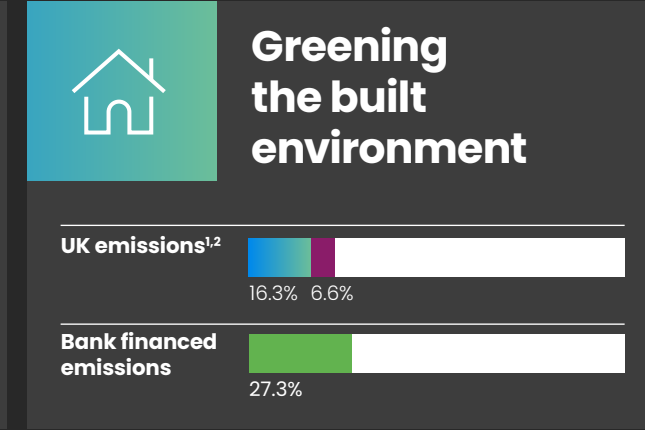
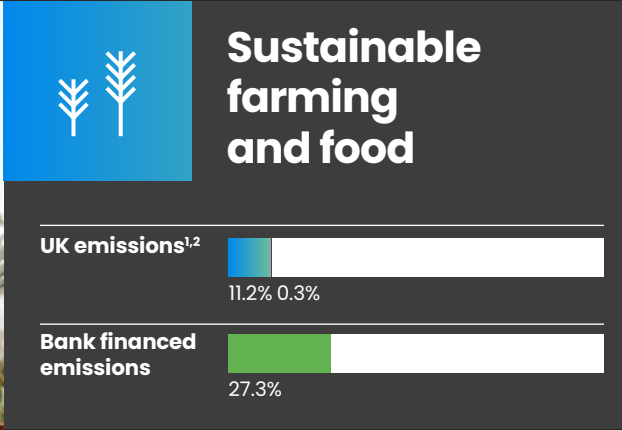
As part of our overall ambition to reach net zero by 2050 or sooner, we set ourselves the ambition to work with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030.

Our aim is to be a constructive partner in the transition that supports our clients throughout their own transition journeys. Where we don't see the level of commitment or progress we believe is necessary to keep key climate ambitions within reach, we reserve the right to change or exit those relationships.

We recognise that as much as we can achieve through our own lending decisions, we cannot achieve our ambitions alone. Transitioning to net zero is a universal endeavour and will depend on government, industry and wider society acting together, alongside significant technology advancements in high-emitting sectors.

Further, industry standards such as the Partnership for Carbon Accounting Financials (PCAF) and Net-Zero Banking Alliance (NZBA) continue to evolve. This makes it difficult to fully understand our true baseline emissions and the progress towards our target, and it will likely result in restatement of our emissions position in the future. To address this, the Group has continued to provide our insights and contribute to methodology development of PCAF and NZBA guidelines and standards through consultations and working groups.

Our financed emissions and UK sector exposure⁴



UK sector emission (339.6 MtCO ₂ e)
UK energy supply emissions (86.9 MtCO ₂ e)
Bank emissions (22.0 MtCO ₂ e)

- Department for Business Energy and Industrial Strategy (BEIS) – 2021 UK Greenhouse Gas Emissions, final figures.
- UK emissions from 2021, including energy supply, were: 85.7 MtCO₂e from cars, vans and buses; 97.3 MtCO₂e for residential categories; 49.2 MtCO₂e from agriculture; and 194.2 MtCO₂e from other business.
- Emissions for the Energy transition system relate to UK energy supply emissions including emissions from power generation and fuel supply. Total UK energy supply emissions (20.4 per cent) are equal to the sum of UK energy supply emissions across all systems.
- Figures are illustrative for comparison purposes due to differing methodologies and data sets.

Banking activities continued

Engagement strategy

Partnerships and initiatives

We will continue to play our role in supporting the transition to net zero by partnering with businesses, industry groups and other organisations as they increase their own capabilities and skills. Here are some of our current initiatives and partnerships; for those sectors where we have set targets, specific activity is covered in the relevant section of this transition plan and in the wider report.

Net-Zero Banking Alliance (NZBA)

The Bank became a founding member of the NZBA in April 2021 and continues to implement the guidance, supported by new resource and expertise recruited into the business. In 2023, we participated in focus groups working with other NZBA members to review and update the NZBA Guidelines for Target Setting for Banks, as well as contributing to sector papers on emerging best practices, in automotive, power and commercial real estate. We are reviewing how best to contribute to the individual NZBA workstreams going forward, as we further develop approaches to sector-specific issues.

Sustainable Markets Initiative (SMI)

The Sustainable Markets Initiative (SMI), launched by His Majesty The King when he was Prince of Wales in 2020, has the mission to coordinate the private sector in accelerating the achievement of global climate, biodiversity and UN Sustainable Development Goal targets. We are an active member of the Financial Services Task Force, including the Nature Workstream and the Agribusiness Task Force, having joined the latter in 2023.

World Business Council for Sustainable Development (WBCSD)

The WBCSD is an organisation of over 200 businesses around the world, which works to achieve the UN Sustainable Development Goals through the transformation of economic systems. The Group joined the Council in summer 2023 in order to support its sustainability ambitions, becoming a full member and committing to meet the high standards the Council has for its members.

United Nations Principles for Responsible Banking (UNPRB)

The Group became a member of the UNPRB in 2019 in order to support the banking industry accelerate its contribution to achieving society's goals as expressed in the UN Sustainable Development Goals and the Paris Agreement.

Glasgow Financial Alliance for Net Zero (GFANZ)

We became members of GFANZ in 2021 through our participation in the NZBA. We have used GFANZ guidance on transition plans in developing our first Group climate transition plan and will continue to monitor and contribute to GFANZ activity in this area. We have contributed to GFANZ's consultation on Defining Transition Finance and Considerations for Decarbonisation Contribution Methodologies.

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 (GHG) emissions associated with their loans and investments. Lloyds Banking Group joined PCAF in September 2020 and is also a member of the regional group PCAF UK.

Banking for Impact on Climate in Agriculture (B4ICA)

The Bank joined B4ICA, which was formed in 2021, to collaborate with other agriculture industry stakeholders to help develop solutions to better measure agricultural carbon emissions at a farm/producer level, which will further aid development of solutions to manage those emissions.

Equator Principles

Lloyds Banking Group is a signatory to the Equator Principles, which is a risk management framework for determining, assessing and managing environmental and social risk in project finance transactions, such as large-scale energy, industrial or infrastructure projects.

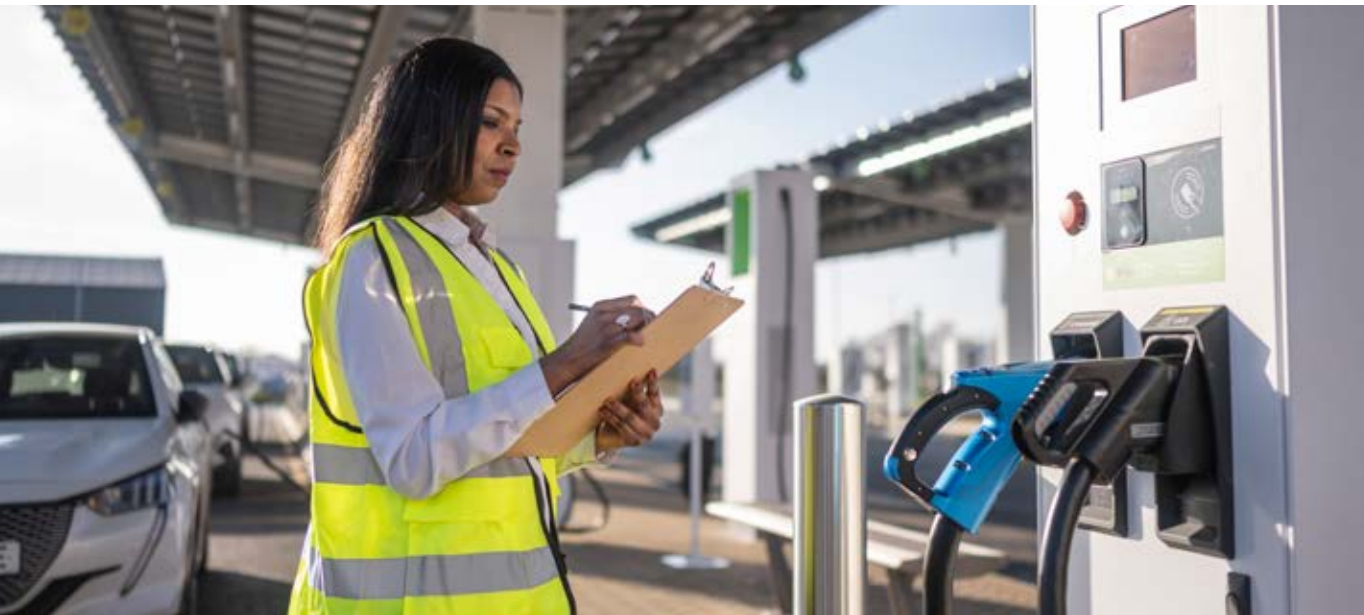


Aldersgate Group

Aldersgate Group 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. The Group joined in 2020.

Green Finance Institute (GFI)

We continue to contribute to the GFI's Coalition for the Energy Efficiency of Buildings (CEEB) aimed at developing the market for financing a net zero carbon and climate resilient built environment in the UK initially by catalysing the widespread retrofitting of residential buildings. We also continue to contribute to the GFI's Coalition for the Decarbonisation of Road Transport (CDRT), which is focused on charging infrastructure, consumer finance and leasing and battery technology and recycling. We became a member of the Group of Financial Institutions for Nature (G-FIN) in July 2023 in order to identify barriers to UK government ambitions on increasing private investment in nature based solutions.



Nature and just transition

Nature

As part of the Bank nature materiality assessment (see **page 93**) we recognise that deforestation is a critical issue linked to both climate change and nature loss, as well as impacting indigenous people and local communities. This year we carried out an initial high-level assessment using Global Canopy's High Risk Deforestation sectors¹ to better understand the exposure to high-risk deforestation sub-sectors within our Commercial Banking portfolio. We are planning more detailed analysis in 2024 and are engaged in industry initiatives aiming to make progress towards halting and reversing deforestation and land conversion.

For example, we have joined a bank-specific working group aimed at addressing risks and opportunities in the agricultural sector. The working group is convened by the World Economic Forum's Tropical Forest Alliance (TFA) finance sector engagement team.

An initial assessment was carried out to understand risks and opportunities within the Commercial Bank's Agriculture portfolio. Initial results suggest that climate change is a priority impact, and examples of priority dependencies include disease and pest control, healthy soils and flood/drought mitigation.

An initial deep-dive assessment was carried out to help us identify a set of key metrics enabling the measurement of nature-related impacts, dependencies, and begin to assess risks and opportunities for a portion of the Agriculture portfolio.

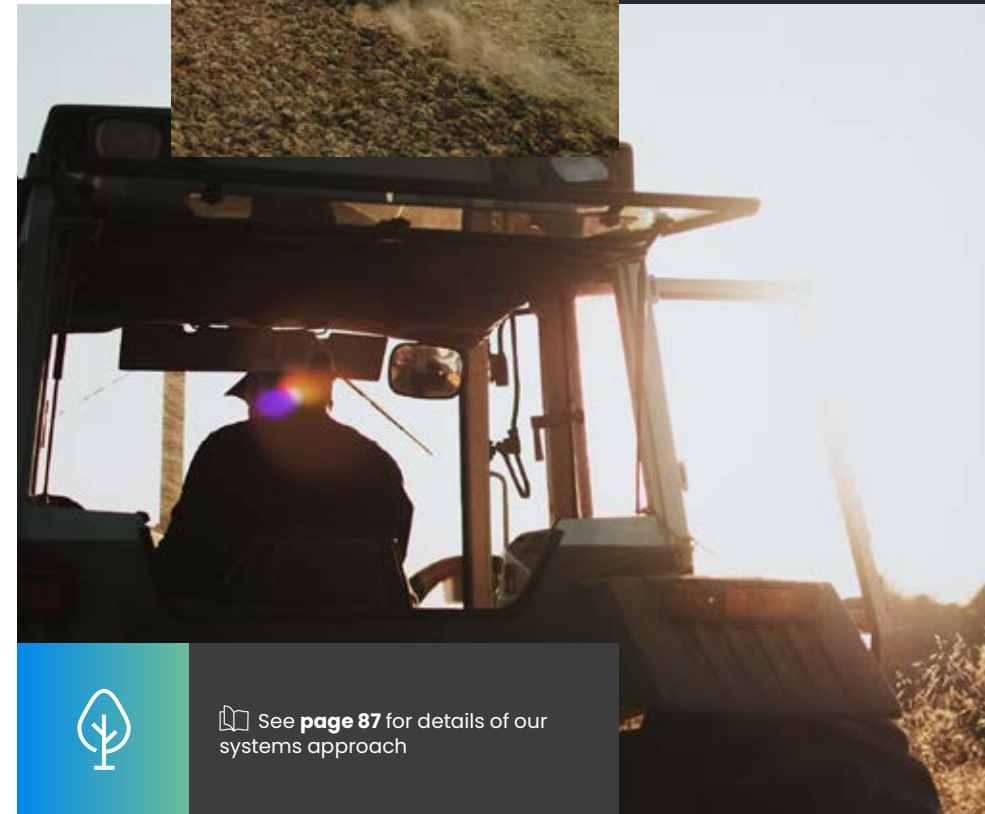
Just transition

Ensuring we are transitioning to a more sustainable economy in a fair and just way possible is key to our purpose in Helping Britain Prosper. We are embedding 'just transition' considerations in various parts of the Group already, such as within our target setting and Credible Transition Plan (CTP) approaches (see **page 116** for more information) and supporting our clients to embed the principles within their own corporate strategies. Just transition is one of our key cross-cutting themes within our strategy, so throughout 2024 we will continue to identify, implement and embed just transition considerations across the Group, using the external guidance and frameworks we have contributed to, as a guide in doing so.

¹ Global Canopy guidance.



See **page 87** for details of our systems approach



See **page 87** for details of our systems approach

Our purpose in action

Soil Association Exchange

We have partnered with the Soil Association Exchange to offer a free in person consultancy service on farm for 1,000 of our larger agricultural clients.

The consultants support across six different sustainability areas, of which three are focused on nature: soil health, water and biodiversity. They also measure baseline across each of these areas, and share recommendations and create an action plan and roadmap alongside our clients in these areas.

Alongside this, we have launched a free digital interface of this service via a website and app providing farmers with support across these six areas.



SDG 13.3: Improve education, awareness-raising and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

SDG 17.7: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.

Banking activities continued

Bank lending to customers in sectors with increased climate risk

Our lending portfolio means our biggest exposure to sectors at increased climate risk is in relation to our residential mortgages and our real estate sector.

1 Based on the standard European nomenclature of productive activities (NACE codes) as presented within the Lloyds Banking Group annual report and accounts 2023, notes to the consolidated financial statements (note 52: Financial risk management, (B) Concentrations of exposure).
 2 Based on standard industrial classification (SIC) codes.
 3 Lending is based on total loans and advances to customers before allowance for impairment losses.
 4 Off-BS (off balance sheet) includes total commitments, guarantees and contingent liabilities.
 5 Agriculture includes Scottish Widows loans held via securitisation.
 6 Real estate includes social housing and loans held via securitisation.

Exposure to customers in sectors with increased climate risk (£m)

Concentrations of exposure ¹	Sectors with Increased climate risk ²	31 December 2023			Increased climate risk % of Group	31 December 2022			Increased climate risk % of Group
		Lending ³	Off-BS ⁴	Total exposure		Lending ³	Off-BS ⁴	Total exposure	
Agriculture, forestry and fishing	Agriculture ⁵ Fishing Forestry Total	6,968 58 12 7,038	680 3 8 691	7,648 61 20 7,729	1.3%	7,420 18 9 7,447	821 3 8 832	8,241 21 17 8,279	1.4%
Construction	Coal Mining Housebuilders Oil and gas Other construction Not assessed as increased risk Total	- 993 240 2,553 92 3,878	- 1,484 1,180 1,010 41 3,715	- 2,477 1,420 3,563 133 7,593	1.2%	- 347 675 2,998 46 4,066	- 1,441 1,265 974 43 3,723	- 1,788 1,940 3,972 89 7,789	1.3%
Energy and water supply	Utilities Not assessed as increased risk Total	2,964 504 3,468	5,389 1,065 6,454	8,353 1,569 9,922	1.4%	2,234 318 2,552	4,445 957 5,402	6,679 1,275 7,954	1.1%
Financial, business and other services	Automotive Real estate Not assessed as increased risk Total	574 - 34,538 35,112	506 27 29,026 29,559	1,080 27 63,564 64,671	0.2%	370 152 37,144 37,666	554 584 27,802 28,940	924 736 64,946 66,606	0.3%
Manufacturing	Automotive Construction materials, chemicals and steel manufacture Food manufacturing and wholesalers General manufacturing Oil and gas Not assessed as increased risk Total	711 324 1,019 1,796 1 170 4,021	2,556 203 739 2,860 27 992 7,377	3,267 527 1,758 4,656 28 1,162 11,398	1.7%	173 262 1,218 1,581 13 372 3,619	1,888 280 832 2,492 111 288 5,891	2,061 542 2,050 4,073 124 660 9,510	1.5%
Postal and telecommunications	Not assessed as increased risk Total	2,654 2,654	2,979 2,979	5,633 5,633	0.0%	2,526 2,526	2,450 2,450	4,976 4,976	0.0%
Property companies	Real estate ⁶ Total	20,904 20,904	7,637 7,637	28,541 28,541	4.8%	21,499 21,499	7,405 7,405	28,904 28,904	4.8%
Transport, distribution and hotels	Automotive Industrial transport Oil and gas Passenger transport Not assessed as increased risk Total	1,917 1,118 100 449 6,460 10,044	2,316 780 9 972 4,984 9,061	4,233 1,898 109 1,421 11,444 19,105	1.3%	1,898 1,077 137 1,200 8,858 13,170	2,520 666 43 1,002 5,143 9,374	4,418 1,743 180 2,202 14,001 22,544	1.4%
Retail (mortgages and other)	Increased risk Not assessed as increased risk Total	323,777 25,192 348,969	13,626 64,491 78,117	337,403 89,683 427,086	56.3%	324,012 26,065 350,077	17,150 64,907 82,057	341,162 90,972 432,134	56.3%
Lease financing and hire purchase	Increased risk Total	17,374 17,374	578 578	17,952 17,952	3.0%	16,795 16,795	707 707	17,502 17,502	2.9%
Total loans and advances to customers before allowance for impairment losses and off-BS	Total	(69,610)	(103,578)	(173,188)		(75,329)	(101,590)	(176,919)	
Not assessed as increased risk	Total	383,852	42,590	426,442		384,088	45,191	429,279	
Total assessed as increased risk									
Subtotal of sectors spanning multiple industries	Oil and gas Automotive Real estate	341 3,202 20,904	1,216 5,378 7,664	1,557 8,580 28,568	0.3% 1.4% 4.8%	825 2,441 21,651	1,419 4,962 7,989	2,244 7,403 29,640	0.4% 1.2% 4.9%

Banking activities continued

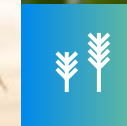
Analysis by IFRS 9 expected credit loss stage and maturity for lending made to sectors classified as being at increased climate risk.

Exposure to customers in sectors with increased climate risk (£m) – 31 December 2023									
Concentrations of exposure	Sectors with Increased climate risk	In Scope lending by credit loss stage				In Scope lending by maturity			
		Stage 1	Stage 2	Stage 3	Total	Less than one year	One to five years	Greater than five years	Total
Agriculture, forestry and fishing	Agriculture	6,017	645	306	6,968	1,493	1,697	3,778	6,968
	Fishing	50	7	1	58	12	14	32	58
	Forestry	10	2	-	12	2	3	7	12
	Total	6,077	654	307	7,038	1,507	1,714	3,817	7,038
Construction	Coal mining	-	-	-	-	-	-	-	-
	Housebuilders	493	383	117	993	596	357	40	993
	Oil and gas	181	56	3	240	144	86	10	240
	Other construction	1,647	591	315	2,553	1,532	918	103	2,553
	Total	2,321	1,030	435	3,786	2,272	1,361	153	3,786
Energy and water supply	Utilities	2,926	38	-	2,964	989	1,249	726	2,964
	Total	2,926	38	-	2,964	989	1,249	726	2,964
Financial, business and other services	Automotive	571	2	1	574	338	201	35	574
	Total	571	2	1	574	338	201	35	574
Manufacturing	Automotive	702	8	1	711	485	190	36	711
	Construction materials, chemicals and steel manufacture	249	72	3	324	222	86	16	324
	Food manufacturing and wholesalers	847	169	3	1,019	695	272	52	1,019
	General manufacturing	1,453	232	111	1,796	1,225	480	91	1,796
	Oil and gas	1	-	-	1	1	-	-	1
	Total	3,252	481	118	3,851	2,628	1,028	195	3,851
Property companies	Real estate	18,195	2,307	402	20,904	8,632	9,231	3,041	20,904
	Total	18,195	2,307	402	20,904	8,632	9,231	3,041	20,904
Transport, distribution and hotels	Automotive	1,751	125	41	1,917	1,049	706	162	1,917
	Industrial transport	938	150	30	1,118	611	412	95	1,118
	Oil and gas	100	-	-	100	54	37	9	100
	Passenger transport	389	45	15	449	246	165	38	449
	Total	3,178	320	86	3,584	1,960	1,320	304	3,584
Residential (mortgages and other)¹	Increased risk	274,205	42,382	7,190	323,777	15,258	55,770	252,749	323,777
	Total	274,205	42,382	7,190	323,777	15,258	55,770	252,749	323,777
Lease financing and hire purchase	Increased risk	14,886	2,368	120	17,374	5,284	11,679	411	17,374
	Total	14,886	2,368	120	17,374	5,284	11,679	411	17,374
Total assessed as increased risk		325,611	49,582	8,659	383,852	38,868	83,553	261,431	383,852
Subtotal of sectors spanning multiple industries	Oil and gas	282	56	3	341	199	123	19	341
	Automotive	3,024	135	43	3,202	1,872	1,097	233	3,202
	Real estate	18,195	2,307	402	20,904	8,632	9,231	3,041	20,904

¹ Residential (mortgages and other) includes POCI (purchased or originated credit-impaired, £1.8 billion Stage 1, £3.3 billion Stage 2 and £2.8 billion Stage 3)

Transition plan by system

We recognise that ambition alone will not support the transition or deliver on our purpose of Helping Britain Prosper. We need a plan to deliver on our strategy.



2023 highlights

83%
of our in-scope of PCAF bank lending are covered by NZBA targets

3
new NZBA targets launched in 2024

£2.9bn
of drawn lending was assessed under our credible transition plan framework



Target-setting approach

We seek to understand and target our emissions from our banking activity using a systems-based approach with targets to 2030 for many of our most carbon-intensive sectors. This approach informs and builds on our commitment to reach net zero by 2050 or sooner.



£375.8bn
of our lending has an associated NZBA target

To date we have developed 10 sector targets, including our new targets for agriculture, commercial and residential real estate (C&RRE), and road passenger transport. In setting our targets we have determined the key actions we will take to work towards achieving them based on the levers available today and expected future changes in the market, as determined in our system-aligned transition plans. Each of the sector targets has some degree of challenge to ensure we remain ambitious. Initial views from the sectors for which we have now set targets indicate that there are significant challenges and external dependencies in many of them that will need to be addressed for us to achieve our targets and suggest we may need to go further in some areas to achieve our overarching 50 per cent emission reduction ambition. We expect our view to evolve as we set additional targets and where a gap remains we will assess whether we will take mitigating steps.

It should also be noted that the baseline, 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 continue to enhance our climate data capabilities to address these challenges by expanding our sources of data and developing partnerships to increase the amount of client-level data that is available. This year we have recalculated our baseline emissions due to the availability of new and restated data to provide the most up-to-date view of our current (and historical) financed emissions. This has resulted in an update to our existing targets released in 2021 and 2022 except for UK homes and thermal coal. Details of these updates are explained in our sector progress for each system covered in this transition plan section of our report.

Sector selection

We have prioritised setting our targets on fossil fuel sectors and other carbon-intensive sectors covering the majority of the Bank's portfolio emissions in accordance with the NZBA guidelines. Our targets are summarised on [page 114](#).

Scenario and reference pathway

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

- 1) **The International Energy Agency Net Zero Emissions 2050 (IEA NZE 2050)** for sectors where our portfolio clients or their main activities have a global or regional focus beyond the UK. IEA NZE 2050 is adjusted using Transition Pathway Initiative methodology for the creation of an OECD scenario for the power generation sector.
- 2) **The UK Climate Change Committee's Balanced Net Zero Pathway (CCC BNZP)** from the Sixth Carbon Budget for sectors where clients or customers were primarily UK-focused.
- 3) **The IEA Energy Technology Perspectives 2020 (IEA ETP 2020)** for the aviation transportation subsector. The IEA NZE 2050 and CCC BNZP scenarios seek to limit global warming to 1.5°C by the end of the century and encompass little to no overshoot, with low reliance on negative emissions technologies. The IEA ETP 2020 scenario seeks to limit global warming to well below 2°C by the end of the century and is only being used for aviation where the near-term challenges in decarbonising the sector indicate achieving an aviation portfolio 1.5°C target by 2030 is unlikely.

Methodology and data selection

We have continued to apply the emerging industry standard developed by the Partnership for Carbon Accounting Financials (PCAF) for measuring and disclosing financed emissions. We have used the same PCAF approach when developing baseline emissions estimates for our targets and have also used client-related targets and commitments where relevant to inform our target-setting activity. Please refer to our [sustainability metrics basis of reporting](#) for further details. Our transition plan progress highlights the reference and relevant scenario pathway performance alongside our targets.

Just transition

Just Transition is one of the key cross-cutting themes that informed our environmental sustainability strategy and the principles of which have informed our sector targets and CTPs.

Specifically, when setting our NZBA sector-based targets and identifying and assessing the strategic levers and actions we are going to take to achieve them, Just Transition considerations are prioritised and used to determine if a lever should be included or excluded.

In addition to Just Transition being central to our purpose, values and strategy, we have also developed specific guidance being used within a number of processes and decision-making areas across the organisation, such as within place-based investment decisions to support clients and their transitions to net zero. The development of our sustainable financing framework launched in 2024, also aligns with Just Transition principles, as it includes social eligibility criteria to support and promote our financing of activities and opportunities that seek to achieve positive social outcomes for target populations. Target populations include but are not limited to those living below the poverty line, people with disabilities and unemployed people.

Central to enabling a Just Transition to a low carbon economy is that workers in high carbon sectors are supported to reskill to work in new low carbon industries. Building on our work as part of the transition plan taskforce (TPT) Just Transition working group, we plan to integrate the TPT guidance on Just Transition (as well as nature and adaptation) into our approach for assessing our clients' credible transition plans over time.



See [page 93 to 94](#) for an overview of just transition

Transition plan by system continued

Our target summary

Based on 2022 total Group assets of £877.8 billion, approximately £544.7 billion of assets (excluding pension and investment balances) are in scope of Partnership for Carbon Accounting Financials (PCAF) methodology. We have calculated emissions for 97 per cent of our Bank assets in-scope of PCAF, including cash.

Cash is represented in our coverage as zero emissions, noting the PCAF standard does not have a methodology for cash. The table below shows the proportion of lending that is covered by NZBA Financed Emissions sector targets:

Reconciliation of Group total assets to lending used for emissions calculations

	Total 2022 £bn
Total assets	877.8
PCAF out of scope (financial line) ¹	(169.0)
PCAF out of scope (business unit) ²	(164.1)
PCAF assets in scope	544.7
Zero emissions (cash) ³	(93.0)
PCAF assets with financed emissions	451.7
Lending where emissions are not yet calculated ⁴	(11.9)
Total lending where Bank financed emissions have been calculated	439.8

- 1 Relates to financial lines that are not in scope of PCAF.
- 2 Mainly relates to exclusion of pensions and investment balances which are covered through our Scottish Widows financed emissions ambition.
- 3 Relates to zero-emission balances, mainly cash.
- 4 Relates to lending portfolios where emissions are yet to be calculated.

NZBA sector target summary

System and target ⁵	Baseline year of target	Total sector lending 2022 (£bn)	% of sector under NZBA target in 2022	Target baseline ⁶	2022 Target progress ⁶	Divergence from pathway ⁷
Greening the built environment						
UK mortgages – 41% reduction in emissions intensity to 28kgCO ₂ e/m ² by 2030	2020	312.4	100%	46kgCO ₂ e/m ² ✓	44kgCO ₂ e/m ² ✓	-0.1% ▲
Commercial and residential real estate (C&RRE) ⁸ – 48% reduction in emissions intensity to 24kgCO ₂ e/m ² by 2030	2021	24.3	86%	45kgCO ₂ e/m ² ✓	45kgCO ₂ e/m ² ⁸	2.9% ▼
Low carbon transport						
Retail motor – Reduce the emissions intensity of our cars and vans by more than 50% by 2030, reaching:	2018	19.2	91%			
75gCO ₂ e/km or lower (cars)				150gCO ₂ e/km (cars) ✓	143gCO ₂ e/km (cars) ✓	9.1% ▼ ⁹
99gCO ₂ e/km or lower (vans)				198gCO ₂ e/km (vans) ✓	190gCO ₂ e/km (vans) ✓	6.9% ▼ ⁹
Road passenger transport – 49% reduction in emissions intensity to 85gCO ₂ e/pkm by 2030	2019	0.9	71%	165gCO ₂ e/pkm ✓	129gCO ₂ e/pkm ✓	-16.6% ▲
Automotive (OEMs) – 47% reduction in emissions intensity to 124gCO ₂ e/vkm by 2030	2020	6.7	98%	231gCO ₂ e/vkm ✓	232gCO ₂ e/vkm ✓	10.7% ▼
Aviation – 31% reduction in emissions intensity to 709gCO ₂ e/rtk by 2030	2019	0.4	98%	1,028gCO ₂ e/rtk ✓	1,003gCO ₂ e/rtk ✓	6.6% ▼
Sustainable farming and food						
Agriculture – 25% reduction of absolute emissions by 2030 to 4.7 MtCO ₂ e	2021	7.2	92%	6.3 MtCO ₂ e ✓	6.0 MtCO ₂ e ✓	0.0%
Energy transition						
Oil and gas – 50% reduction of absolute emissions by 2030 to 4.4 MtCO ₂ e	2019	2.2	46%	8.7 MtCO ₂ e ✓	3.3 MtCO ₂ e ✓	-38.8% ▲
Power generation – 81% reduction in emissions intensity to 53gCO ₂ e/kWh by 2030	2020	2.5	67%	276gCO ₂ e/kWh ✓	121gCO ₂ e/kWh ✓	-47.9% ▲
Thermal coal – Full exit of thermal coal power in the UK by 2023. Full exit from all entities that operate thermal coal facilities by 2030				–	–	–
Total lending with NZBA targets		375.8				
Commercial Banking without NZBA targets		64.0				
Total lending where Bank financed emissions have been calculated		439.8				

$$\text{Total target coverage of in scope assets} = \frac{\text{Total lending with NZBA targets}}{\text{PCAF assets with financed emissions}} = 83\%$$

$$\text{Total calculated emissions} = \frac{\text{Total lending where Bank financed emissions have been calculated}}{\text{PCAF assets with financed emissions}} = 97\%$$

- 5 There are rounding differences between target baseline, percentage reduction and 2030 target. Targets cover on-balance sheet assets. The scope of our target has been defined within the sustainability metrics basis of reporting which is available at [our download centre](#).
- 6 ✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP. Deloitte's 2023 assurance statement and the sustainability metrics basis of reporting 2023 are available online at [our download centre](#).
- 7 Shows divergence between 2022 actual and 2022 reference pathway emission intensity. Arrow up – performance for 2022 ahead of reference pathway. Arrow down – performance for 2022 behind reference pathway.
- 8 Data availability has resulted in physical emissions for 2022 C&RRE being held flat, and instead employing the 2021 position. This follows PCAF guidance to use most recent available when presented with a lag in available emissions-related data. We will look to enhance methodology in 2024.
- 9 Retail motor cars and vans divergence, is based on divergence from scenario pathway as no reference pathway is available.

Transition plan by system continued

Our Bank financed emissions

Our Scope 3 financed emissions are 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. We continue to refine our estimates of financed emissions as we enhance our understanding, calculation methodologies and data. Further details on our calculation methodology can be found within the [sustainability metrics basis of reporting](#).

We recognise our role in the UK economy, and the opportunities it creates to support the transition of our most carbon-intensive sectors in order to meet our net zero ambitions. In supporting the transition through direct financing our financed emissions may increase on a temporary basis. In the long-term we expect that supporting the transition of our high carbon sector clients will reduce our financed emissions. For details of our client transition plan assessment approach see [page 116](#).

1 Our 2018 baseline year has been restated from 28.6 MtCO₂e to 29.6 MtCO₂e (3.5 per cent increase) due to methodology changes and improved data for motor and commercial banking portfolios, details are included within the transition plans for each sector.
 2 The Bank's scope 3 emissions are made up of the Scope 1, 2 and 3 emissions of the customers we lend to. PCAF allows for a phasing in of disclosure for customers' Scope 3 emissions. Within Commercial Banking without NZBA targets our Scope 3 disclosures cover sectors across transportation, construction, buildings, material and industrial activities in line with PCAF guidance. An estimated range has been provided due to both the limited availability and variability of published Scope 3 data.
 3 ✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP. Deloitte's 2023 assurance statement and the sustainability metrics basis of reporting 2023 are available online at [our download centre](#).
 4 Data availability has resulted in calculation of 2022 C&RRE absolute emissions using 2021 emissions data. This follows PCAF guidance to use most recent available when presented with a lag in available emissions-related data. We will look to enhance methodology in 2024.
 5 2018 Consumer lending without NZBA targets relates to UK mortgages balances, prior to setting a NZBA target.

Bank absolute financed emissions, PCAF data quality scores and intensity metrics																		
NZBA sector	Baseline year	Target unit	2018 ¹				2021				2022				Economic emissions intensity (MtCO ₂ e/£bn)			
			Financed emissions (MtCO ₂ e)		Physical emissions intensity	Economic emissions intensity (MtCO ₂ e/£bn)	Financed emissions (MtCO ₂ e)		Physical emissions intensity	Economic emissions intensity (MtCO ₂ e/£bn)	Financed emissions (MtCO ₂ e)		Physical emissions intensity	Economic emissions intensity (MtCO ₂ e/£bn)				
Scope 1 and 2	PCAF data quality score	Scope 1 and 2	PCAF data quality score	Scope 1 and 2			PCAF data quality score	Scope 1 and 2			PCAF data quality score	Scope 1 and 2			PCAF data quality score	Scope 1 and 2	PCAF data quality score	
Greening the built environment																		
UK mortgages	2020	Emissions intensity (kgCO ₂ e/m ²)	–	–	–	–	5.7	3.6	–	–	47kgCO ₂ e/m ²	0.02	5.1 ✓	3.4 ✓	–	–	44kgCO ₂ e/m ² ✓	0.02
C&RRE	2021	Emissions intensity (kgCO ₂ e/m ²)	–	–	–	–	1.0 ✓	4.5 ✓	–	–	45kgCO ₂ e/m ² ✓	0.05	0.9 ⁴	5.0	–	–	45kgCO ₂ e/m ²	0.04
Low carbon transport																		
Retail motor	2018	Emissions intensity (gCO ₂ e/km)	4.2 ✓	2.2 ✓	150gCO ₂ e/km (cars) ✓ & 198gCO ₂ e/km (vans) ✓	0.24	3.0	2.1	–	–	148gCO ₂ e/km (cars) & 191gCO ₂ e/km (vans)	0.18	2.7 ✓	2.1 ✓	–	–	143gCO ₂ e/km (cars) ✓ & 190gCO ₂ e/km (vans) ✓	0.15
Road passenger transport	2019	Emissions intensity (gCO ₂ e/pkm)	–	–	–	–	0.1	2.4	0.0	3.4	159gCO ₂ e/pkm	0.32	0.2 ✓	2.2 ✓	0.1 ✓	3.2 ✓	129gCO ₂ e/pkm ✓	0.34
Automotive (OEMs)	2020	Emissions intensity (gCO ₂ e/vkm)	–	–	–	–	0.1	2.0	5.9	2.0	286gCO ₂ e/vkm	0.03	0.2 ✓	2.0 ✓	10.6 ✓	2.0 ✓	232gCO ₂ e/vkm ✓	0.03
Aviation	2019	Emissions intensity (gCO ₂ e/rtk)	–	–	–	–	0.7	2.0	0.1	2.2	1,819gCO ₂ /rtk	1.15	0.5 ✓	2.0 ✓	0.1 ✓	2.0 ✓	1,003gCO ₂ /rtk ✓	1.13
Sustainable farming and food																		
Agriculture	2021	Absolute emissions (MtCO ₂ e)	–	–	–	–	6.3 ✓	4.9 ✓	–	–	–	0.93	6.0 ✓	4.9 ✓	–	–	–	0.91
Energy transition																		
Oil and gas	2019	Absolute emissions (MtCO ₂ e)	–	–	–	–	0.4	3.2	5.2	3.9	–	0.31	0.2 ✓	3.8 ✓	3.1 ✓	4.2 ✓	–	0.25
Power generation	2020	Emissions intensity (gCO ₂ e/kWh)	–	–	–	–	0.2	3.0	–	–	198gCO ₂ e/kWh	0.16	0.2 ✓	3.0 ✓	–	–	121gCO ₂ e/kWh ✓	0.11
Bank financed emissions with NZBA target			4.2	2.2	–	0.24	17.5	3.6	11.2	2.5	–	0.05	16.0	3.4	13.9	2.3	–	0.04
Consumer Lending without NZBA targets ⁵			6.4	3.9	–	0.02	–	–	–	–	–	–	–	–	–	–	–	–
Commercial Banking without NZBA targets			19.0	4.3	–	0.17	6.1	4.3	–	–	–	0.09	6.0	4.3	30-55	5.0	–	0.09
Total bank financed emissions			29.6	3.9	–	0.07	23.6	3.8	11.2	2.5	–	0.06	22.0	3.6	43.9-68.9	4.1-4.5	–	0.05

Credible transition plan assessments and other enabling activity

Credible transition plans

During 2023 we have enhanced our methodology for assessing the credibility of our clients' net zero transition plans. Our approach to credible transition plans will support us in delivering up to our sector decarbonisation targets, to drive real economy impact.

Our approach:

- Is aligned with the work of the transition plan taskforce's sector-neutral disclosure framework published in October 2023. Our approach will evolve to include sector-specific guidance as it is finalised through consultation
- Draws on existing public frameworks (including Climate Action 100+ and the Transition Pathway Initiative) which assess where clients are on their transition journey
- Establishes baseline requirements for our clients which increase in expectations in 2025 and 2027. Baseline requirements will be subject to an annual ratcheting mechanism and review to include latest developing standards and guidance

- Is sector-neutral but also includes sector-specific considerations (e.g. the IIGCC's net zero standard for oil and gas¹) as we roll out our approach into other high carbon sectors
- Sets a higher bar initially for larger corporates, recognising that smaller companies will need more time to develop their plans, and aligned with the transition plan taskforce's principle that the size and scale of companies will be a crucial consideration for transition planning
- Prioritises CTP engagements for material companies in scope of our published targets, and we continue to review and re-prioritise engagements where needed to ensure we are targeting actions where we will have the most real economy impact
- Is being embedded into our business processes and decision making during 2023 and 2024

We have supported the transition plan taskforce (TPT) in building out a sector-neutral framework and are engaging with TPT to support their work in developing sector-specific transition plans.

To demonstrate our focus in driving real economy transition, we have prioritised transition plan assessments on clients that are most material in reducing emissions through our consideration of:

1. The CA100+, which focuses on the 166 companies that account for 80 per cent of global corporate GHG emissions and are therefore central to driving the transition to net zero.
2. The Transition Pathway Initiative, which covers over 500 companies operating in the most carbon-intensive sectors.
3. Whether the client is on the UK's Emission Trading Scheme list of high emitters.

We further refine our approach to focus on companies where we have the greatest opportunity to engage, influence and support by considering:

4. If a client was in scope for a sector decarbonisation target for the Bank, where we have identified material focus areas.
5. Those clients to which we have the largest lending exposure of our corporate and institutional banking (CIB) business.

Assessment criteria

We assess our clients against five sub-elements in line with the transition plan taskforce's three core principles of ambition, action and accountability:

TPT core principles

Ambition

Sub-elements

1. Emissions targets: assesses the nature of clients' targets (including their alignment to science-based 1.5 degree pathways), timelines for achieving these and considers planned use of any purchased offsets in regards to credibility and quality.
2. Business model: assesses client consideration of climate change impact and their plans for transitioning their business model integrating climate-related risks and opportunities into company strategy.
3. Investments: considers alignment of capital allocation to targets and milestones for business model transition and emissions reduction and progress against this.
4. Actual emissions: assesses the measurement, verification and reporting of emissions as well as performance in line with targets.
5. Governance: considers Board responsibilities, executive remuneration, engagement in organisations or coalitions dedicated specifically to climate issues, and the client's progress in building out a comprehensive transition plan.

Action

Accountability

Many of our clients are starting to engage in the Voluntary Carbon Market (to purchase carbon credits) and we recognise that how they do so plays an important role in the credibility of their transition plans. It is important that clients follow a mitigation hierarchy that prioritises targeting abatement of their own value chain emissions first, before mitigating residual emissions through carbon credits, alongside ensuring that all carbon credits purchased/supplied are

registered on an internationally-recognised registry. Client conversations regarding the use and reporting of carbon credits will be integrated into broader discussions on the credibility of their transition plans, acknowledging the interconnected nature of these two areas. See [page 91](#) for more information on our Group approach to carbon offsetting.

Our approach to assessing clients' transition plans

We are refining our expectations for CTP and plan to communicate these enhancements to our clients in 2024. We also continuously track and monitor the evolution of emerging sector-specific transition guidelines and intend to integrate them into our assessments as they develop.

Assessment and evaluation

An initial desktop assessment is undertaken against each of the five areas, utilising publicly available data, including the CA100+ assessment, SBTi target setting information, the Transition Pathway Initiative tool, CDP and company publications. Where appropriate, engagement meetings with clients are held, focused on understanding further details of a client's transition plan and discussion of any gaps identified as part of the assessment.

Monitoring

CTP assessments will be refreshed on at least an annual basis, with those not meeting minimum expectations having more regular engagements. Other events such as ESG/sustainability disclosures or material strategy updates may also trigger a re-assessment of transition plan credibility.

Escalation

We will seek to support our clients in developing credible transition plans, but will consider other measures where companies do not demonstrate progress in developing a credible transition plans. Ongoing areas of concern will trigger escalation via existing governance routes and could result in a range of measures including more frequent engagements, managing down or removing support for clients.

¹ Net Zero Standard for Oil & Gas.

Transition plan by system continued

Evolving expectations

We expect clients to increase ambition, action and accountability through this decade toward our defined client leadership expectations which include:

- Emissions targets – 1.5 degree aligned Scope 1, 2 and 3 targets¹
- Investments – capital allocation plan in line with 1.5 degree scenarios
- Actual emissions – Progress in line with targets set

Progress and future plans

In 2023, we have undertaken 36 initial CTP assessments, representing £2.9 billion of drawn lending, including our full portfolio of large-scale oil and gas producing clients. We have held a number of constructive conversations with our clients using this framework. These conversations help clients identify how they can strengthen their existing plans, advance their ambitions, and solidify our role as a constructive partner through their transition to a low carbon economy. In 2024, we will continue to increase the number of clients assessed, including expanding to other high carbon sectors. In future disclosures, we intend to provide greater detail on the measurable impact of our continued engagement with clients on credible transition plans.

Financing transition technologies

By financing and enabling growth in transition technology utilisation across the UK, we will help support our clients' transition plans, which in turn will be key to contributing to our sector carbon reduction targets and a real economy transition.

During 2023, we mobilised a programme of work (net zero origination) to advance finance for upscaling the most commercially viable solutions. We identified and assessed 85 technologies spanning every sector of the UK economy and prioritised these in line with UK CCC scenarios, UK Government Net Zero & Green Finance Strategy as well as market projections and supporting data analytics. We continue to enhance our internal capabilities to better consider emerging technologies, leveraging the International Energy Agency's Clean Energy Technology Guide² and Technologies Readiness Scale. We are focusing on eight emerging commercially viable technologies, with examples including CCUS, batteries, low carbon heating and EV charging & infrastructure.

Just transition

To further support clients in ensuring a Just Transition, we are a part of the transition plan taskforce (TPT) Just Transition working group, contributing to the development of sector-specific (and sector-neutral) guidance on how Just Transition considerations should be addressed within transition plans. As a key next step, we are planning to integrate the TPT guidance on Just Transition (as well as nature and adaptation) into our approach for CTP assessment over time.

Additionally, we are supporting our SME and corporate clients with Just Transition too. In 2023, we partnered with British Chambers of Commerce to produce a report entitled 'Climate Call to Action', centred around understanding the support required by SMEs in the north and midlands to transition to net zero. It also highlighted the need for clarity and certainty from the government for SMEs, as well as recognising the key role we have to play in continuing to offer guidance, support and finance for businesses.

Our dedicated Sustainability and ESG Finance team actively seeks out opportunities to support corporate and institutional clients financing their net zero transition to maximise the benefits for companies, communities and the wider economy. We hosted an event in June this year for c.100 clients, followed by a series of client roundtables discussing and providing thought leadership on what Just Transition means in the UK, the role of finance in Just Transition and how Lloyds Bank and others embed it into corporate strategies. A further Just Transition conference was also held in Scotland inviting another c.100 clients, covering the same topics as those in London, as well as an action-focused event with two roundtables involving the Chief Investment Officer from Scottish National Investment Bank, the Scottish Government, and the First Minister's Investor Panel to accelerate investments in net zero technologies through a Just Transition lens.

Client carbon insights

The carbon insights report provides small and medium enterprise (SME) clients with an estimate of their carbon emissions based on current account and credit card transactions. The report provides unique insights into clients estimated emissions and guidance for the next stage of their journey including comparisons to similar businesses. By identifying spending information, classifying the type of business that clients have bought from and applying data and expertise from our partners at the University of Leeds we estimate emissions for each transaction. These insights



are presented in a report with a detailed breakdown highlighting the top three emissions sources within their operations.

Commercial banking colleague training

In 2023, we collaborated with the University of Edinburgh to develop a 22-week bespoke programme to drive our focus on transition technologies. Completed by 170 colleagues, the course covers the eight emerging technologies in focus through our net zero origination programme (as noted earlier), along with emerging business models, market dynamics and policy. The training seeks to empower colleagues to take a proactive approach in maximising value and impact for clients, as well as driving increased internal collaboration and sector-specific knowledge sharing. The programme of work will continue to deepen understanding during 2024.

We also delivered an eight-week course from the University of Exeter Business School, with a focus on sustainability-related risks and opportunities. Two cohorts, totalling 178 participants, completed a specialised advanced sustainability training programme to provide insights into high-carbon sectors relevant to the Group.

By the close of 2023, over 2,600 colleagues, including relationship managers, successfully participated in the Sustainability Essentials Course accredited by the Cambridge Institute for Sustainability Leadership (CISL).

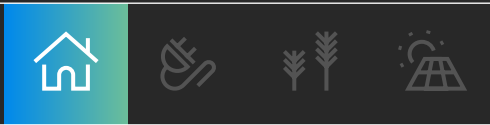
¹ Requires intensity targets for all clients and both absolute and intensity targets for oil and gas clients.
² International Energy Agency 2023 – ETP Clean Energy Technology Guide.

Greening the built environment

Part of our systems approach:

Greening the built environment

Low carbon transport
Sustainable farming and food
Energy transition



System boundary

Our greening the built environment system includes residential homes and non-residential buildings in our residential mortgages portfolio and our commercial and residential real estate portfolio, which includes social housing and both secured and unsecured lending.

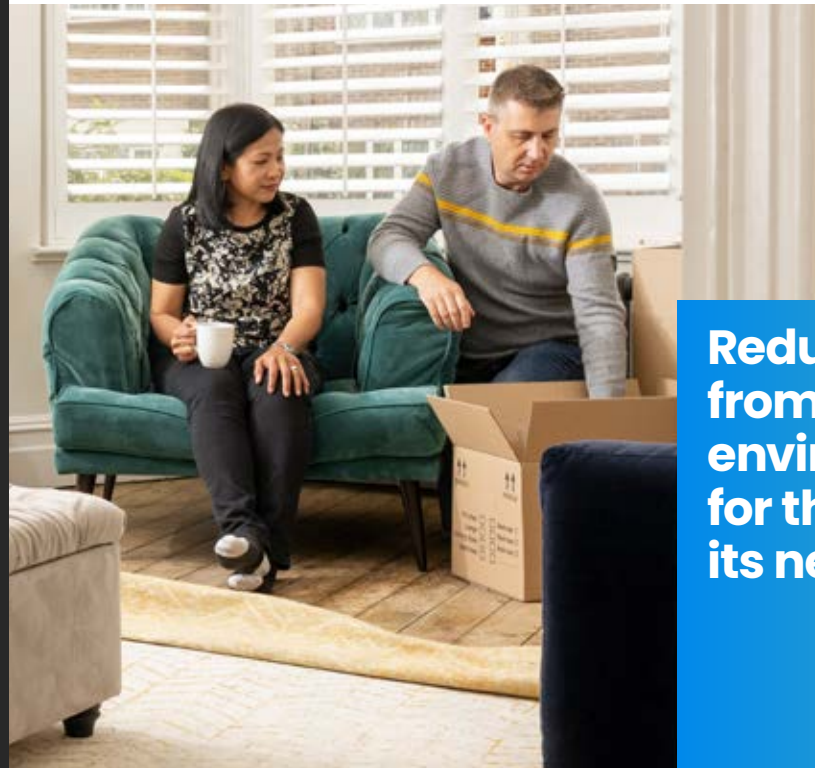
System challenges

Buildings remain the UK’s second highest-emitting sector, accounting for 17 per cent of total emissions¹. Reducing emissions will require decarbonisation of the electricity grid, along with increased uptake of low carbon heat technologies and energy-efficiency measures and supply chain upskilling and expansion. Many policies to aid reductions have significant risks in delivering reductions required.

The Government’s Heat and Buildings Strategy (2021) acknowledges decarbonisation will involve large-scale transformation and wide-ranging change to energy systems and markets as well as a combination of leading-edge technologies and innovative consumer options. The CCC’s 2023 Progress Report highlights that reducing emissions from this sector is therefore critical for the UK to achieve its net zero ambitions and relies on two main outcomes:

- Reducing energy demand in buildings, through increased energy efficiency and other demand-side measures such as using smart meters and efficient household appliances
- Increasing supply of low carbon heat to buildings, through uptake of heat pumps, low carbon heat networks and other heat measures, together with increased grid decarbonisation

¹ Estimated 2022 direct emissions as reported in the CCC June 2023 Progress Report.



Reducing emissions from the built environment is critical for the UK to achieve its net zero ambitions.

Greening the built environment continued

CCC assessment – Buildings

The CCC's assessment concludes that policy progress in the buildings sector is not on track, with 77 per cent of the required emission reductions judged to be at either significant risk or with insufficient plans. The table below summarises the CCC June 2023 overall assessment for policy areas that are the most relevant to delivering our emission reduction targets.

CCC's overall assessment of progress:

- Some risks ●
- Significant risks ●
- Insufficient plans ●

Policy area	CCC overall assessment
Decarbonisation of electricity grid	●
Increase uptake of low carbon heat technologies:	
Residential	●
Commercial	●
Increase uptake of energy efficiency measures:	
Residential EPC improvements	●
Commercial EPC improvements	●
Enabling delivery of low carbon heat and energy efficiency measures	●

Key recent policy developments relevant to achieving our buildings decarbonisation targets

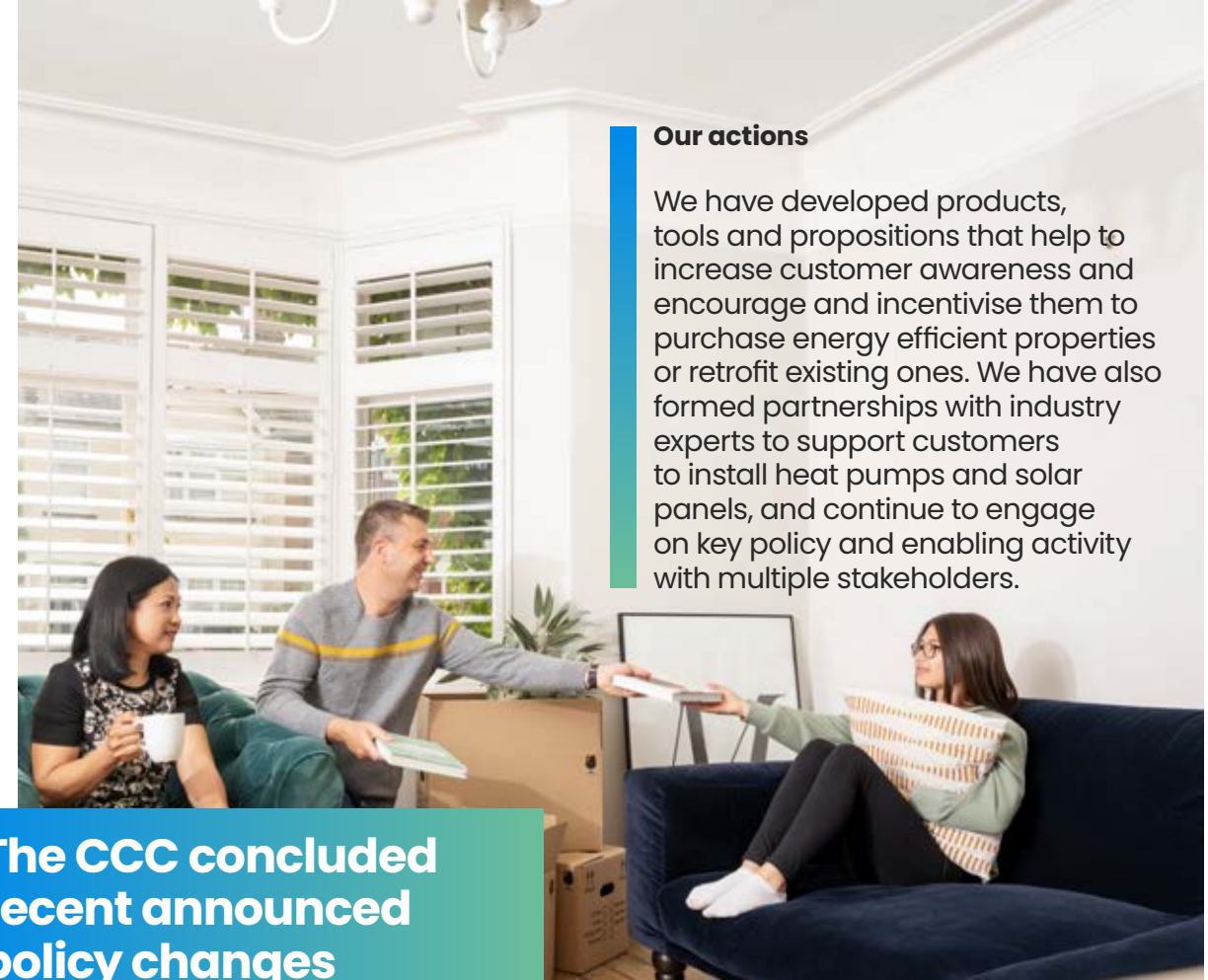
The government has introduced several policies that can aid decarbonisation, including:

- Extension of the Boiler Upgrade Scheme
- New Great British Insulation Scheme to help insulate people's homes in council tax bands A–D
- New approach to gas and electricity price rebalancing

However, recent announcements indicate a slowing of policy progress, including:

- Delayed ban on installing oil and LPG boilers (and new coal heating) in off-the-gas-grid homes
- Exemption to the ban on new gas boilers for households less able to afford alternatives
- Decision not to implement minimum energy-efficiency standards for rented homes

In October 2023, the CCC concluded the recent announced changes will make it more difficult to meet the government's pathway for this sector and most importantly will create widespread uncertainty for consumers and supply chains.



Our actions

We have developed products, tools and propositions that help to increase customer awareness and encourage and incentivise them to purchase energy efficient properties or retrofit existing ones. We have also formed partnerships with industry experts to support customers to install heat pumps and solar panels, and continue to engage on key policy and enabling activity with multiple stakeholders.

The CCC concluded recent announced policy changes will make it more difficult to meet the government's pathway for this sector.

Greening the built environment continued

Homes

The UK has a commitment to achieve net zero by 2050. The decarbonisation of buildings, which currently contribute 17 per cent of the UK's total carbon emissions, will be key to achieving this¹.

Faced with the worst insulated housing stock in Europe, plus energy and fuel prices still higher than pre-pandemic levels, there is a pressing need to focus attention on decarbonising the nation's properties.

Decarbonising our housing stock at scale is no easy feat; it requires collective, immediate action from us all. As the UK's largest mortgage provider, we recognise the important role we can play in educating our customers on energy efficiency and supporting them with reducing their household emissions. However, we cannot achieve net zero alone and collective action from the government, other financial institutions, industry leaders and our customers is required.

41%

UK residential mortgages emissions intensity reduction (kgCO₂e/m²) between 2020 and 2030



See **page 118** for details on this system

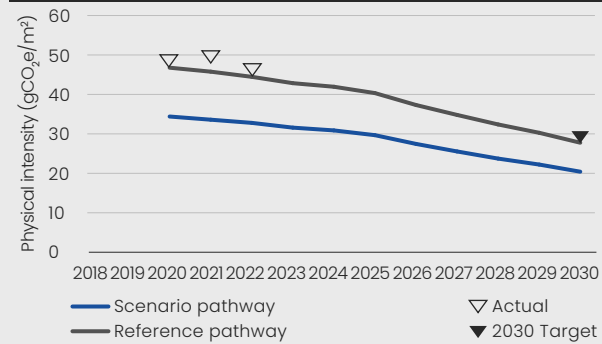
¹ Estimated 2022 direct emissions as reported in the CCC June 2023 Progress Report.

Greening the built environment – Homes

Target

In 2022 we published a CCC BNZP-aligned target, requiring a 41 per cent reduction in financed emissions intensity by 2030 (against a 2020 baseline – Scope 1 and 2 emissions). This equates to 28kgCO₂/m² by 2030, down from 47kgCO₂/m² in 2020.

UK mortgages emission intensity reduction 2020 to 2030



Greening the built environment continued

Greening the built environment – Homes continued

Implementation strategy

We understand that the journey to net zero will not be a simple one and that transition challenges exist across the residential sector. However, the Group is committed to support our customers. Our strategy focuses on increasing customer awareness and engagement, as well as developing products and propositions that encourage our customers to act. We want to ensure that we are making the transition as accessible as we can, which is why we recognise the importance of forming partnerships with other industry experts to collectively support customers on their retrofit journey.

With over £4.7 billion of lending to EPC A and B rated properties in 2022, and a further £2.8 billion in the first three quarters of 2023, we are progressing well to achieve our £10 billion three-year target out to 2024; but our action does not stop here.

As well as offering additional incentives for purchasing energy-efficient properties, we understand that the majority of the homes lived in today will still be inhabited in 2050, highlighting the importance of making energy-efficient home improvements to the existing housing stock. Customer understanding of tangible actions they can take, to support net zero ambitions and potentially reduce energy bills, can be a difficult process and so our strategy focuses on breaking down these barriers. We remain committed to enhancing and nurturing our propositions to explore how we support a wide range of customers.

Examples of our activities include:

- **Joining forces with industry experts**, highlighting the power of partnerships and supporting our strategy to help move the UK towards net zero. Our strategic partnership with Octopus Energy continues, offering lower cost air-source heat pumps to UK households, supporting the decarbonisation of domestic heating. We have also teamed up with expert solar panel installers, Effective Home, taking away the hard work for our customers of searching the market for accredited solar panel suppliers. More on this can be found in our case study section.

- From launch in 2020 to now, we have continued to develop iterations of our **Halifax Green Living Reward and Lloyds Bank Eco Home Reward**, enabling eligible customers to claim up to £1,000 when making energy-efficient home improvements. Engagement and uptake of the offer has maintained momentum and, to date, we have provided over 3,000 customers with a cashback reward.
- Our online **Home Energy Saving Tool** developed in collaboration with Energy Saving Trust remains a key engagement technique, providing customers with an interactive experience to generate a personalised plan for their home, identifying where energy efficiency improvements can be made. Over 35,000 action plans have been generated since launch. We have been working to enhance our tool by embedding links to our partners. We have created a simplified customer journey, helping to turn recommendations into action. Additionally, expansion of the tool into our Birmingham Midlands brand is a crucial step in supporting landlords with understanding the energy efficiency of their property.
- Providing education materials to our customers is an important step in helping them to understand energy efficiency and supporting them with making more informed energy efficient choices. We have a wealth of material available on our **Halifax and Lloyds hubs** and our **green home events programme** together with Energy Saving Trust has continued throughout 2023, branching out into specific topics such as transition to solar energy.
- With the help of WPI Economic and Censuswide, we produced a report: **Decarbonising the UK's homes: a housing stocktake**, dealing specifically with UK housing stock to provide a thorough look at the current state of decarbonisation across UK homes and residential properties. The research identified the main barriers to decarbonisation and, importantly, contained knowledge gleaned from homeowners and landlords who have gone through the process already.

Our purpose in action

Effective Home

In July 2023 we launched a new solar panel consultation and installation offer. By joining forces with accredited and expert solar panel installers, Effective Home, we hope to take away the hard work of searching the market for solar panel suppliers.

Through our Halifax green living hub, people can access Effective Home's virtual consultation, where a home can be remotely viewed to understand solar panel suitability – with no need for an in-person visit. A free, personalised solar plan is provided, outlining installation costs and estimated energy bill savings. Those who want to go ahead will then receive an in-person, technical survey and Effective Home will arrange the installation, supporting customers with registering the panels with the Microgeneration Certification Scheme¹, for a free, insurance-backed guarantee.

Energy bill savings from installing solar panels typically can range as high as £500 to £700² annually, depending on the size of the panels

and the pitch of the roof, amongst other factors. Any excess energy generated by the panels can be stored in a battery for later use or sold back to the National Grid. Additionally, solar panels can improve the EPC rating of a home³ and properties with the highest energy ratings may be worth up to £40,000 more on average compared to less sustainable properties with buyers willing to pay a 'green premium' for a more energy efficient place⁴.

Everyone who installs solar panels through Halifax and Effective Home's scheme will get a free Energy Performance Certificate (EPC) assessment for their home, and eligible Halifax mortgage customers will also be able to access cashback towards the cost through Halifax's existing Green Living Reward offer.

Our partnership with Effective Home supports people with solar panel installation from start to finish, so even more people can take advantage of the benefits to having a 'greener' home and cheaper bills.



SDG 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.

SDG 7.3: By 2030, double the global rate of improvement in energy efficiency.

SDG 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

1 Further information on the Microgeneration Certification Scheme's Insurance Backed Guarantee Products see [here](#).
 2 The Energy Saving Trust calculator estimates that a typical 4kWp solar panel system can knock between £500-£700 off your annual bill with the Smart Export Guarantee SEG depending on where you live. See [here](#) for further details.
 3 EPC and FIT see [here](#) for further details.
 4 Homebuyers pay a 'green premium' of up to £40,000 for the most energy efficient properties. See [here](#) for further details.



Greening the built environment continued

Greening the built environment – Homes continued

Risks and dependencies

Dependencies

Our 2030 41 per cent financed emissions intensity reduction target highlights our ambition to reduce the emissions of properties on our mortgage book, but reaching net zero for UK homes will require collective action from a broader group of stakeholders to tackle many significant challenges in this area.

To progress at the pace required to remain on track against our target pathway we are dependent on multiple key areas including:

- Decarbonisation of the electricity grid**, the largest expected contributor to UK housing emission reduction by 2030.
- Greater public awareness**, to encourage behavioural changes which are crucial to drive the level of adoption required to decarbonise the UK housing stock¹.
- A strong retrofit supply chain**, supported by **government and market incentives** which encourage both residential and buy-to-let customers to retrofit their properties.
- Continued support for the supply and quality of energy-efficient new build properties** to ensure availability of high standard homes.

Whilst we have made progress on our emission intensity reduction from our 2020 baseline, the CCC progress assessment (see **page 119**) highlighted that a substantial amount of future abatement either lacks policies or depends on policies which carry significant risks.

There are many risks to continued progress on substantive reductions in emissions; action needs to be encouraged across the key areas we are dependent on, as outlined above, and data quality and availability must be improved.

Decarbonisation of the electricity grid

- Intensification of geopolitical unrest may disrupt oil and gas exports, exposing the UK to price shocks and potentially impeding ongoing investments into decarbonisation.

Greater public awareness

- There remains a high proportion of properties in the UK that do not have a valid Energy Performance Certificate (EPC) and our new research shows that, for those that do have one, nearly half (46 per cent) do not know their rating¹. This coupled with the fact that EPCs do not always portray an accurate view of actual energy usage or completed retrofit improvements, make it difficult to engage customers and enhance their understanding on the importance of energy efficiency. Moreover, these EPC limitations hinder our ability to meticulously report on the emissions of homes in our portfolio.
- A lack of clarity on policy and regulation is causing uncertainty for businesses and consumers, leading to many delaying plans to support energy-efficiency improvements. Six in ten landlords (57 per cent) knew about the government's recent scrapping of plans requiring all rental properties to meet a minimum EPC rating of C by 2028. Of these, 42 per cent said that they had since cancelled plans to invest in energy efficiency measures and 53 per cent said that it made them less likely to invest in energy efficiency in the future¹.

A strong retrofit supply chain supported by government and market incentives

- Whilst good developments in available government grants have been made, further incentives are required to encourage all customers to act, particularly given the current economic climate where customers are faced with competing priorities and challenges to fund retrofit measures. Installation rates of energy-efficiency measures continue to be below necessary levels and fell further in 2022 – with the number of households installing measures via UK government schemes falling to 94,000 in 2022, compared to 634,000 in 2014 to 268,00 in 2016^{2,3}.
- With minimal incentives for landlords to act on improving the energy efficiency of their properties, many existing homes are likely to remain in lower EPC bands.

Energy-efficient new build properties

- In response to a challenged demand there is likely to be a contraction in new build properties, with forecasts highlighting a slowing build trend in 2023 and 2024, which may result in limited access to high-quality sustainable housing.

Overall, the aggregation of multiple risks, including those called out above, is making it challenging for our customers to act. It is clear that implementation of energy-efficient measures is slow and therefore we need to continue to innovate to drive the mass population adaptation that is required.

¹ **Decarbonising the UK's homes a housing stocktake 2023** [71](#)
² UK Climate Change Committee, Progress in reducing UK emissions – 2023 Report to Parliament, page 20.
³ UK Climate Change Committee, Progress in reducing UK emissions – 2023 Report to Parliament, pages 139 to 153.

Engagement strategy

We are engaging on our policy asks through multiple channels including hosting roundtable events and one-to-one meetings with MPs, peers and policy advisers to discuss and garner advocacy and support for our proposals. We continue to ensure MP constituency factsheets are updated with our core policy asks to help ensure our key messages are clear, understood and considered.



Support from the government is required to build further momentum and awareness:

01	Provide long-term policy certainty around green home improvements with package of incentives and regulations
02	Use Stamp Duty to incentivise green home improvements
03	Improve EPCs so they provide accurate and up-to-date information
04	Use employer tax incentives to encourage employees to make green improvements
05	Support new, green jobs across the whole country with the Apprenticeship Levy

Greening the built environment continued

Greening the built environment – Homes continued

Just transition

Effectively supporting the transition to net zero will require the consideration of many different groups, including vulnerable and low income households. Our current products and propositions are inclusive of a vast number of customer segments, and we strive to ensure that our education and awareness materials highlight action that can be taken across varying levels of investment. Where appropriate we signpost specific government grant schemes that will support our customers with the cost of some retrofit measures.

Additionally, to try to make energy-efficient home improvements accessible for all, we have implemented offers for all our colleagues, whereby they can access offers on heat pumps and solar panels installed with our accredited partners. We acknowledge that there is more to do to ensure a successful transition that is fair for everyone and we therefore welcome all funding on research and development into green technologies to ensure retrofit is attainable for the mass market.

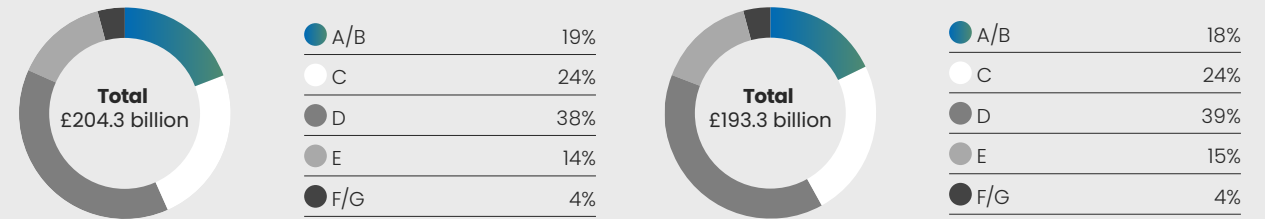


See pages 93 to 94 for an overview of just transition

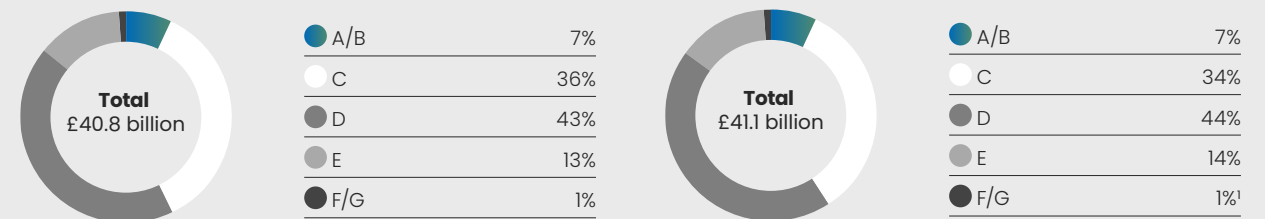
Total lending value of known EPCs

The EPC distribution by lending value for the mortgage book is included within Note 52 of the financial statements. The split between residential and buy-to-let mortgages is shown below for properties with known EPCs:

Residential mortgages



Buy-to-let



¹ Rounded down from 1.6 per cent for reporting in the table.

EPC splits

The charts above provide a view of the EPC profile of our UK residential mortgages portfolio based on our known population. The exposure to properties with no EPC data has reduced from 26% of residential properties in 2022 to 21% in 2023, and from 20% to 14% respectively for buy-to-let. Our 2023 progress versus our 2022 position, highlights that positively improving the mix of EPCs on our mortgage book, including shrinking the proportion of unknowns, remains a key factor in advancing towards our sustainability ambitions.

Greening the built environment continued


C&RRE

Commercial & residential real estate sector

Decarbonising existing buildings will be achieved primarily through retrofitting buildings to improve energy efficiency and replacing fossil-fuel heating systems with low carbon equivalents.

In 2022 our drawn lending to this sector was £22.4 billion, making decarbonisation of the commercial and residential real estate sector a priority for us.



 See **page 118** for details of this system

48%
C&RRE emissions intensity reduction (kgCO₂e/m²) between 2021 and 2030

In 2024 we are expanding the use of our ESG tool for sector specific client assessments.

1 Climate Change Committee, Progress Report to Parliament, 2023.
2 Estate agencies are excluded from this sector.

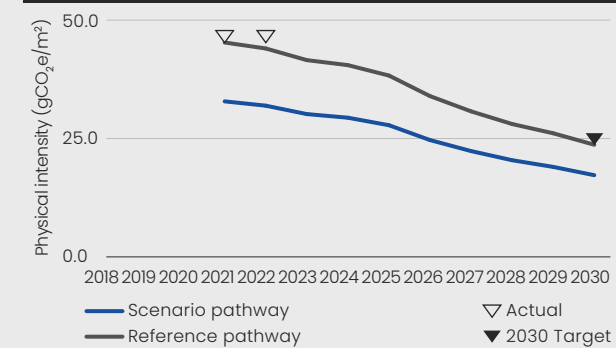
Greening the built environment – C&RRE

Target

This year we have developed a 2030 target for our Commercial Banking C&RRE portfolio based on the 1.5 degree aligned balanced net zero pathway of the Climate Change Committee¹. Based on our baseline portfolio composition, it requires an average reduction in emissions intensity of 48 per cent between 2021 and 2030, reducing our 2021 absolute emissions from 45kgCO₂e/m² to 24kgCO₂e/m².

Our target includes operational emissions from regulated and unregulated energy use, covering the following sub-sectors: commercial real estate, lending to social housing landlords and privately rented real estate². Fugitive emissions are excluded due to poor data availability. We are working to address data quality and availability to potentially include other sectors in our target in future: housebuilders, real estate development and companies primarily engaged in construction.

C&RRE emission intensity reduction 2021 to 2030



Implementation strategy

Given its materiality both to the UK and the Group, commercial and residential real estate is a crucial sector to decarbonise to meet net-zero ambitions. Our key strategic lever is to accelerate our clients' adoption of low carbon heating (LCH). Developing products and propositions which incentivise and support our clients to adopt LCH and improve energy efficiency will be critical to achieving this. We are dedicated to helping the sector to understand emissions and have continued to develop our green buildings tool, a free digital insights calculator which helps clients assess and improve the energy efficiency of their buildings.

Through our credible transition plan activity, we will continue to engage with our most material clients by the end of 2025 on their transition to net zero, including an expectation that clients' carbon reduction goals will be aligned with scenarios limiting global warming to no more than 1.5°C.

In 2024 we will be expanding the use of our ESG tool (see **page 158**) to rollout a sector specific assessment to our clients. This will include a series of questions to understand our clients' transition journey, including actions taken so far and challenges faced, and we will use the outputs to understand how we can best support our clients going forward. The assessment will focus on climate and broader environmental themes and will be rolled out to all clients with the most material exposures.

We continue to work in partnership with industry bodies to support the transition including the UK Green Building Council (UKGBC). We are Gold Leaf Members of the UKGBC, and Programme Partners of the Advancing Net Zero Programme. Furthermore, we will advocate through our participation in industry bodies and lobbying activities on the following policy asks (described below).

Greening the built environment continued

Greening the built environment – C&RRE continued

Risks and dependencies

The transition of this sector has a critical dependency on accelerated policy action and there is a high level of uncertainty on how policies will develop. As outlined by the CCC (see **page 119**), ‘policy progress in the buildings sector is not on track’ and a significant acceleration in public policy is needed to achieve our target pathway¹, such as LCH installation, training of installers, affordability and an improvement in the minimum EPC required to lease a property. We continue to engage in policy advocacy both independently and through our affiliation with industry. In particular, we continue to seek certainty on future policy direction, including the accelerated rollout of LCH and minimum energy-efficiency standards.

Internally, there are several data challenges including quality and completeness. To address challenges regarding client data we will investigate ways to utilise internal sources more effectively, including from the green buildings tool. Since 2019 360m ft² has been analysed by the free tool, bringing the total floor area analysed, including the Bank’s own portfolio, to 2 billion ft² since 2019. As discussed earlier, it is acknowledged that EPCs, which are the most commonly available data source, do not always portray an accurate view of actual energy consumption in a building. They are also limited to estimating regulated energy use only (from space and water heating, lighting and ventilation), and therefore we need to estimate unregulated energy use (based on information from the Government’s Building Energy Efficiency Survey). The need for widespread improvements in emission measurements for buildings is well-recognised, with metered energy use being a future opportunity to improve accuracy, subject to data being made available.

Finally, decarbonisation of this sector is heavily dependent on clients adopting low carbon heating. The future role of electrification for hydrogen and heating buildings is uncertain, which has also dampened appetite. A priority in our ‘greening the built environment’ system is to develop products and propositions that incentivise and support our clients to install low carbon heating.

1 Climate Change Committee, Progress Report to Parliament, 2023.

Engagement strategy

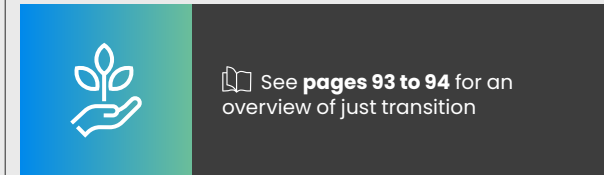
Support from the government is required to build further momentum and awareness. We are developing our engagement strategy to help address a number of areas, including:

- Policy and regulatory clarity for a clear trajectory for direct regulatory levers and critical indirect dependencies (including energy market reform, and decisions on the future heating mix, e.g. hydrogen, heat networks)
- Emissions measurement: through improved EPCs and real time energy use
- Skills and labour supply, to boost skills availability in the supply chain
- Access to expertise to improve provision of advice for building users and facilitate their transition
- Availability of feasible financial mechanisms to implement financial incentives for improving energy efficiency and/or installing low-carbon heating systems

We regularly engage with clients and the wider industry on how to accelerate decarbonisation of the built environment. For example, as a key part of our target setting activity this year, we held two client round tables, to ensure we have an up-to-date understanding of the challenges and opportunities faced by our clients, including corporate and SME clients, in commercial and residential real estate.

Just transition

Improving the energy efficiency and rollout of low carbon heating of commercial and residential buildings brings benefits beyond the environment as a result of more comfortable conditions and manageable energy bills. Research by the IEA shows how energy efficiency has the potential to support economic growth, enhance social development and help build wealth. Therefore, to support a Just Transition, it is essential that energy efficiency rollout reaches across society, including small businesses and lower income households, which is central to our strategy.



See **pages 93 to 94** for an overview of just transition



Our purpose in action

Bruntwood SciTech

In 2023, Lloyds Bank acted as sole ESG co-ordinator on £380 million of sustainability-linked financing to Bruntwood SciTech, a leading UK property provider dedicated to the growth of the science and technology sector.

The financing included £100 million of new facilities provided by a group of lenders to support regional growth.



SDG 7.3: By 2030, double the global rate of improvement in energy efficiency

£330 million of sustainability-linked lending is aligned to Bruntwood SciTech’s sustainability targets. These include improving the EPC ratings of buildings, a year-on-year reduction in carbon intensity, a reduction in embodied carbon across new build developments, and an increase in whole building renewable energy procurement. A £50 million green loan for the development of No.3 Circle Square, in the Manchester Oxford Road Corridor innovation district, was provided to help realise the company’s ambitions for No.3 Circle Square to achieve BREEAM Excellent Status, a NABERS 5 Star rating and an EPC A rating. The development will feature an innovative all-electric heating and cooling system, advanced air source heat pumps and new landscaped space to increase biodiversity.

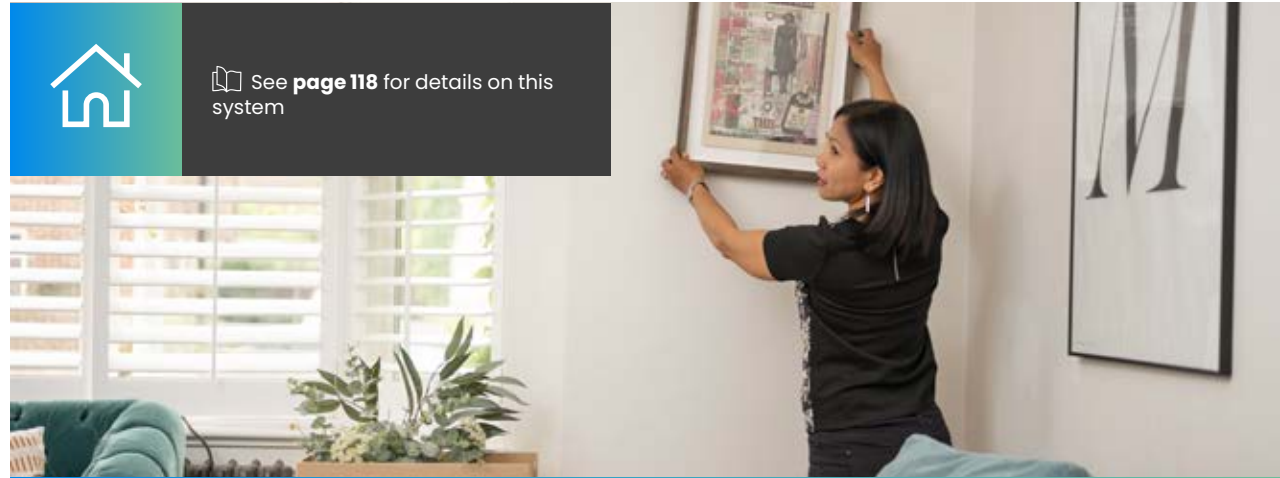
SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.



Richard Butterfield, Relationship Director, real estate and housing at Lloyds Bank, said: “Bruntwood SciTech remains one of the UK’s true success stories – a business with sustainability and the industries of tomorrow running through its core.”

Greening the built environment continued

Citra Living



Citra areas of focus

	2023	By 2024	By 2025
Data and strategy	<ul style="list-style-type: none"> Enhanced Citra sustainability strategy 	<ul style="list-style-type: none"> Determine emissions baseline and reporting approach 	<ul style="list-style-type: none"> Establish targets for operational and supply chain emissions based on baselines developed
Building standards	<ul style="list-style-type: none"> 20 per cent of new projects signed up to Next Generation Project Level 	<ul style="list-style-type: none"> 50 per cent Citra homes started in 2024 developed to NextGen reporting standards First Future Homes Standard homes contracted 	<ul style="list-style-type: none"> 75 per cent of new projects delivered in accordance with NextGen reporting criteria 25 per cent of new schemes started on site to meet the Future Home Standard, subject to regulations being adopted.
Biodiversity	<ul style="list-style-type: none"> Measure not recorded – see opposite 	<ul style="list-style-type: none"> 10 per cent of new developments started in 2024 to achieve at least 10 per cent Biodiversity Net Gain 	<ul style="list-style-type: none"> Explore achieving a 20 per cent Biodiversity Net Gain on a pilot site 25 per cent of new developments started in 2025 to achieve at least 10 per cent Biodiversity Net Gain
Travel	<ul style="list-style-type: none"> 26 homes in 2023 had electric charging points available, five of these were retrofitted 	<ul style="list-style-type: none"> Introduce our car charging policy to support those customers wishing to install an electric charging point 	<ul style="list-style-type: none"> All new homes started on-site in 2025 to have EV charging points (subject to capacity)

Operating since 2021, Citra Living exists to provide high-quality homes to the UK rental market.

As a new area of the business, we set out in our 2022 reporting a number of key focus areas as part of the process of scoping and shaping a Citra sustainability strategy aligned to our Group sustainability ambitions.

Our initial ambition set out areas of focus across building standards, biodiversity, travel and data. Our activities in 2023 have focused on outlining Citra's ambitions, and we continue to build the capabilities to calculate our baseline for our operational and supply chain carbon emissions.

We outlined last year that we had an ambition to have 10 per cent of new projects signed up to the NextGeneration benchmark. Across our existing strategic partnerships, Barratts are a member of Next Generation, and have just been announced as the number 2 most sustainable developer at the Next Generation awards 2023. In the same awards Keepmoat were listed in the top 10 developers and they have signed up to the Next Generation Project level, with the first results due early 2024. In addition, Galliford Try have signed up to NextGen Project Level on our first build-to-rent tower.

For 2023, we also targeted 10 per cent biodiversity net gain on each new development, and we had ambitions to deliver 50 per cent of new schemes in 2024 to Future Homes Standards. However, we have not been able to achieve these ambitions thus far. This is largely owing to delays in introducing the Biodiversity Net Gain requirement under the 2021 Environment Act and the delays in government issuing the Future Home Standard guidance (consultation issued end of 2023 with responses due March 2024). In addition, at the point that we entered into contract for the majority of our schemes, work had already started on site under previous building regulations. The requirement to deliver Biodiversity Net Gain will start to apply in 2024, with Future Homes Standards due to come in from 2025 and we remain committed to these as minimum standards.

We will continue to encourage our partners to sign up to the Next Generation benchmark as a marker for good quality, sustainable housing and through this framework, look to increase the level of biodiversity net gain achieved in new developments.

During 2023 we refined our sustainability strategy, which now focuses on three key areas:

- **People:** demonstrate the difference we are making by developing our approach to social value
- **Place:** reduce reliance on fossil fuels
- **Partner:** 100 per cent partner alignment with our sustainable procurement policy by 2030

During the year, we started retrofitting pilots for existing homes in the private rental sector (PRS), along with a Zero Bills pilot on one of our new developments. In addition, where requested by customers we have undertaken retrofitting to allow for electric vehicle charging.

Next year, we will continue to focus on how our efforts can also benefit the people who live in the properties we own, for example, through lower energy consumption, supporting lower carbon transport options and greener more biodiverse places to live. To this end, we are undertaking an energy pilot where we will be monitoring the use of gas, electric, water and air quality in homes and using this insight to understand more about how our homes perform and sharing this information with our customers, to help them live more sustainably. We also hope to contract on our first Future Home Standard development and we will continue to develop our data strategy, to define and measure baselines, understanding our impacts and the opportunity to drive improvements as we continue to grow.

Greening the built environment continued

Home insurance

Lloyds Banking Group (and its associated brands)¹ offers buildings and content insurance to residents in the UK. We aim to support customers in improving the resilience of their homes against extreme weather caused by climate change. As a business, we also strive to advocate for change with policymakers and other firms in the industry.

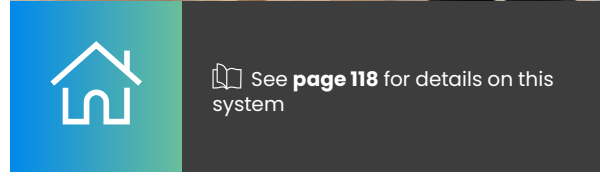
Our strategy focuses on two areas:

1. Propositions to improve flood resilience

Climate change is projected to alter the frequency, severity and location of weather events that impact our UK general insurance portfolio. The UK will experience increases in extreme rainfall leading to increased flooding. Whilst river and coastal flooding can be modelled with catchment-scale hydrological models, allowing for advance planning in mitigation measures, the nature of surface water flooding (localised and difficult to predict) makes equivalent mitigation planning more challenging.

Given the increasing frequency and devastating household impacts of flooding, flood resilience is a priority for us in supporting our customers. We recognise the opportunity and imperative to improve the flood resistance and resilience of those homes that are most at risk of flooding.

Our Build Back Better initiative (backed by Flood Re) is a commitment to spend up to £10,000 on specialist flood surveys and fitting property flood resistance and/or resilience measures following eligible flood claims. To identify the most appropriate measures for eligible customers – including floodgates and self-closing air bricks – we have onboarded specialist flood surveyors to provide expert advice to our customers. The Build Back Better scheme went live on 1 July 2022 and the first eligible claim was registered the following month.



Our aim is to support customers in improving the resilience of their homes against extreme weather caused by climate change.

To help customers protect themselves and their homes from the physical impacts of weather events, we are able to reach out, via email, with pre-season advice and guidance. In 2023, we issued pre-summer communications to our customers providing guidance on behaviours they can adopt to reduce risks of fires as well as protecting their homes and belongings when travelling during the summer holiday period. Throughout the winter we will issue advice on how to protect homes against the impacts of cold weather, such as burst pipes. Alongside preventative communications, we also reach out to our customers ahead of severe weather events. In October 2023, we sent almost 12,000 emails to customers in Scotland, in locations with a red weather warning due to Storm Babet, explaining to our customers how they could reach out, if they needed to make a claim.

Whilst flooding presents a known challenge, the UK is also expected to experience hotter, drier summers, which is predicted to increase the risk of properties exposed to subsidence. Ground movement in areas of chalky soil may increase and subsidence could start to affect properties that have previously been at lower risk of subsidence.

2. Decarbonisation

Whilst there is currently no prescribed methodology for measuring emissions on insured properties to support net zero progress and reporting, we will continue to monitor and engage with developments in this area.

3. Advocating change

In order to facilitate systemic change, we believe that acting as a convener and creating a platform for open dialogue and a diverse representation of expertise outside of just financial services will help us to solve for the challenges we now face. To these ends we are building relationships with environmental groups, experts and thought leaders who are supporting us in delivering training and embedding sustainability into our leadership roles. We have also identified the need to advocate for change within policymaking, leveraging our relationships with government and industry to influence policy in both flood resilience and broader weather-related resilience and adaptation efforts.

Additionally, educating our colleagues remains key in delivering change across our business; we have been working alongside our learning team to identify and build capability and capacity for decision-making aligned to the broader sustainability agenda.

¹ The home insurance liabilities are managed under Scottish Widows Group.

Our purpose in action

Financing sustainable energy products

Our Consumer Lending team embarked on a pilot with Octopus Energy to build a bespoke MBNA journey for customers wishing to finance their heat pump purchase. This enabled customers with an appetite for sustainable-energy products to easily pay and spread the cost using a loan from within the heat pump purchase journey.

Soaring energy prices have meant that UK households are considering more affordable and sustainable heating solutions to brace for the winter months, ensuring their homes remain adequately heated. In response to this, the Group collaborated with trusted supplier Octopus Energy, piloting this proposition to help customers finance their heat pump purchase via an MBNA loan, in turn enabling a move to sustainable heating solution. Heat pumps use less energy than even the most efficient gas boilers to generate the same amount of heat.

Our MBNA loans application process with pre-approval functionality was integrated within the Octopus Energy customer journey, so consumers who want to install a heat pump can easily access finance.

This journey is purely digital which is more sustainable than applications via branch or telephony.



SDG 7.3: By 2030, double the global rate of improvement in energy efficiency

SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Low carbon transport

Part of our systems approach:

Greening the built environment
Low carbon transport
 Sustainable farming and food
 Energy transition



System boundary

Our low carbon transport system addresses transport by road and by air. It includes our retail vehicle leasing and financing activity, as well as support for transport operators, the companies that manufacture vehicles to produce cleaner more efficient vehicles, and those that develop greener alternative fuels. Emissions for our rail and shipping activities within the transportation sector are not currently included, due to their low materiality and exposure.



System challenges

Surface transport is the highest emitting sector in the UK, accounting for 23 per cent of total emissions¹. Decarbonisation will require fundamental changes including the shift from fossil fuels to electrical or other low-carbon alternative power sources, changes to how people and goods are moved around, with greater use of public transport, cycling and walking, and a continued rollout of charging infrastructure and sustainable aviation fuels. Many policies to aid reductions have significant risks in delivering reductions required.

Road transport

The road transport sector in the UK plays a pivotal role in the country's infrastructure, connecting communities, facilitating trade and driving economic growth. With a significant network of roads spanning cities, towns and rural areas, this sector serves the nation's transportation system. Renewable energy technology is also changing how our cars, vans and buses are powered.

The CCC's 2023 Progress Report highlights that reducing emissions from this sector relies on four main outcomes:

- Rapid uptake of zero-emission vehicles
- Improved conventional vehicle efficiency
- Shift to low carbon modes of transport, including active travel and public transport
- More efficient use of vehicles, including car sharing

Key recent policy developments relevant to achieving our road transport decarbonisation targets

The government has introduced several policies that can aid decarbonisation, including:

- New Local Electric Vehicle Infrastructure (LEVI) fund designed to support the installation of electric vehicle chargers for homes without off-street parking
- New regulations that will ensure prices across charge points are transparent and easy to compare and that many new public charge points will have contactless payment options
- Charge point providers will also be required to open up their data so that charge points that meet customers' needs are easy to locate

However, some policy actions may slow progress slightly, such as:

- Delayed ban on the sale of internal combustion engine vehicles from 2030 to 2035

The CCC concluded that delaying the fossil car phase-out date to 2035 is expected to have only a small direct impact on future emissions, due to the now-confirmed Zero Emission Vehicle (ZEV) Mandate that sets targets for 80 per cent of new cars and 70 per cent of new vans sold by 2030 to be zero-emission, with financial penalties for manufacturers which do not meet targets.

¹ Estimated 2022 direct emissions as reported in the CCC June 2023 Progress Report. This figure includes cars, vans, buses and HGVs (heavy goods vehicles).

Low carbon transport continued

CCC assessment – Road and aviation

The CCC's assessment concludes that policy progress in the surface transport sector has been slower than expected with credible policies in place to meet only 38 per cent of the required emission reductions and delays to key policies are increasing delivery risks. It also indicated that policy progress has been partial in the aviation sector with 'significant risks' in delivering the necessary emission reductions.

CCC's overall assessment of progress:

- Credible plans present ●
- Some risks ●
- Significant risks ●
- Insufficient plans ●

Policy area for road transport	CCC overall assessment
Decarbonisation of electricity grid	●
Uptake of zero-emission vehicles:	
cars	<div style="display: flex; justify-content: space-around; align-items: center;"> Early adopters ● Mass Market ● Late adopters ● </div>
vans	●
buses	●
Conventional vehicles – efficiency, hybrids and biofuels	●
Passenger transport – reducing car travel	●
Policy area for aviation	CCC overall assessment
Demand	●
Sustainable aviation fuel	●
Zero-emission aircraft	●
Offsets and removals	●
Efficiencies (e.g. avoiding emissions from transportation of more fuel than is required and avoiding near-empty flights)	●

The tables above summarise the CCC June 2023 overall assessment for policy areas that are the most relevant to delivering our emission reduction targets.

Aviation

Aviation is recognised to be a hard-to-abate sector. Aviation emissions were impacted by the COVID-19 pandemic and the rising cost of living, but the long-term historical trend in aviation shows a gradual increase in emissions due to rising demand for long-haul flights only partly being compensated for by improved efficiencies.

The CCC's 2023 Progress Report highlights that reducing emissions and achieving net zero in this sector relies on three main outcomes:

- Reducing emission intensity of aviation, including through innovation (sustainable aviation fuel, zero-emission aircraft) and efficiency improvements
- Managing demand including making low carbon alternative travel options available and affordable
- Developing high-quality offsets and removals to achieve net zero by 2050

Key recent policy developments relevant to achieving our aviation decarbonisation targets

The government has announced current and future actions that can aid decarbonisation, including:

- Committing to introducing a revenue certainty mechanism (subsidy) to support sustainable aviation fuel (SAF) production
- Publishing a Delivery Plan to support subsidy scheme design, including at least 10 per cent mandatory proportion of total jet fuel to be SAF by 2025 and five SAF plants in construction by 2025

These developments recognise that much of the technology available to decarbonise the aviation sector is nascent, with large amounts of funding still required to scale production and integration of alternative fuels like SAF. The International Energy Agency does not expect this sector to decarbonise by 2050, with a reliance on carbon offsets for this sector to achieve net zero (International Energy Agency, Net Zero by 2050, published 2021).

Our actions

We are considering the wider changes needed across the transport system and how our retail and commercial banks can play different, yet complementary, roles in supporting our customers to transition. We have developed products and propositions to help customers understand the best way to transition to greener vehicles and to ensure switching to electric fuel types is as hassle-free and cost-effective as possible, including via partnerships. We are also engaging our corporate clients to set science-based targets and with government and other external stakeholders to ensure there is a supportive external environment to facilitate transition.

Low carbon transport continued

Retail motor

As a UK-focused bank we play a significant role in the whole ecosystem required to successfully transition towards a sustainable transport model.


Our retail motor business leases vehicles through Lex Autolease and finances vehicles through our Black Horse and our core-bank brands. In February 2023, we announced the acquisition of Tusker, a dedicated salary sacrifice business. Over 1.1 million vehicles on the road today are funded through our business, including over 194,000 low emission vehicles.


>50%

car and van emissions intensity reduction (gCO₂e/km) between 2018 and 2030

1 in 8

ultra low emission vehicles on UK roads financed by the Group





See **page 128** for details of this system

Low carbon transport – Retail motor

Targets¹

In 2022, we published our retail motor targets to reduce the emission intensity of cars and vans:

Reduce the emission intensity (Scope 1 and 2) of the cars and vans we lease or finance by more than 50 per cent by 2030 (from a 2018 baseline) of 150gCO₂e/km (cars) and 198gCO₂e/km (vans), reaching 75gCO₂e/km (cars) and 99gCO₂e/km (vans) or lower.

During 2023, we revised our methodology for calculating vehicle emissions, resulting in our restatement of the emission intensity target values for 2030. Our overall ambition in terms of percentage reduction is unchanged.

This ambition is ahead of the CCC's 1.5 degrees balanced net zero pathway (BNZP), when accounting for the required reductions in tailpipe emissions (Scope 1) from vehicles with fossil fuel internal combustion engines (using data from the CCC's 2023 Progress Report) and the CCC's 1.5 aligned BNZP for decarbonisation of emissions from grid electricity (Scope 2) to power electric vehicles.

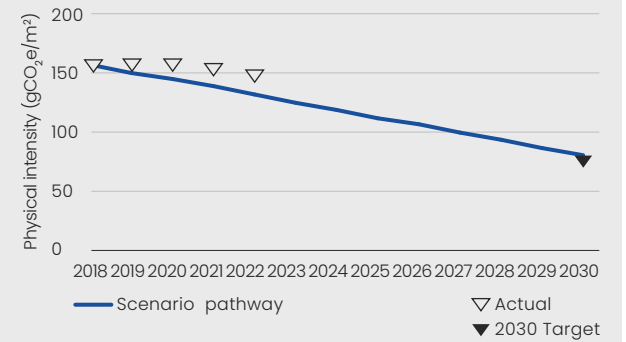
Methodology change

We have adopted a more accurate methodology for calculating vehicle emissions.

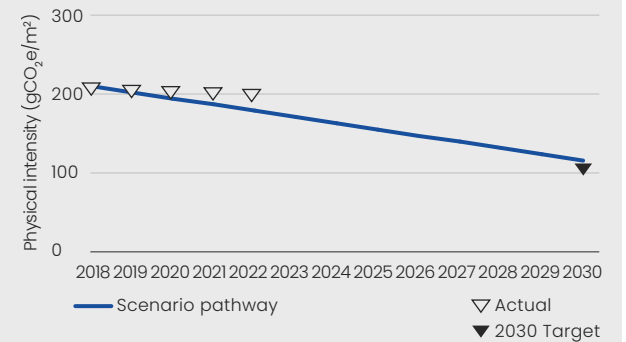
Following the emissions scandal, vehicle emission measurement moved from New European Driving Cycle (NEDC) to the Worldwide Harmonized Light Vehicle Test Procedure (WLTP) standard. The changeover for cars and vans was staggered with all private cars registered post 1 September 2018 using the WLTP classification. Before our 2023 methodology update, our model to calculate emission intensity of our portfolio used a combination of modern WLTP vehicle emissions where available for newer vehicles and NEDC vehicles for older vehicles.

The updated methodology adopts WLTP emission factors and applies an uplift to NEDC where these data are not available. The new methodology uplifts all NEDC emission intensities by c.16 per cent which is significant, providing a more accurate reflection of the emissions intensity baseline and warranting a restatement of targets.

Cars emission intensity reduction 2018 to 2030¹



Vans emission intensity reduction 2018 to 2030¹



¹ Scenario pathway based on a linear interpolation between 2018 and 2030 CCC BNZP scenario data.

Implementation strategy

Our focus over the last five+ years has been primarily on cars: providing company car policy guidance, salary sacrifice – including the investment in Tusker to speed up capabilities to help the rate of adoption. We have rolled out initiatives in used cars such as subsidised EV finance and used car leasing.

As a Group we are well prepared for the transition from internal combustion engine (ICE) cars to electric vehicles (EVs). We have committed to providing £8 billion of green lending for new battery electric and plug-in hybrid electric vehicles by 2024. In 2022 we provided over £2 billion of this funding and in 2023, added an additional £3.6 billion. Our strategy covers four key areas:

- Increase awareness and support customers to understand whether a transition to a greener vehicle is suitable for their circumstances
- Develop propositions that make switching to electric fuel types as hassle-free and cost-effective as possible in both the new and used markets
- Form enduring strategic partnerships that support and facilitate our transition to net zero
- Develop targeted external engagement and lobbying activity to support building an external environment that will facilitate the achievement of our emissions reduction targets

£3.6bn

in green lending for new battery electric and plug-in hybrid electric vehicles in 2023

We have extended the age and mileage parameters for vehicles we finance to allow longer contracts with lower monthly payments – this allows us to finance more EVs longer into their lives. Through Lex Autolease we are piloting an initiative to re-lease electric vehicles for shorter durations (one to three years) in the market, working through corporate and broker channels, where we are already receiving positive feedback.

We have also launched a leasing proposition for used electric vehicles, enabling us to test the market and identify issues and quickly develop solutions.

As part of our wider Group plan to help provide customers with energy-efficient solutions, we have teamed up with Octopus Energy to pilot EV charging services to our Lex Salary Sacrifice and corporate drivers, to help make their EV journey easier. We will refer drivers and our corporate clients to Octopus Energy who will offer them a range of Home Chargers to choose from, a smart electricity tariff aimed at making home charging cheaper, along with access to public charging with just one single card.

We are also proactively engaging with external organisations to make access to charging easier and more cost-efficient for those who do not have access to home charging. For vans, we are also exploring how we can use our data to aid corporate customers to transition (e.g. using telematics) and we are working with industry bodies such as BVRLA in advocating for policies to increase the pace of charging infrastructure rollout.

Alongside financing, the government and the energy and motor industries will need to work together to ensure the confidence of the public, which is vital to enable the move to sustainable forms of transport.

Risks and dependencies

The recent decision by the UK government to delay the ban on the sale of new petrol and diesel vehicles to 2035 runs the risk of undermining the progress that has been made to date, for example, consumers may not feel the urgency to purchase/lease an electric vehicle and some inward investment relating to EV manufacturing could be jeopardised. In general, we do not anticipate the delay to affect manufacturers' EV production behaviour as manufacturing is planned five to seven years in advance.

The government's zero emission vehicle (ZEV) mandate has now been finalised, setting out expectation for 80 per cent of new cars and 70 per cent of new vans sold in Great Britain to be zero emission by 2030, increasing to 100 per cent by 2035. For cars, the ZEV mandate is more realistic. For vans, the target of 70 per cent by 2030 may be overly optimistic. For electric vans, there are a number of challenges that are hindering growth, including mileage range and the limited product range, together with a limited used market for electric vans. Availability of charging infrastructure is also a key issue. The finalised ZEV mandate for vans has reduced the government's targets for 2024 and reduced fines for manufacturers achieving their goals, which could impede uptake of electric vans. Based on our current forecasts, we calculate a significant gap between the projected emission intensity of our electric van portfolio and our target in 2030.

More widely, there is a continuing need to increase skills to maintain and service EVs, to match customer demand. In addition, for the used EV market to develop and reach a broader customer base, there is a need for dealers to buy and sell more used EVs.

Supply chain and chip shortages within the sector had previously been seen as the biggest risk to the electric transition although this does appear to be easing. The generally higher vehicle purchase cost and concerns about charging infrastructure remain significant barriers to adoption, particularly when it can be difficult to understand any whole life

cost savings that could be made. The used market for EVs is starting to mature and an ongoing supply and demand in this area is vital for a healthy transition in the future. To mitigate these risks, there are several dependencies that must be considered, including traditional automotive original equipment manufacturers (OEMs) shifting their product mix from ICE to EVs; growth of consumer demand, for both new and used EVs, and the significant scaling-up of charging infrastructure and investments in the electricity grid to support this.

One of the key areas where investment is needed is to increase the accessibility and affordability of charging infrastructure for residents. This is especially crucial for the c.20 per cent¹ of residents who reside in housing blocks and who are most likely to rely on public charging infrastructure, which is much more expensive than using home energy, exacerbated by a difference in VAT rates. This could create much greater demand in communities that would otherwise find it difficult to transition to EVs. Encouragingly, there have been a number of significant positive policy developments to increase EV charging infrastructure, including:

- Widening eligibility of EV charge point grants to include cross-pavement solutions to make EV ownership a more practical option for those without off-street parking (Ref Plan for Drivers, Department for Transport, October 2023)
- New regulations to ensure that prices across charge-points are transparent and easy to compare and that a large proportion of new public charge points have contactless payment options (announced October 2023)
- Funding to support local authorities increase charging infrastructure

¹ EHS Household report.

Low carbon transport continued

Low carbon transport – Retail motor continued

Engagement strategy

An important part of our strategy is to engage with policymakers to ensure there is an attractive marketplace for new and used EVs as well expanding the UK’s charge point infrastructure. As a leading UK provider of greener fleets for businesses, and an enabler to access more environmentally-friendly vehicles for our customers, we are confident that we can help meet the challenge of keeping the nation moving in a more sustainable way up to and beyond 2030.

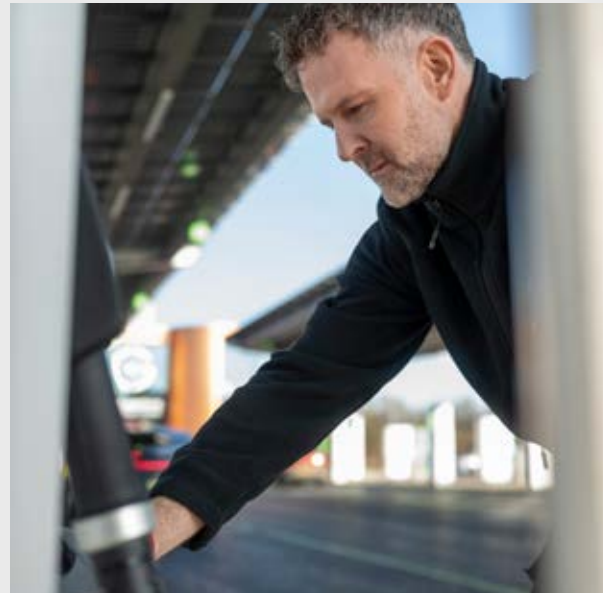
This year, our five key policy asks for government to focus attention to drive the transition to EVs:

1. Prioritise the rapid and fair rollout of charging infrastructure.
2. Provide certainty around the zero emission vehicle mandate.
3. Provide clarity on benefit in kind rates beyond 2028.
4. Consider the future of EV maintenance and consumer information.
5. Introduce a national battery strategy which aims to support the development of the battery manufacturing industry in the UK.

These policy asks guided our one-to-one conversations with multiple MPs and our participation in thought leadership events, from panel sessions at conferences to conversations during the summer’s EV rally.

We are also working with industry initiatives and partnerships to help accelerate change, these including:

- **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
- **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



Just transition

Used EV leasing – In April we launched a used EV leasing proof of concept proposition for corporate customers that offers flexibility. The proposition supports customers to quickly access cost-effective, green vehicles. In the current environment, this can help to counter the long lead times in acquiring an EV, but also importantly to make EV ownership more widely accessible and affordable at a time when the cost of living is high.

We have validated that there is demand for used EVs, but used leasing has added complexity. Having a multi-disciplined product feature team and dedicated model office working together has enabled us to identify issues early and quickly implement solutions.



Our purpose in action

Tusker joins the Group

In 2023, more than 1.1 million cars and vans on UK roads were leased or financed through Lex Autolease, Black Horse and Tusker; transport business now finances one in eight ULEVs on UK roads. We have continued to make progress on our commitment to reduce our financed emissions by 50 per cent or more by 2030. As part of our strategy to achieve this we acquired Tusker in February 2023 who are experts in salary sacrifice cars. This acquisition was derived from our 2022 strategy ambitions to grow our participation in motor finance and leasing in a sustainable way. Their commitment to salary sacrifice and low-emission vehicles has seen Tusker grow their customer base tenfold in the last ten years. Tusker's market-leading proposition provides a superior service having integrated technology and relationships with Enterprise Benefit Providers who offer the salary sacrifice scheme to businesses. Tusker is accelerating our progress to increase the breadth and diversification of our transport business.

We operate Tusker on a standalone basis as a third strategic brand in the market alongside the Lex Autolease and Black Horse businesses, to balance disruption with the benefits and capabilities to be leveraged from being part of Lloyds Banking Group. Over 1,800 companies are now supported by Tusker's fleet of c.40,000 vehicles, of which 75 per cent are EVs, with current orders set to increase it to 82 per cent. Based in Watford with colleagues across the country, Tusker now has over 300 employees focusing on customer excellence and following a clear vision to help the UK drive a better car. They were early members of the EV100, a group of companies that have committed to a zero-emission future and that their fleet will be fully electric by 2030.

Since Tusker's acquisition by Lloyds Banking Group in February 2023, c.500 customers have joined the Tusker salary sacrifice scheme, which provides more than 315,000 additional employees with the opportunity to drive a brand-new, zero-emission vehicle, bringing the total to over 1.7 million organisations. In the same period, Tusker delivered more than 20,000 cars to drivers, almost doubling its fleet in less than a year.

Tusker has been committed to offsetting carbon emissions, initially with its own operations in 2010, before expanding to include all its vehicles in 2013. The offsetting was originally focused on the tailpipe emissions of cars, but in 2020, due to the number of EVs the company was delivering, Tusker went one step further and now incorporates the emissions created from charging EVs.

Tusker's offsetting is conducted by the Carbon Footprint organisation who use verified offsetting standards to ensure that the benefits of offsetting are felt across the world, as well as with UK tree-planting projects.

Tusker has purchased more than 49,300t of carbon credits associated with the emissions or potential charging emissions from the more than 16,000 vehicles which have been delivered since Tusker's acquisition by Lloyds Banking Group in February 2023. More than 85 per cent of Tusker's deliveries are now pure EVs.

The offsetting for each car Tusker puts on the roads, continues for the entire length of the agreement the driver has with Tusker.



SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.



Road passenger transport

Our clients whose primary business is transportation of passengers, which includes buses, coaches, taxis and rentals. Decarbonisation of this sector is driven by the move from internal combustion engines to electrification.

49%
road passenger transport emissions intensity reduction (gCO₂e/pkm) between 2019 and 2030

Engage with clients to set their own credible targets (1.5 degrees aligned) by end of 2025.



See page 128 for details of this system

Low carbon transport – Road passenger transport

Target

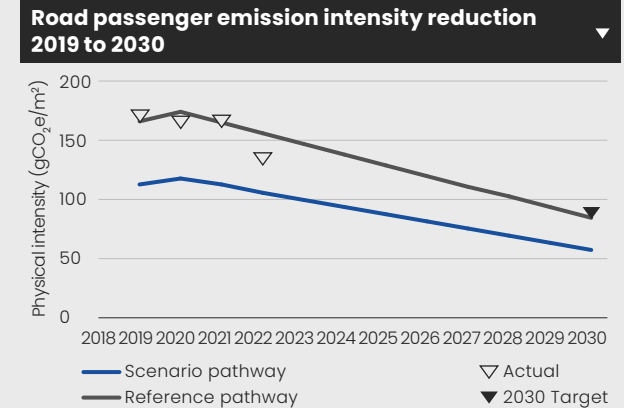
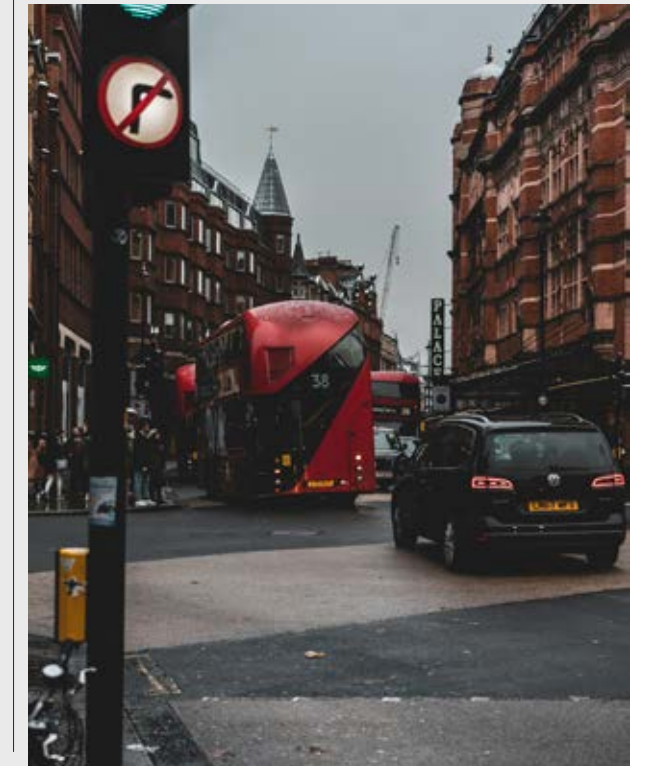
This year we have developed a 2030 target for our Commercial Banking portfolio of corporate road passenger transport operators. We have used the 1.5 degree aligned balanced net zero pathway of the Climate Change Committee as our reference. Our target requires an emissions intensity reduction of 49 per cent from our 2019 baseline of 165gCO₂e/pkm to 85gCO₂e/pkm in 2030. We selected 2019 as the baseline year given the impacts of the COVID-19 lock downs on passenger behaviour in the years 2020 and 2021, and 2022 data not yet being available.

The availability of granular client emissions data is a challenge for setting a target in this sector. Due to challenges accessing data for SME clients, our target covers larger clients in our corporate and institutional business. Even for larger clients, there are methodological challenges in translating available Scope 1 emissions data into an intensity metric due to the lack of client-level passenger km data, meaning that significant assumptions are required.

Implementation strategy

Central to our implementation strategy for this target is engaging our clients to set their own credible targets by the end of 2025, aligned with 1.5 degrees. Our continuing finance to clients beyond 2025 will be dependent on credible targets and plans being in place.

Additionally, we are targeting additional corporate lending, asset finance and project finance to bus owners and operators to finance the rollout of low carbon (electric and hydrogen) buses by 2030.



Low carbon transport continued

Low carbon transport – Road passenger transport continued

Risks and dependencies

We recognise there are real challenges in decarbonising the road passenger sector. The move to low carbon technologies is dependent on a supportive policy environment, supporting innovation, infrastructure and supply of alternative low carbon fuels where necessary while encouraging the modal shift towards public transport.

For bus, coach and taxi operators, there is a fundamental reliance on passenger demand for bus/coach travel, to create the business incentive to move to low carbon vehicles. For rentals, the transition to EVs is very much dependent on customer demand to select a rental EV over a conventional internal combustion engine, which in turn is influenced by cost and easy access to reliable charging infrastructure. How consumer demand will evolve, in response to the wider economic trends, will strongly influence our ability to deliver our target.

Just transition

A thriving public transport sector is an essential component of the transport system, enabling people to travel in the most cost-effective and environmentally sound way, for work and leisure. As the transport system faces transformative change, a key component of our strategy is to support the passenger transport sector to transition to net zero while continuing to serve their communities.



See **pages 93 to 94** for an overview of just transition



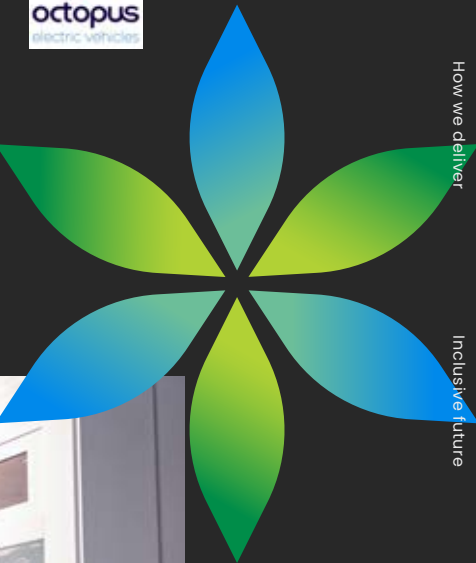
Our purpose in action

Octopus Electric Vehicles



SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

Last year, Lloyds Bank completed a £550 million debt securitisation facility with Octopus Electric Vehicles (Octopus EV). The financing will be used to expand the company's EV salary sacrifice programme, which began in 2021. The programme enables drivers to save up to 40 per cent on their monthly leasing costs, while the company provides everything they need to take the road – the car, a charger and discounted energy tariff. Octopus EV, a subsidiary of Octopus Energy Group, has emerged as a significant catalyst in propelling the shift towards eco-friendly, electric transportation.



Miray Muminoglu, Managing Director, Head of Securitised Products Group and FIG DCM at Lloyds Bank, said:

“Given the alignment across the two institutions in supporting the transition to net zero, and our leading auto franchise within SPG, this facility demonstrates not only our strategic ambitions to broaden and deepen our client relationships but also our commitment to Help Britain Prosper.”



Automotive original equipment manufacturers (OEMs)

The production of vehicles is highly concentrated amongst the world's largest automotive manufacturers. This sector's transition relies on the shift away from manufacturing the ICE to battery EVs and other low emission alternatives.

47%
automotive (OEMs) emissions intensity reduction (gCO₂e/vkm) between 2020 and 2030

We expect our clients to set targets which are either aligned with IEA NZE 2030 or validated by SBTi.



See page 128 for details of this system

Low carbon transport – Automotive (OEMs)

Target

Reduce the emission intensity (including Scope 1, 2 and 3 emissions) of our automotive (OEMs) portfolio by 47 per cent from a 2020 baseline of 231gCO₂e/vkm, reaching 124gCO₂e/vkm in 2030.

We originally set a target to reduce emissions intensity from a 2020 baseline of 217gCO₂e/vkm by 47 per cent to 115gCO₂e/vkm by 2030. Previously the emissions baselines of several key clients were based on estimated data.

In our refreshed version we have improved our methodology to use reported client disclosures where possible, resulting in a more accurate 2020 baseline of 231gCO₂e/vkm. As a result, alignment to the same 1.5 degree scenario pathway requires a 47 per cent reduction to 124gCO₂e/vkm over the same period. We have also calculated the portfolio's 2022 emissions intensity to be 232gCO₂e/vkm.

Implementation strategy

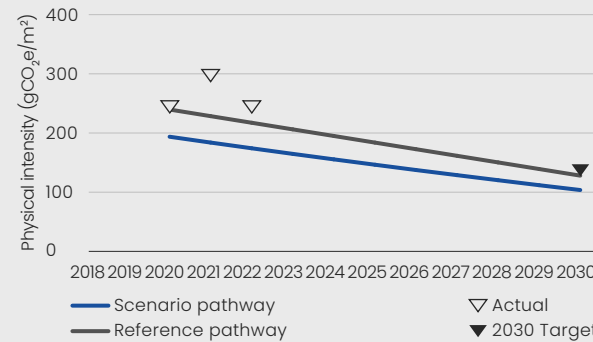
Last year we signalled our intention to grow sustainable lending and to onboard new EV-only manufacturers. This year we are pleased to have onboarded a new EV-only manufacturer whilst also supporting the transition of traditional manufacturers who remain critical to sector-wide decarbonisation efforts.

In the coming years, we will expect our clients to set targets which are either in line with IEA NZE 2050 and/or validated by the Science Based Targets initiative (SBTi).

By the middle of the decade, we will be working with our clients to ensure they are performing against their decarbonisation targets; by the end of the decade we expect all our clients to be meeting these indicators.

For our most material automotive clients we will be assessing their credible transition plans by 2024. We continue to embed considerations of client targets, commitments, progress and transition plans into our decision-making processes by the end of 2025 as appropriate.

Automotive (OEMs) emission intensity reduction 2020 to 2030



Low carbon transport continued

Low carbon transport – Automotive (OEMs) continued

Risks and dependencies

The net zero transition of the automotive manufacturers is key to delivering not only of this target but also to our targets in retail motor (cars and vans) and road passenger (buses, coaches, taxis and rentals). A key driver for automotive OEMs is consumer appetite for EVs, which in turn is dependent on the widespread availability of cost-effective charging infrastructure. The policy landscape underpinning these is relatively advanced in the UK compared to some other jurisdictions for our client base, such as the US and Germany.

A key driver for automotive OEMs is consumer appetite for EVs, which in turn is dependent on the widespread availability of cost-effective charging infrastructure.

Aviation

Aviation (passenger and freight transport) is a hard-to-abate sector, with the required scale-up of sustainable aviation fuels and maturing of low carbon propulsion technologies still many years away.

31%
aviation emissions intensity reduction (gCO₂e/rtk) between 2019 and 2030

Low carbon transport – Aviation

Target

Reduce the emission intensity per revenue tonne kilometre of our aviation portfolio by 31 per cent from a 2019 baseline of 1,028 gCO₂e/rtk, reaching 709 gCO₂e/rtk by 2030 (based on the IEA ETP 2020 scenario, aligned with well below 2 degrees).

In our aviation portfolio we originally set a target to reduce emissions intensity by 31 per cent by 2030 to 633 gCO₂e/rtk from a baseline of 918 gCO₂e/rtk in 2019. The 2019 portfolio baseline has increased by c.12 per cent to 1,028gCO₂e/rtk, driven mainly by client restatements. As a result, alignment to the same WB2D degree scenario pathway requires a 31 per cent reduction to 709 gCO₂e/rtk in the same period.

Progress update

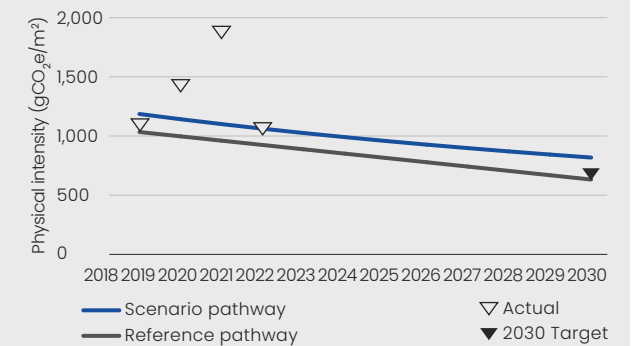
At year-end 2022, we had reduced the emissions intensity of our aviation portfolio by 2 per cent per revenue tonne kilometre from the 2019 baseline of 1,028 gCO₂e/rtk, reaching 1,003 gCO₂e/rtk. This is expected considering COVID-19 recovery for the sector, where emissions intensity was expected to return to pre-COVID levels.



See **page 128** for details of this system



Aviation emission intensity reduction 2019 to 2030



Low carbon transport continued

Low carbon transport – Aviation continued

Implementation strategy

Our key strategic lever for this sector is to work with our clients to set targets and develop plans which are aligned with a 1.5 degree pathway. While many of our clients have already set targets or committed to set targets aligned with well below 2°C or 1.5°C scenarios, our modelling indicates that due to uncertainties around COVID-19 recovery and technology scale-up, as well as the time lag between our base year and target adoption by clients, this action alone is unlikely to deliver the 2030 emissions intensity reduction for our aggregate aviation portfolio which is required. It will, however, ensure that in advance of 2030, our portfolio will be made up of companies converging to net zero by 2050.

In 2023, the market recovered from COVID-19 quicker than initially anticipated. Over the past months the market has communicated intentions for investments in enhancing fleet efficiency. In this sector, we support clients through our continued deployment of capital and risk management capabilities, whilst also helping further align finance and environmental performance in the industry through several sustainability-linked financing facilities in which we have played roles as both lender and coordinator.

We continue to engage with clients on the need to set ambitious targets to achieve net zero greenhouse gas emissions aligned with the goal of limiting global warming to 1.5°C. As part of this we encourage clients to share their decarbonisation strategies, including planned capital expenditures with associated quantified emissions intensity reductions. For our most material aviation clients we will be assessing their credible transition plans by 2024.

We also aim to play a key role in the transition of the aviation sector through supporting and influencing the wider aviation value chain to decarbonise, including the supply chain and aircraft manufacturing.



Risks and dependencies

Key dependencies for this sector include continued support from governments globally for sustainable aviation fuel (SAF) production, scaling of SAF capacity and alternative propulsion technologies (e.g. battery and hydrogen), expansion of airport infrastructure to run blended fuel lines and continued evolution of aircraft fleet efficiency. There is a heavy dependence on SAF, where production is limited at present.

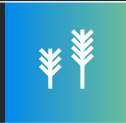
In the UK, as part of the Jet Zero strategy published in 2022 to deliver net zero aviation by 2050, the SAF mandate will require at least 10 per cent of jet fuel to be made from sustainable sources by 2030. This year the government announced it will launch a consultation on the design and delivery of a revenue certainty mechanism to support SAF production in the UK and boost its uptake, giving producers greater assurance about the earning from the SAF they produce¹. The government has an ambition to have at least five commercial SAF plants under construction in the UK by 2025.

¹ [New measures to support sustainable aviation fuel.](#)

Sustainable farming and food

Part of our systems approach:

Greening the built environment
 Low carbon transport
Sustainable farming and food
 Energy transition



System boundary

Our sustainable farming and food system addresses primary agriculture and the food value chain and plays an important role in ensuring food security in the UK.



System challenges

The agriculture sector is responsible for 11 per cent of UK emissions¹. Unlike other systems, emissions are mainly derived from natural processes which are challenging to abate. Decarbonisation is dependent on uptake of low carbon farming methods, improvement in agricultural productivity and changes in consumer behaviour. Many policies to aid reductions have significant risks in delivering reductions required.

Agricultural emissions are mainly from biological processes in crop and livestock production and have declined by 16 per cent since 1990, mainly due to successive reform of the Common Agricultural Policy (CAP) and EU environmental legislation (e.g. Nitrates Directives). There has been little change in emissions since 2008. As acknowledged by the UK government in its Net Zero Strategy – Build Back Greener (2021, page 171), ‘emissions mitigation in agriculture is complex and diverse, with no silver bullets’.

Land-based activities that do not lead to food production are summarised as ‘Land Use, Land Use Change and Forestry (LULUCF)’, including afforestation and forestry management, agroforestry and hedges, peatlands and bio-energy.

The agriculture sector has significant potential to benefit from, and create wider societal benefits for nature and climate through implementing nature-based solutions on farms (e.g. hedgerow planting and peatland restoration). It is therefore a critical sector for the UK to achieve its net zero ambitions.

The CCC’s 2023 Progress Report highlights that reducing emissions and sequestering carbon from agriculture relies on three main outcomes:

- Take-up of low carbon farming methods
- Improved agricultural productivity
- Consumer behaviour change that shifts diets from meat and dairy to plant-based proteins and reduces food waste, releasing agricultural land for uses that sequester carbon, such as tree planting

¹ Estimated 2022 direct emissions as reported in the CCC June 2023 Progress Report. [Agri-climate report 2022.](#)

Sustainable farming and food continued



CCC assessment – Agriculture

The CCC's June 2023 assessment concluded that, despite some recent progress, policies to reduce emissions from agriculture have 'significant risks' or 'insufficient plans'.

CCC's overall assessment of progress:

- Some risks ●
- Significant risks ●
- Insufficient plans ●

Policy area	CCC overall assessment
Improvements in agricultural productivity	●
Uptake of low carbon farming	●
Behaviour change – demand and food waste	●

Key recent policy developments relevant to achieving our agriculture decarbonisation target

Several recent government actions can aid decarbonisation, including:

- The Nature Markets Framework appointed the British Standards Institution to expedite a pipeline of investment standards for nature markets
- Defra expanded the Sustainable Farming Incentive to allow farmers to be paid for additional activities, including precision farming and agroforestry

However, policy development to influence behaviour change has yet to gain traction in some areas, such as:

- In September, the government announced it will not deter individuals from consuming meat

The CCC concluded that the government announcement ruling out demand-side measures, including diet choices, reduces the available options to reduce emissions, increasing overall delivery risks. It also removes some important flexibility in the way that future targets can be met. The CCC continues to advise that supporting the public to make more sustainable choices in what they eat is an important part of the pathway to net zero and this could be achieved via public engagement and by making these choices easier, more affordable and more attractive.



Our actions

Through our partnership with the Soil Association Exchange, we have developed tools and services to provide our larger clients with consultancy support that identifies valuable insights into the financial and environmental impact of sustainability measures and we have developed a free-to-use platform which anyone can use to get recommendations to improve farm practices and seek financial support where possible. We are also using our voice through policy engagement with government and industry to help drive the transition.

Agriculture

The agriculture sector plays an important role in ensuring food security in the UK, however, it also contributes 11 per cent of total GHG emissions in the UK¹.

In 2022 the sector accounted for 27.3% of the Bank's Scope 3 emissions, based on 2022 drawn lending of £7.2 billion making supporting the decarbonisation of this sector a priority for the Group.

25%
agriculture absolute emissions reduction (MtCO₂e) between 2021 and 2030

Educating and supporting our farmers to transition, through our report 'Shaping agriculture's transition to net zero future'.



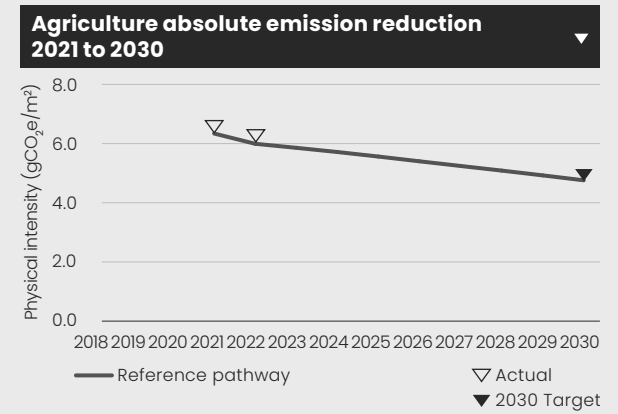
See **page 139** for details of this system

Sustainable farming and food – Agriculture

Target

In 2023, we have developed a 2030 target for our Commercial Banking agriculture portfolio using the Climate Change Committee's 1.5 degree aligned balanced net zero pathway as our reference. Our target is to reduce absolute emissions by 25 per cent between 2021 and 2030 (from 6.3 MtCO₂e to 4.7 MtCO₂e).

Our target covers emissions from primary agriculture, and does not include LULUCF measures (e.g. afforestation, peatland restoration and bio-energy crops which sequester carbon) as accounting for how these measures affect carbon emissions and sequestration is complex and currently very uncertain. However, we know that natural processes play a critical role in sequestering carbon. Therefore, we will keep this under review as we recognise that accounting for LULUCF will become a necessity when we develop an agriculture net zero target beyond 2030.



Our purpose in action

Fonthill Estate

Fonthill Estate is a large 8,500 acre estate in southwest Wiltshire, with a farm at its heart. James Griffin, who manages the farm on behalf of Velcourt under a contract farm agreement, and the team have been working to help modernise the farm in line with new farming techniques. As a result of their early efforts, the farm now rarely depends on deep tillage, instead opting for a direct drilling system and uses organic sources of fertilisers, which has reduced fertiliser use by more than a third over the last five years. With the farm's transition underway, the team was introduced to the Soil Association Exchange (SAX) assessment through Lloyds Bank to help build on their work. The SAX team visited Fonthill and spent several days learning about the farm and collecting data. Spanning six different areas, the SAX assessment provides a complete assessment of farms and allows clients to see a full picture of their impact instead of data being siloed in different places. Once the assessment had been completed, James received a report and was able to sit down with an adviser from the SAX team to discuss recommendations. As a result of the review, Fonthill is paying greater attention to hedge management schedules to improve water quality, soils and the farm's overall biodiversity.

The SAX assessment allows us to actually see the impact of those changes in the data. From progress on our soil organic carbon, to the impact on biodiversity that our buffer strips are having. It changes the conversation from a theoretical one to one that is grounded in evidence.

SDG 12.2: By 2030, achieve the sustainable management and efficient use of natural resources.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Fonthill Estate: James Griffin
Farm Manager

¹ Agri-climate report 2022.

Implementation strategy

We are focused on supporting all parts of the sector to transition to net zero. We do not intend to withdraw financing from any sub-sector, recognising the potential economic and societal impacts this may create (e.g. on UK food security and rural employment).



We are committed to educating and supporting our farmers to transition through the relaunch of our **'Shaping agriculture's transition to net zero future report'** and our market-leading partnership with the Soil Association Exchange (SAX). Through this pilot, we are aiming to provide the service to 1,000 of our larger agriculture clients with free on-farm consultancies, which will provide valuable insight into the financial and environmental impact of sustainability measures, enabling us to develop comprehensive guidance and support that can be widely applied throughout the agriculture industry. We have also partnered with them to build a free-to-use online platform available to all farmers to provide them with recommendations to improve farm practices and where possible seek financial support to make changes. The SAX includes a module on 'social' which currently looks at public access across the farm, but we plan to extend it to include separate questionnaires to farmers and their employees to cover Just Transition considerations, employee impacts, community involvement and any participation choices in wider agricultural communities.

We have continued to play an active role in industry activities including: sponsoring Farmers Weekly Question Time events; panels at Conservative and Labour party conferences; Crop Production Magazine Sustainable Farmer of the Year award; British Farming Awards; and Sustainable Farmer of the Year.

We aim to play a key role in the transition of the agriculture sector by engaging across the food and drink supply chain on environmental and social matters, including emissions reduction and food waste. We engage with our most material Corporate and Institutional Banking (CIB) clients that operate within the food and drink sector to support them on their transition to net zero.

Risks and dependencies

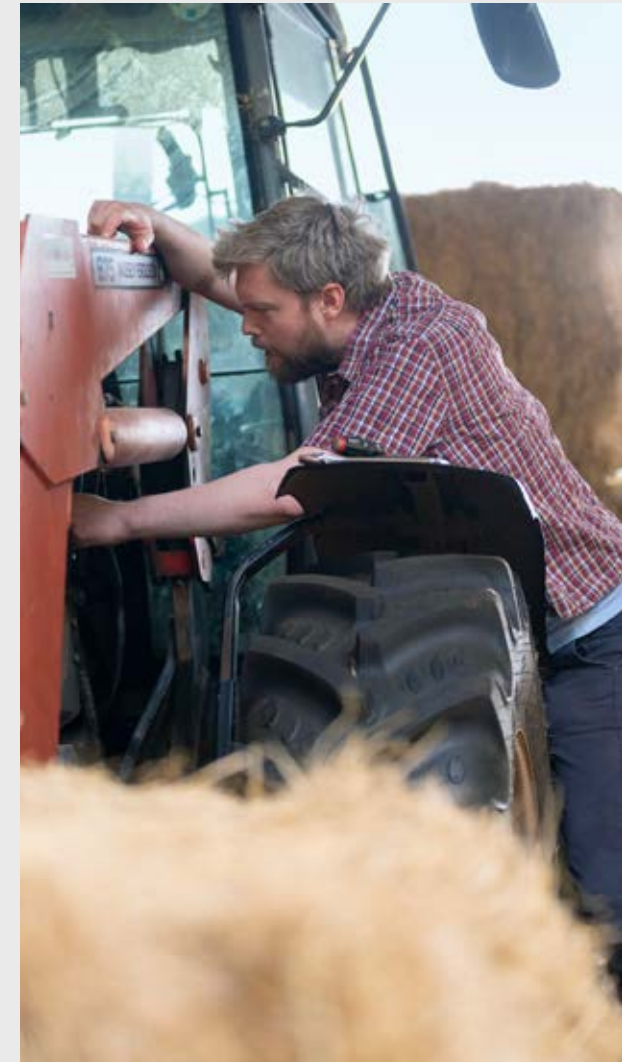
There is a high degree of uncertainty on how the agriculture sector will transition. We acknowledge the uncertainties associated with setting and delivering an emissions target in this sector, namely the poor data landscape and our dependency on factors outside our control, such as government policy, which will drive the sector's transition.

The willingness and capability of our farm clients to decarbonise their operations is key. Our strategy has a critical dependency on government action to incentivise and enable clients to identify, act and report progress through its funding, guidance and regulatory activities. There are more details on our engagement strategy with the government on **page 140**. The CCC Progress Report in 2023 (see **page 140**) indicates examples of policy in development although none of the measures are on track. The CCC estimates £1.5 billion investment is required per year by 2035 to implement necessary abatement measures.

Increasing client awareness and education is therefore a foundational activity for decarbonising this hard-to-abate sector.

The effectiveness of mitigation options, such as adoption of appropriate regenerative farming practices, is dependent on farm-level characteristics requiring a bespoke approach, meaning scalability is a challenge. New technologies to improve precision and productivity are still in development and will require investment.

The poor data landscape in this sector also means we cannot currently track emission reductions as a consequence of our actions. At present, we express our target in terms of absolute emission reductions. In order to set a future intensity target we require improvements to internal and external data capture sources to be delivered. We are investing in our own data capabilities to do this but this will take time. Additionally, there are challenges in tracking the effectiveness of mitigation options as it is dependent on improved availability of client data availability, e.g. revenue, yield and farm boundaries.



Engagement strategy

The CCC's Progress Report (2023) concludes that current policies are not driving the necessary pace of change (see **page 140** for further information). Policy advocacy is therefore our most important lever for this sector. We are using our voice through policy engagement with government and industry bodies to prioritise policy advancement in key areas including:

- The development and delivery of a decarbonisation strategy to encourage low carbon and regenerative farming practices and help drive action
- The standardisation of the methodology to calculate carbon emissions to ensure consistency across the sector and enable farmers to confidently develop transition strategies
- The improvement in incentives for farmers to improve the environmental performance of their land with the long-term interest in mind, such as the Environmental Land Management Scheme (ELMS) where farmers are paid for land-based environment and climate goods and services
- Unlocking barriers to green financing for new technologies
- The provision of clear guidelines for farmers and a standard code of conduct for voluntary carbon markets

In 2024, we will be expanding the use of the ESG tool (see **page 158**) to support our SME agriculture clients. The bespoke assessment will focus on climate and broader environmental themes, helping us to understand the actions taken and challenges faced by clients in their transition. The outputs from this assessment will enable us to develop our approach in supporting clients' transition.

SMI agribusiness task force

We became a member of the Sustainable Markets Initiative (SMI) Agribusiness Task Force in 2023, directly contributing to the work to look at new financing mechanisms to support farmers. This work involved exploring de-risking mechanisms and financial models across the value chain, to identify how participants could better collaborate and innovate to support farmers at scale in their transition to regenerative farming practices. The outcome of this work has fed into the SMI Agribusiness Task Force's report **'Scaling Regenerative Farming: Levers for Implementation'**, published at COP28. This report provides a blueprint for implementation, covering four key levers and what they could provide in practice to farmers, including the lever of funding, de-risking and new sourcing models.

A key lever needed for implementation is a set of priority common metrics for environmental outcomes, to underpin the scaling of the transition to regenerative practices. Our work with the Soil Association Exchange means that we are already working with a number of our own farming clients to baseline their farms against a set of metrics. Recognising the essential nature of such data to the transition, we made the Soil Association tool and capability to undertake these assessments freely available online to any farmers – not just our own clients.

For 2024, through our work with the SMI Agribusiness Task Force, it is our intent to build greater collaborations with members of the agriculture value chain to undertake specific pilot activity and explore different mechanisms and models that can directly support UK farmers in moving to more sustainable practices. We are keen to explore how data can be used across the supply chain to help provide a full picture of measures farmers are undertaking to transition to regenerative practices, what they need to transition, and to recognise their progress towards their goals.

Just transition

In line with our purpose to Help Britain Prosper, we are committed to enabling a just transition that benefits our agriculture clients as well as communities, workers, suppliers and consumers. In particular, farmers are facing multiple challenges mostly driven by inflation and increased energy costs in 2022 and 2023.

In addition, input costs (fertiliser and animal feed) fluctuate and markets are volatile, which creates uncertainty. The sector consists of smaller businesses, with less capacity to respond to external factors, and they are struggling with rising costs and continued competition from cheaper imports. It is imperative that the move to more sustainable agriculture does not diminish food production and jobs in UK agriculture, causing instead an increase in imports of food produced using less sustainable farming practices.



See **pages 93 to 94** for an overview of Just Transition

Energy transition

Part of our systems approach:

- Greening the built environment
- Low carbon transport
- Sustainable farming and food
- Energy transition**



System boundary

Our energy transition system addresses the supply of energy through oil and gas, as well as electricity generation in the power sector and activities related to thermal coal.



CCC assessment – Energy

The CCC concludes that on electricity supply, policy progress has been mixed with credible policies in place to meet around 30 per cent of required emission reductions by 2030, and on fuel supply, there are some risks in most areas, with credible policies in place to meet only 17 per cent of required emission reductions by 2030.

The table below summarises the CCC June 2023 overall assessment for policy areas that are the most relevant to delivering our emission reduction target for the energy system.

Description of dependency	CCC overall assessment
Power – Ensuring renewables capacity	Yellow
Nuclear capacity	Orange
Power – Network capacity and connections	Orange
Power – Flexible low carbon generation and storage	Yellow
Oil and gas – Electrification of oil and gas platforms	Orange
Oil and gas – Reduced venting and flaring	Yellow
Size of fossil fuel extraction industry	Red

CCC's overall assessment of progress:

- Some risks ●
- Significant risks ●
- Insufficient plans ●

System challenges

The supply of energy is central to our society and plays a critical role in providing energy security to the UK and aiding other sectors to decarbonise. Decarbonisation of energy is dependent on facilitating a transition that includes having sufficient renewable energy and network capacity, adequate generation flexibility and storage and reductions in fossil fuel extraction over time. Policies to aid reduction are further along than in most sectors, but still have several delivery risks.

Energy transition continued

Electricity generation

Emissions from the sector have fallen rapidly over the last decade, but decarbonisation needs to continue at pace as the sector needs to be fully decarbonised by 2035 for the UK to be aligned with the CCC's 1.5 degree aligned balanced net zero pathway. Continued delays with nuclear deployment could potentially put this at risk.

The CCC's 2023 Progress Report highlights that reducing emissions from this sector relies on four main outcomes:

- Rapid deployment of low carbon capacity
- Develop flexible low carbon options, such as storage to match supply to demand
- Phase-out use of unabated fossil fuel
- Utilise flexible demand through EVs, heat pumps and hydrogen

Fuel supply and consumption

Fuel-related emissions come from both supply and consumption and both need to be addressed to transition to a low carbon economy.

The CCC's 2023 Progress Report highlights that reducing emissions from this sector relies on five main outcomes:

- Lowering consumption of fossil fuels
- Decline in North Sea output
- Reducing emission intensity of production through platform electrification and reducing flaring and venting
- Reducing emissions from refineries through deployment of carbon capture and storage
- Reducing emissions from gas networks through reducing methane leakage and use of biomethane

Key recent policy developments relevant to our ability to decarbonise our energy portfolio

Several recent government actions can aid decarbonisation, including:

- Launch of the 'Powering Up Britain' blueprint for the future of energy in the UK, which sets out how UK energy production will be diversified and decarbonised by investing in renewables and nuclear, together with supporting technologies like carbon capture, usage and storage, floating offshore wind manufacturing, and hydrogen
- Launch of Great British Nuclear, which aims to deliver the government's long-term nuclear programme. However, this is unlikely to have significant near term impacts on grid decarbonisation.
- The North Sea Transition Deal published in 2021, which includes a commitment to reducing emissions from upstream oil and gas activities by 50 per cent in 2030

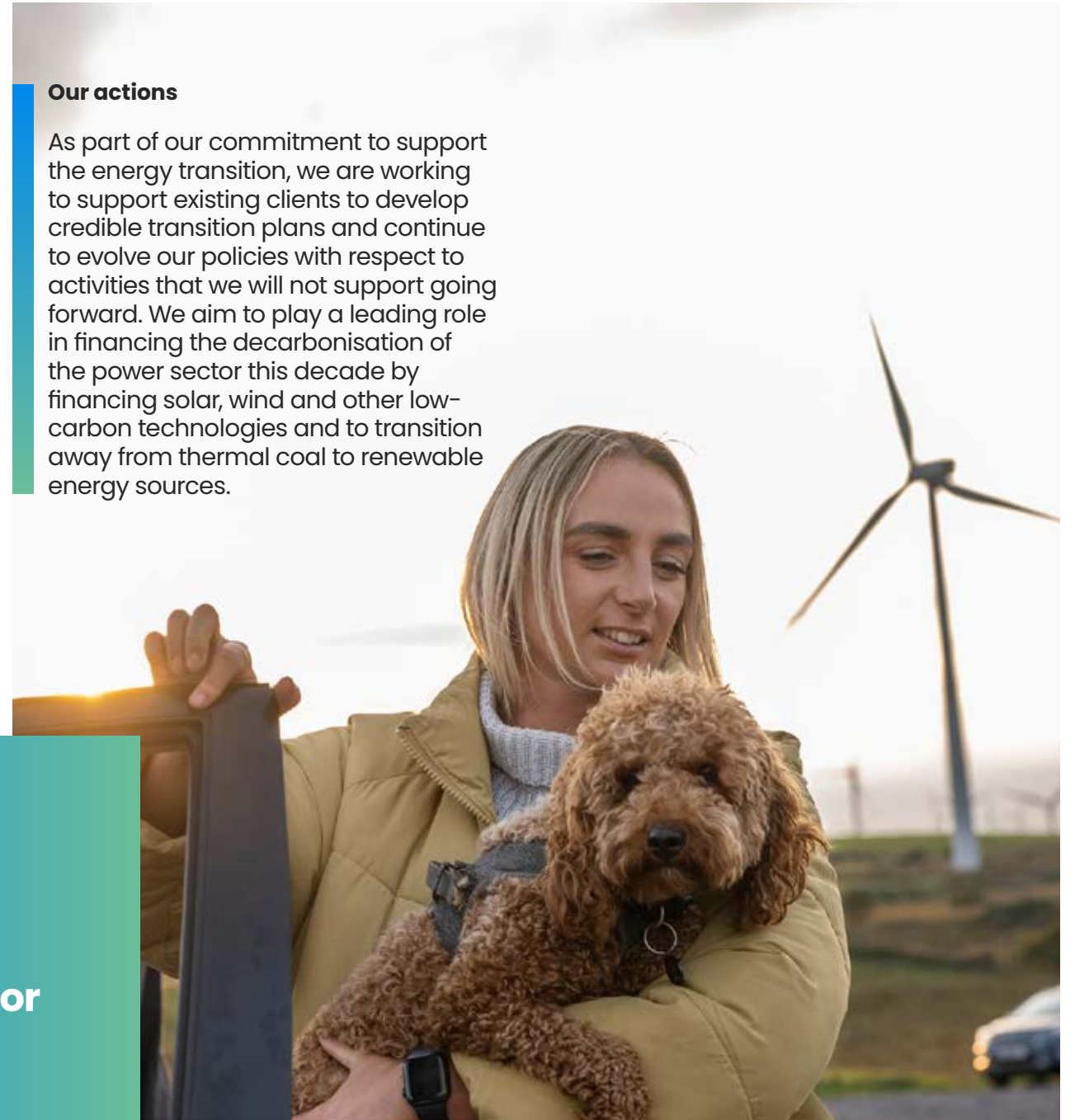
However, other policy developments may reduce the speed of transition, including:

- Commitments to increase North Sea oil and gas production to bolster energy security as outlined in the Energy Security Strategy

Our actions

As part of our commitment to support the energy transition, we are working to support existing clients to develop credible transition plans and continue to evolve our policies with respect to activities that we will not support going forward. We aim to play a leading role in financing the decarbonisation of the power sector this decade by financing solar, wind and other low-carbon technologies and to transition away from thermal coal to renewable energy sources.

// We aim to play a leading role in financing the decarbonisation of the power sector this decade.



Oil and gas

The oil and gas sector plays an important role in providing energy security to the UK and its decarbonisation is critical to limiting global warming to 1.5°C.

50%

oil and gas absolute emissions reduction (MtCO₂e) between 2019 and 2030



See **page 144** for details of this system



Energy transition – Oil and gas

Target

Reduce absolute drawn financed emissions (Scope 1, 2 and 3) by 50 per cent by 2030 from a baseline of 8.7 MtCO₂e in 2019 to 4.4 MtCO₂e in 2030, based on the IEA NZE scenario.

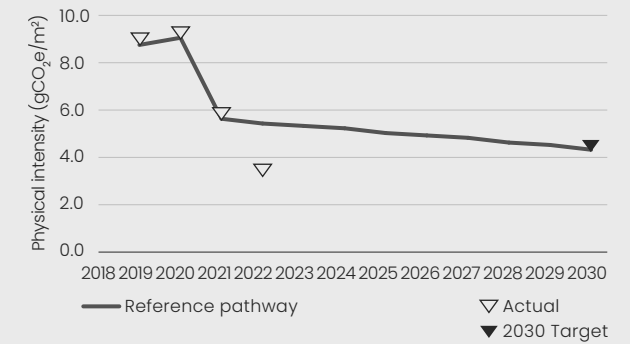
In our oil and gas portfolio we originally set a target to reduce absolute emissions by 50 per cent by 2030 to 3.9 MtCO₂e from a baseline of 7.8 MtCO₂e in 2019. The 2019 portfolio baseline has increased by c.12 per cent to 8.7 MtCO₂e, driven mainly by client emissions restatements and inclusion of additional upstream Scope 3 emissions from some clients. As a result, alignment to the same 1.5 degree scenario pathway requires a 50 per cent reduction to 4.3 MtCO₂e in the same period.

Progress update

At year-end 2022, we had reduced financed emissions by c.62 per cent from the 2019 baseline of 8.7 MtCO₂e, reaching 3.3 MtCO₂e, driven by both a reduction in drawn balances and a significant reduction reported in Scope 1 and 2 emissions of clients.

We continue to strategically refinance our portfolio away from direct financing of oil and gas projects towards transition technologies including renewable energy generation.

Oil and gas absolute emission reduction 2019 to 2030



Energy transition continued

Energy transition – Oil and gas continued

Implementation strategy

The IEA report ‘Net Zero by 2050 – A Roadmap for the Global Energy Sector’ is clear that no new oil and natural gas fields approved after 2021 are needed in order to maintain a Paris-aligned decarbonisation pathway to net zero.

As such we:

- We will not provide direct financing (either via project finance, or reserve-based lending) of new greenfield oil and gas developments (fields which did not receive 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 energies and transition technologies and clients have credible transition plans at the point of onboarding

Risks and dependencies

Key dependencies for this sector include the requirement for energy security to be maintained despite geopolitical risk and increased public and private investment in renewable energy and associated technologies. In that context, our focus is on supporting our clients to accelerate the adoption of non-hydrocarbon-based power generation and reduce the carbon intensity of their operations.



Engagement strategy

As part of our commitment to supporting the transition to a more sustainable, low carbon economy, we are engaging with existing clients to support them to establish credible and impactful transition plans. In 2023, we have undertaken initial CTP assessments across our full portfolio of large-scale oil and gas-producing clients and will monitor progress on an ongoing basis. Details of the credible transition plan assessment approach is described on [page 116](#).




Power

Companies in the power sector generate electricity from fossil fuels, nuclear or renewable sources. Scale-up of low carbon electricity generation is critical to enable other sectors to transition, e.g. supporting electrification of heating and transport. In Q1 of 2023, 48 per cent of UK power came from renewables, up from 7 per cent in 2010. Solar and wind are currently the cheapest forms of power and the UK is home to the world's five largest operational offshore wind farm projects.

81%

power generation emissions intensity reduction (gCO₂e/kWh) between 2020 and 2030





See **page 144** for details of this system

Energy transition – Power continued

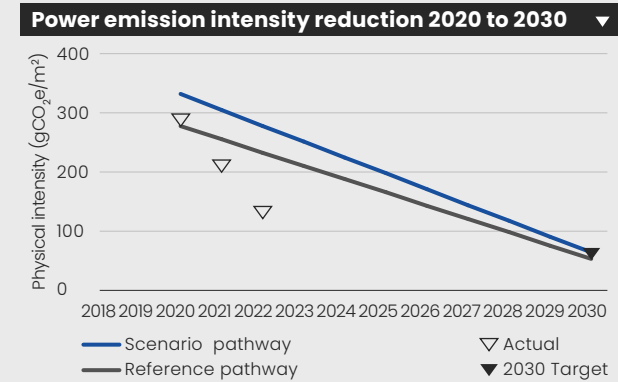
Target

Reduce the emission intensity (Scope 1 and 2 for corporate utilities and Scope 1 for project finance) of our portfolio by 81 per cent by 2030 to 53gCO₂e/kWh from a baseline of 276gCO₂e/kWh in 2020, based on the IEA NZE scenario.

In our power portfolio we originally set a target to reduce emissions intensity by 81 per cent by 2030 to 37gCO₂e/kWh from a baseline of 192gCO₂e/kWh in 2020. The portfolio intensity for the 2020 baseline year has risen from 192gCO₂e/kWh to 276g/kWh, while the 2030 target intensity has risen from 37g/kWh to 53g/kWh. The main drivers of the updated baseline and target values are the addition of biogenic emissions and updates to the calculation of power generated by some clients.

Progress update

At year-end 2022, we had reduced the emissions intensity of our power portfolio by 56 per cent from the 2020 baseline of 276gCO₂e, reaching 121gCO₂e. The reduction in intensity between 2020 and 2022 is driven by reduction in exposure to higher intensity projects or clients coupled with a change in attribution due to project value.



Implementation strategy

We aim to play a leading role in financing the decarbonisation of the power sector this decade, including financing solar, onshore and offshore wind and other low carbon technologies.

Risks and dependencies

Government policies in UK and Europe remain a key dependency, as they drive the forward strategies of our clients. In March 2023, the government published 'Powering Up Britain' which outlines how energy production will be diversified and decarbonised. Positive policy developments include funding towards projects for nuclear, carbon capture, floating offshore and hydrogen. Energy is central to the European Union's transition towards climate neutrality by 2050, in line with the European Green Deal. We expect policies to support the growth and investment in renewables and other technologies to facilitate the decarbonisation of energy production. At the same time, energy security remains a high priority.

Delivery risks should not be underestimated. These include competition for transactions, supply chain risks, availability and affordability of critical components/metals and availability of skilled resources. Alongside this, retrofitting of grid improvements to enable flexibility and interconnections will also be crucial.

Energy transition continued

Energy transition – Power continued

Engagement strategy

We have engaged with clients on their transition to net zero, including an expectation that clients' carbon reduction goals will be aligned with scenarios limiting global warming to no more than 1.5°C and will not over-rely on offsetting to achieve their target (i.e. beyond 'hard-to-abate' residual emissions). In 2023, we have undertaken initial CTP assessments for our clients in the power and utilities sector.

We will require existing clients in the power sector to demonstrate they are transitioning to net zero and we will provide no new lending/renewal of limits to clients unable to evidence this by the end of 2025. As part of our Powering Past Coal Alliance (PPCA) commitments this means that we will aim to exit any entities with a revenue greater than 20 per cent from thermal coal generation by end 2023 and exit any remaining client which operates thermal coal facilities outside the UK by 2030.

Thermal coal

We recognise the urgent need for the global transition away from thermal coal to renewable energy sources. It is clear that keeping the Paris Agreement alive means that use of unabated coal power must be phased out.

The UK government's definition of 'unabated coal' power generation refers to when technologies, such as carbon capture and storage, which can mitigate emissions from coal, are not in use. In November 2021, we joined the Powering Past Coal Alliance (PPCA), a coalition of national and sub-national governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.

Full exit

by 2030 from all diversified energy entities that generate energy from thermal coal and diversified mining entities that operate thermal coal facilities



See **page 144** for details of this system

Energy transition – Thermal coal

Target

- Full exit of thermal coal power in the UK by 2023
- Full exit from all diversified energy entities that generate energy from thermal coal globally by the end of 2030
- Full exit from all diversified mining entities that operate thermal coal facilities globally by 2030

Implementation strategy

In 2023, we successfully met our target of a full exit of thermal coal power in the UK by the end of the year and no longer provide direct lending to clients that operate UK coal-fired power stations. This demonstrates good progress towards our target of exiting all diversified energy entities that generate energy from thermal coal by the end of 2030.

To aid achievement of our remaining targets, we will no longer finance entities that do not have a commitment to phase-out all remaining thermal coal mining and thermal coal generation by 2030.

We may provide finance to entities towards reducing their thermal coal portfolio (including decommissioning facilities or retrofitting of existing facilities to help them transition away from thermal coal), in line with our 2030 phase-out timelines noted above. However, we will not directly finance retrofit activities that prolong the life of existing thermal coal facilities.

We will continue to prioritise renewable energy alternatives over traditional, carbon intensive methods.

Additional restrictions on thermal coal financing are outlined in our external sector statements, which are available on [our download centre](#).



Risk management and scenario analysis

We continue to develop our capability for managing risks related to climate change, as well as broadening consideration to wider ESG risks. This is supported by scenario analysis to assess the potential impact of these risks and inform our risk management approach.

The main focus for our risk management activity continues to be embedding consideration of climate-related risks. This aims to develop our understanding across the Group, as well as drive policies, insights and analysis to help suitably manage the key climate-related risks we face.

While we consider some wider ESG risks in our current practices, this will continue to evolve. We will develop our approach for incorporating other ESG risks beyond climate into our risk management framework further in 2024.

Embedding climate risk

Climate risk is considered as a principal risk within our Enterprise Risk Management Framework. However, the impacts of climate risk are wider than this and can be considered as cross-cutting across other principal risks. Therefore, we continue to integrate consideration of climate risk across our business activities.

The following sections focus on how consideration of climate risk, alongside certain ESG risks, is integrated into our framework. Our approach is informed by quantitative scenario analysis to identify the potential impacts on the Group, before incorporating appropriate climate and ESG factors into our risk management processes.

Further information regarding the identification, measurement and management of climate risk, together with examples of cross-cutting impacts, can be found within the risk management section of our [annual report and accounts 2023](#).



Climate scenario analysis

Scenario analysis is a process for identifying and assessing the potential implications of a range of plausible future states under conditions of uncertainty. This provides a way for organisations to consider how the future might look if certain trends continue or certain conditions are met.

The future is uncertain, climate scenario analysis is important to the Group as it provides us with a view of potential outcomes that could result from this uncertainty, driving alternative views and insights to inform how we manage the main risks.

Scenario pathways

Climate scenarios provide a starting point to explore economic impacts and financial risks arising from climate change. Scenarios are characterised by their overall levels of physical and transition risks. Each scenario explores a different set of assumptions about how climate policy, technology, emissions and temperatures evolve.

We consider a range of forward-looking climate projections and methodologies, including:

- Shared Socioeconomic Pathways (SSPs) – projected socioeconomic global changes up to 2100, as defined in the IPCC Sixth Assessment Report on climate change in 2021. They are used to derive greenhouse gas emissions scenarios with different climate policies
- Representative Concentration Pathways (RCPs) – four pathways of greenhouse gas (GHG) emissions and atmospheric concentrations, air pollutant emissions and land use covering a stringent mitigation scenario, two intermediate scenarios and one scenario with very high emissions

Scottish Widows’ modelling approach

As an example, our approach to assessing the impact on our assets in Scottish Widows comprises four steps:

1. To choose our combinations of SSP and global warming scenario.
2. To partition our investment portfolio into cells by sector and region.
3. To project the behaviour of each cell under the degree of transition risk designed to achieve our chosen degree of global warming: the greater the transition, the less the global warming.
4. To overlay the impact of physical risk arising from global warming on our sector-region partition.

While climate science itself is very well developed, any analysis of the economic and financial impacts of climate risk involves a measure of subjectivity and simplification, so there is a relatively wide margin of uncertainty in these impacts. This type of modelling is therefore only one of several components of our climate risk management process and is not acted upon in isolation.



We have chosen to use scenarios covering the orderly transition, divergent and hothouse scenarios, where modelling is most advanced:

- **Orderly:** The socioeconomic context is of global cooperation and high technological growth (SSP1 or NGFS net zero 2050). This is combined with actions that reduce carbon emissions to limit the increase in surface temperature to below 2.0°C at 2100 compared to pre-industrial levels. We consider this scenario because we believe that it provides the socioeconomic context that is most conducive to achieving an orderly transition
- **Divergent:** This is a disorderly scenario with more divergent global actions. Social, economic and technological trends do not shift markedly from historical patterns, so development and income growth proceed unevenly (SSP2 or NGFS divergent net zero) following a ‘middle of the road’ pathway. This is combined with actions that reduce carbon emissions to limit the increase in surface temperature to below 2.0°C at 2100 compared to pre-industrial levels. Although this scenario is not the most conducive to achieving a transition, we believe we should consider the transition in this context because it has been constructed from observed historical patterns
- **Hothouse:** The socioeconomic context is of regional rivalries and low technological development (SSP3 or NGFS Current Policies). This is combined with increasing carbon emissions and an increase in surface temperature of 4.3°C at 2100 compared to pre-industrial levels. We consider this scenario because it gives us insight into a world where we take little or no action to limit climate change

Summary

A wide range of scenario analyses is used to provide insights to aid our understanding of climate risk and support our decisions, as outlined in the following pages.

The key conclusions from the scenarios we have modelled are:

- It is in society’s long-term interests to have an orderly transition to a low-carbon economy
- Our business strategy remains resilient

Risk management and scenario analysis continued

Commercial Banking climate scenario analysis

Due to the inherent uncertainty in climate modelling, we continue with a 'build and subscribe' strategy. Comparing the outputs from our internally-developed models with those from third-party vendors helps better understand the limitations of various approaches and interpret the results.

We continue to subscribe to the McKinsey Planetrics solution and have analysed the results further in 2023. This has helped us assess and understand the resilience of our Commercial Banking lending portfolio, and helped inform how we will embed climate scenario analysis within our credit risk management framework.

The Planetrics solution provides counterparty modelling covering transition and physical risks in the NGFS scenarios, which we use in two main ways: firm-level insight for our clients within the Planetrics modelled universe, and sector-level analysis to provide external benchmarks against which we can compare the relative risks of our own portfolio.

We have created a dashboard of the Planetrics results to support with climate risk analysis in our credit risk management processes and other risk quantification processes. Our Bank ESG credit risk team have begun reviewing these results in a risk identification and analysis exercise, to help inform whether any mitigating actions may be needed at a portfolio/sector level or at an individual name level. This analysis will continue in 2024 as we review appropriate ways to embed quantified climate risk analysis within our credit policy and appetite framework.

The chart opposite demonstrates some of the insights we can glean from the Planetrics solution, based on firms modelled by Planetrics in North America or Europe. The estimated financial impacts from physical and transition risk are modelled for each entity. The relative difference between this climate estimate and a baseline provides an indicative foresight view of discounted cash flow, and hence net present value (NPV) of the firm from present day to 2050. Firm-level climate transition plan (CTP) effects have not been included. These firm-level NPV differences are aggregated to provide an external benchmark view of each sector rather than being specific to the Group's portfolio.

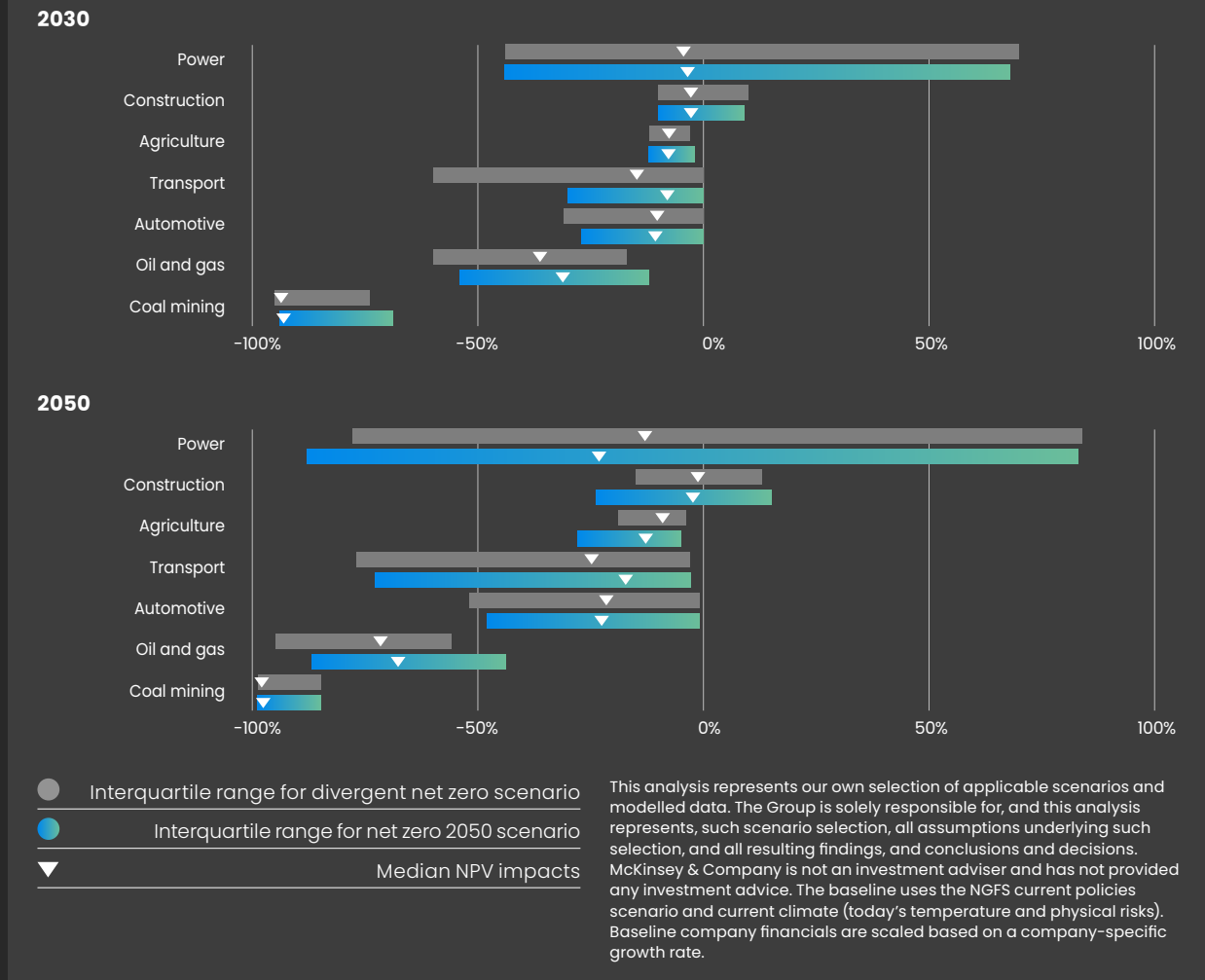
We also continue to develop internal models to explore the potential counterparty-level transition risk effects for our Commercial Banking clients in a climate scenario, with initial focus also on NGFS scenarios.

We are comparing multiple sets of modelled outputs to better understand the limitations of various approaches and interpret the results. This spans the Planetrics solution and internally developed transition risk models, plus wider activities such as the Scottish Widows approach described on the previous page and our submissions to the Bank of England's Climate Biennial Exploratory Scenario (CBES) in 2021.

Next steps

- Implement internally-developed model in strategic infrastructure and feed into dashboard
- Continue collating and assessing client CTPs, and applying them to our in-house modelling
- Physical risk modelling investigation

2030 and 2050 viewpoints of interquartile and median NPV Impacts by sector for the NGFS phase 3 net zero 2050 and divergent net zero scenarios



These two timepoints and phase 3 NGFS (Network For Greening The Financial System) scenarios were chosen to demonstrate how transition risks can evolve at different rates (e.g. transport) and for most sectors the variability in results widens as the scenario unfolds. The power sector shows the greatest variability in all cases since other sectors will increase their energy demands as they transition away from fossil fuels and therefore there are large opportunities for suppliers who have already invested in renewable sources.

It should be noted that NGFS phase 4 scenarios were released in November 2023, which no longer include the divergent net zero scenario due to the reduced likelihood of a successful uncoordinated transition. We will be looking to explore the new 'Fragmented World' instead, which is the 'too little, too late' outcome we are striving to avoid but need to understand the potential consequences of it.

Risk management and scenario analysis continued

Retail scenario analysis

The main focus for scenario analysis for our consumer lending has been understanding the flood risks associated with our UK homes portfolio.

We continue to work closely between our UK homes and general insurance portfolios to determine a suitable approach for measuring physical risks in both areas. We have actively trialled different vendor solutions and hazards in order to compare these for directional alignment and sharing insights. There is also strong collaboration between the specialist weather modelling team in Scottish Widows and our central climate risk function to review and understand hazard model impacts.

For our UK homes portfolio we have invested in further understanding the modelling methodologies and limitations involved for three hazards: flood (tidal, riverine and surface water – available separately and combined), coastal erosion and subsidence. We have also developed our own prototype modelling framework for quantifying the potential affordability and property valuation impacts to our residential real estate (RRE) portfolio due to both physical and transition risks across a range of climate scenarios.

Climate change information is now ingested as part of the mortgage application journey, covering future risks from flooding, coastal erosion and subsidence. Credit risk are working closely with the central climate risk function to understand how to consume and use the data to support decision-making given the potential impact on future affordability and property valuation. It is essential to understand how to interpret the scores and how to communicate this in a meaningful way to enable customers to make informed choices. Alongside the data, we recognise the importance of ongoing flood defence maintenance, initiatives such as Flood Re and proper enforcement of flood resilience measures embedded in the planning framework that will go a long way to maintain certainty of climate outcomes.

The physical risk data we receive from Twinn (a company of Royal Haskoning DHV) and Rightmove is at property level, under a range of emissions scenarios and with or without the presence of flood defence or shoreline management plans. We continue to receive and review this data for our existing portfolio. The inbound impact of climate risk is observed primarily through the devaluation of properties due to either physical or transition risk. The integration of climate risk into credit decisioning allows the Group to determine the adequacy of mitigation/required abatement.

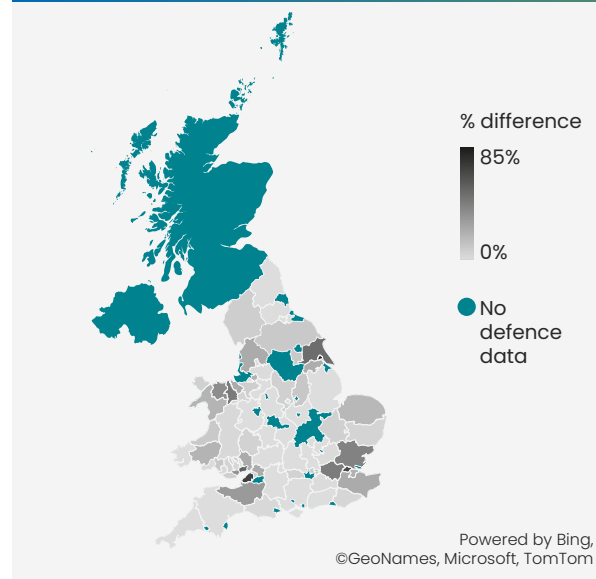
One of the data items available from Twinn is the Climate Combined Flood Risk Score, where the risk is ranked from 0 to 100, with 0 being the lowest and 100 being the highest risk. The score is influenced by both the estimated frequency and severity of flood events, and any property with a score of 1 or higher is at risk from the various types of flooding but with increasing likelihood of suffering damages. This score is projected at five-year intervals until the end of the century, across a range of emission scenarios and with or without the presence of currently known flood defences.

The map assumes our September 2023 mortgage portfolio is held static until 2035 in a delayed transition emissions scenario (RCP4.5). It shows the difference between defended and undefended combined flood scores for properties in England and Wales, with greater differences being a darker shade. This shows the regions where current flood defences (where known) are providing the greatest protection.

It should be noted that:

- The 2035 timepoint was selected since existing flood defences are largely still providing protection. A later (e.g. end of century) view would show negligible differences between defended and undefended flood scores, since almost all existing flood defences would be breached by then (assuming no further enhancements or modifications)
- Given the short projection window, the RCP selection is not influential on the overall result and so the example uses a central, delayed transition scenario
- Northern Ireland flood scores exist, we are liaising with Twinn and Rightmove to source them
- The Scottish Environment Protection Agency (SEPA) flood maps cannot be used for commercial purposes, and therefore we only have undefended flood risk views
- There are also certain regions in England where little or no flood defence data is available from local authorities

Difference in combined flood score (defended vs undefended) RCP4.5 2035



Volume weighted proportions of UK residential property stock* and Group's mortgage portfolio* within 1km of coast with erosion risk rating > 0 by 2095 in RCP8.5, with and without shoreline management plan effects¹

	UK excl. NI	Group excl. NI
Shoreline management plan	0.57%	0.39%
No active intervention	5.72%	3.59%

¹ Excluding Northern Ireland properties across both populations, as shown by asterisks, since erosion scores are not available for this region.

Without such flood defence data, we risk overstating the true risk of flood frequency and/or severity and therefore potentially making adverse decisions based on these modelled outputs. There is a need for greater availability and clarity of plans from local authorities for existing and planned flood defences.

For the table (lower left), we have liaised with both Rightmove and Twinn to refine and benchmark our metrics for exposure to coastal erosion. In this example, we have held our September 2023 portfolio static and selected an end of century view in a hothouse scenario (RCP8.5) as a worst-case stress. The Group population involved is now limited to properties within 1km of the coast rather than the whole portfolio, and we now also have a total UK (excluding Northern Ireland) benchmark for comparison.

The table demonstrates the importance of shoreline management plans, as they reduce the risk in this worst case example by an order of magnitude. The benchmarking also demonstrates we currently have a slightly lower than average exposure, which we can continue to monitor for both portfolio and new applications.

We have upgraded the subsidence data to include climate projections for multiple emissions scenarios and substantially greater granularity for present day risk. We continue to liaise with Twinn and the British Geological Society on the appropriate interpretation and usage of it.

Next steps

We are currently implementing and calibrating an internally developed Residential Real Estate Climate Impact Model, ahead of planned usage in 2024. This is a portfolio stress-testing model, which quantifies the impact of physical and transition risks for our UK mortgages portfolio via the following mechanisms:

- Customer affordability impacts due to paying for retrofitting actions, potential increased energy costs, or risk-based changes to insurance premia
- Property valuation impacts due to increased risk of flooding, coastal erosion and or subsidence or ability to undertake retrofit actions
- Insurance availability impacts due to systemic changes in how the insurance market assess risk

This methodology requires various high-level assumptions. As such, it won't be suitable for direct usage in customer application decisions, though we will seek to understand which elements can be considered.

Risk management and scenario analysis continued

General insurance scenario analysis

Climate change may alter the frequency, severity and location of weather risks that our UK general insurance portfolio is exposed to.

The change in weather risks could affect the cost of damage resulting from weather events which could have a subsequent impact on:

- Underwriting risk appetite, i.e. the type and location of properties that are insured
- Product design. Product design may need to be considered, for example, differentiating customer excess by weather risk type, or certain risks may not be covered for a policy in a particular area. Developments in residential housing, for example more modern methods of construction or use of heat pumps, may also require updates or innovation to the insurance products offered
- Insurance premiums. Increasing cost of damage may need to be passed on to customers through higher premiums
- Reinsurance. The cost of reinsurance could increase, reflecting the increased cost of damage. The availability of reinsurance could also be affected by increased frequency and severity of worldwide weather risks

We have used three illustrative scenarios (orderly, divergent and hothouse as described in **page 151**) to better understand the potential physical risks that could affect residential home insurance cost of damage under different climate scenarios and across different weather risk types.

The potential cost of damage for the most material weather risks has been estimated for future years up to 2100. The weather risks included in the scenario analysis are windstorm, inland flood, coastal flood, freeze and subsidence. Lower materiality and emerging risks are regularly assessed but are not discussed further in this report.

The analysis presented is based on risk levels as at 31 December 2021 and assumes no changes in the extent of flood defences over time.

The table indicates the change in magnitude of the average annual cost of damage (AAD) for a range of scenarios as at 2100.

Weather risk assessment

The red/amber/green status indicates the severity of change for the weather risks in each scenario where red indicates the largest change in risk. Note the change in freeze is a reduction, with increasing temperatures.

Weather risk	Orderly	Divergent	Hothouse
Windstorm	Green	Green	Green
Flood	Amber	Amber	Red
Freeze	Amber	Amber	Red
Subsidence	Green	Green	Red

Even in the orderly and divergent scenarios, where increases in the surface temperatures have stabilised by 2100, sea levels could continue to rise increasing the risk from coastal flood.

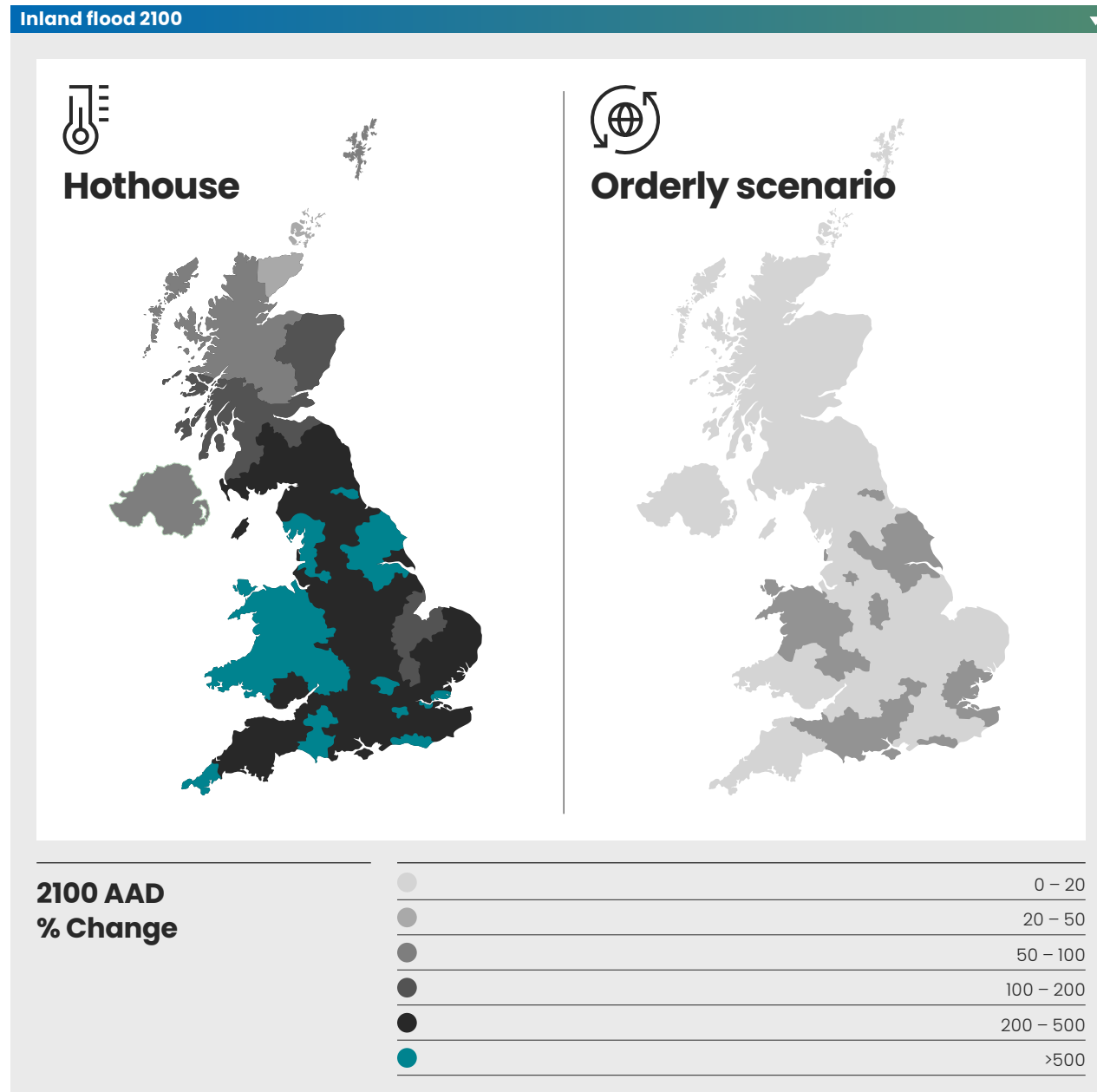


Risk management and scenario analysis continued

The largest increase in physical risk is seen in the hothouse scenario, as the cost of damage is expected to increase with warmer global mean temperatures.

- Large increases in the cost of damage are seen for flood, both inland flood and coastal flood risk. The main driver of this increase is that warmer air can hold more moisture, increasing the level of precipitation. Combined with rising sea levels, the level of flood risk increases considerably. Even in the orderly and divergent scenarios, where increases in the surface temperatures have stabilised by 2100, sea levels could continue to rise increasing the risk from coastal flood. There is significant regional variability in flooding impacts and it should be noted that the majority of properties are not materially impacted by flood risk
- Subsidence risk is expected to increase, in particular in the south-east of the UK due to hotter, drier summers leading to more ground movement in the heavy, chalky soils
- The cost of damage from windstorm risk is not projected to materially change, however, the modelling of future windstorm risk contains a high degree of uncertainty, in particular windstorm activity in the North Atlantic which influences UK weather
- The projected increase in temperatures is expected to result in warmer winters on average, reducing the potential cost of damage from freeze risk. The prevalence of the weather events that drive UK freeze risk is also projected to decrease. However, the increase in temperature does not remove the risk of significant freeze events affecting the UK in future, even in the hothouse scenario in 2100

The extent of future changes in weather risks is highly uncertain and is dependent on several factors including environmental conditions and the actions of policy makers.



¹ Flood Re is a joint initiative between the government and insurers. Its aim is to make the flood cover part of household insurance policies more affordable.

Flood risk

The most significant changes are seen in respect of inland flood. The maps show the potential projected change for inland flood in both the orderly and hothouse scenarios as at 2100. The maps show, at a high level, the regional variability in changes in flood risk. Data in the maps represents the Lloyds Banking Group GI portfolio.

The analysis can be used to inform future changes to underwriting risk appetite and indicate how the price of risks may change in future.

The outputs from the flood modelling are used to create a relative view of risk across the geographic domain of the home insurance book. We assign properties risk bands to reflect the level of potential flood risk, with higher bands representing a higher risk of flooding. We can use this banding to inform customer premiums and manage our exposure in high-risk areas. Increasing the proportion of our portfolio in higher-risk bands could lead to significant increases in cost of damage in the event of increasing severe flood events. In the shorter term, the increase in flood risk would likely result in greater use of the Flood Re scheme¹. Increased flood risk would also require us to prepare for more intensive claims handling, regardless of whether risk is ceded to Flood Re.

The increased risk of flooding is likely to be concentrated in a relatively small proportion of UK residential properties. The impact of flood risk can be partially mitigated by home improvements to make properties more resilient to flood, for example by raising electrics, installing hard flooring or flood doors.

Internationally, government actions that restrict or reduce future emissions are likely to reduce the physical risk that residential properties are exposed to, which would consequently moderate the cost of damage to properties.

Investment in flood defences along rivers and coastal defences, along with improved urban drainage systems could help to mitigate some of the increased risk from flooding.

Continuing the Flood Re scheme beyond the current end date of 2039 would allow properties at high risk of flooding to continue to gain access to affordable insurance, particularly under scenarios where the increase in risk of flooding is high.

Improving building standards could also increase the resilience of residential properties to heightened physical risk.

In summary, flood risk is likely to lead to the most material changes in risk to residential properties within the UK in the scenarios considered.

ESG credit risk management

ESG credit risk integration

We continue to enhance our capabilities to identify, evaluate, and effectively manage ESG-related risks. Our approach is centred around the concept of 'double materiality', allowing us to assess both the inbound risks affecting our balance sheet and the outbound risks of our balance sheet on society and the planet see [page 9](#) for further details.

Throughout 2023 we have further integrated environmental, social and governance (ESG) considerations into our credit process, taking account of new challenges and opportunities. We have further embedded climate change-related considerations across our appetite and policy frameworks for our consumer and commercial businesses, including quantifying potential impacts through scenario analysis.

Our risk appetite for managing climate risk is outlined in our external sector statements which are publicly available on [our download centre](#).

The external sector statements outline what types of activities we will and will not support and are reflected in our credit risk management framework where we have internal policies and controls in place.

ESG has been integrated into the bank's credit authority delegation framework in order to ensure these risks are appropriately assessed. This includes understanding materiality and the impact of decisions on portfolios.

Throughout 2023 we have continued to make progress in embedding ESG risk management into our credit processes. Highlights of the enhancements we have made can be found on the following page.

ESG credit risk taxonomy

During 2023, we have developed a new ESG credit risk taxonomy which outlines the most material ESG risks for the Bank, based on our balance sheet and business strategy. Some of these risks are: nature and ecological impacts, community relations, customer privacy and data security.

Insights from the new ESG credit risk taxonomy will be used to enhance our ESG credit risk management process and assessments throughout 2024. This will include the enhancement of our environmental assessments and processes to incorporate additional nature-related considerations.

ESG colleague training and development

We remain focused on uplifting our colleagues knowledge of ESG risks and opportunities to ensure they are fully embedded across our people and our organisation.

During 2023 the risk function has created a programme and developed a number of specific ESG training modules for both credit colleagues and relationship managers to drive the embedding of ESG risk assessment and management within the credit process. This programme has supported colleagues in understanding the commitments the Group has made in transitioning to net zero, our external sector statements and the ESG risk considerations and requirements as a component of the credit assessment process.

During 2024 we will continue to produce training modules to support and develop our colleagues, ensuring they are kept up-to-date on evolving ESG risks.

ESG Credit Risk Integration

The following areas remain a key priority for our environmental, social and governance credit integration strategy:

1. ESG credit risk framework and policies
2. Portfolio management
3. Case management
4. Scenario analysis

These priority areas will further strengthen our ESG risk management at both portfolio level and for individually managed exposures.

ESG credit integration strategy



ESG credit risk framework and policies

Focus areas

- Embedding of ESG credit risk policy and framework
- Ongoing colleague training and development
- Development and evolution of our approach to financing transition technologies



Portfolio management

Focus areas

- Embed ESG strategy and incorporate relevant data within risk management reporting and relevant credit governance forums
- Refining our internal tools and capabilities for assessing and managing ESG risks



Case management

Focus areas

- Enhance counterparty-level ESG risk assessments
- Evolve our inbound risk case management process
- Evolve our outbound risk case management process

Scenario analysis

Focus areas

- Integration of climate insights into credit decision-making process




More detail on progress made in areas noted above can be found on the following pages.

Risk management and scenario analysis continued

ESG credit risk framework and policies

2023 has seen positive enhancements of our ESG credit risk policy framework. We have reviewed our framework and policy landscape and consolidated the reputational, environmental and climate requirements of our policies ensuring they deliver a robust set of requirements to allow the Group to appropriately assess and manage the ESG risk within our portfolios.

This has resulted in the rollout of three business unit-specific policies covering our inbound and outbound risk assessment requirements. 2024 will see these evolve in line with our new credit risk taxonomy and provide clear requirements to further enhance our control framework and embedding of ESG risk assessment practices within the credit process.

ESG policy landscape	
 <p>Business unit specific ESG policies</p>	<ul style="list-style-type: none"> Launched business unit-specific ESG policies, ensuring that ESG Risk Management practices are consistent and appropriate to the business unit including relevant portfolio and counterparty-level requirements
 <p>Transition technologies mandate</p>	<ul style="list-style-type: none"> New Mid Corporate and SME transition technologies mandate detailing risk appetite, and providing clear, concise guidance on how we assess these emerging technologies and help accelerate the transition
 <p>Portfolio mandate</p>	<ul style="list-style-type: none"> New portfolio mandates defining our participation in key sectors, systematically embedding ESG risk and opportunities analysis into strategy and appetite setting

Commercial

Portfolio management

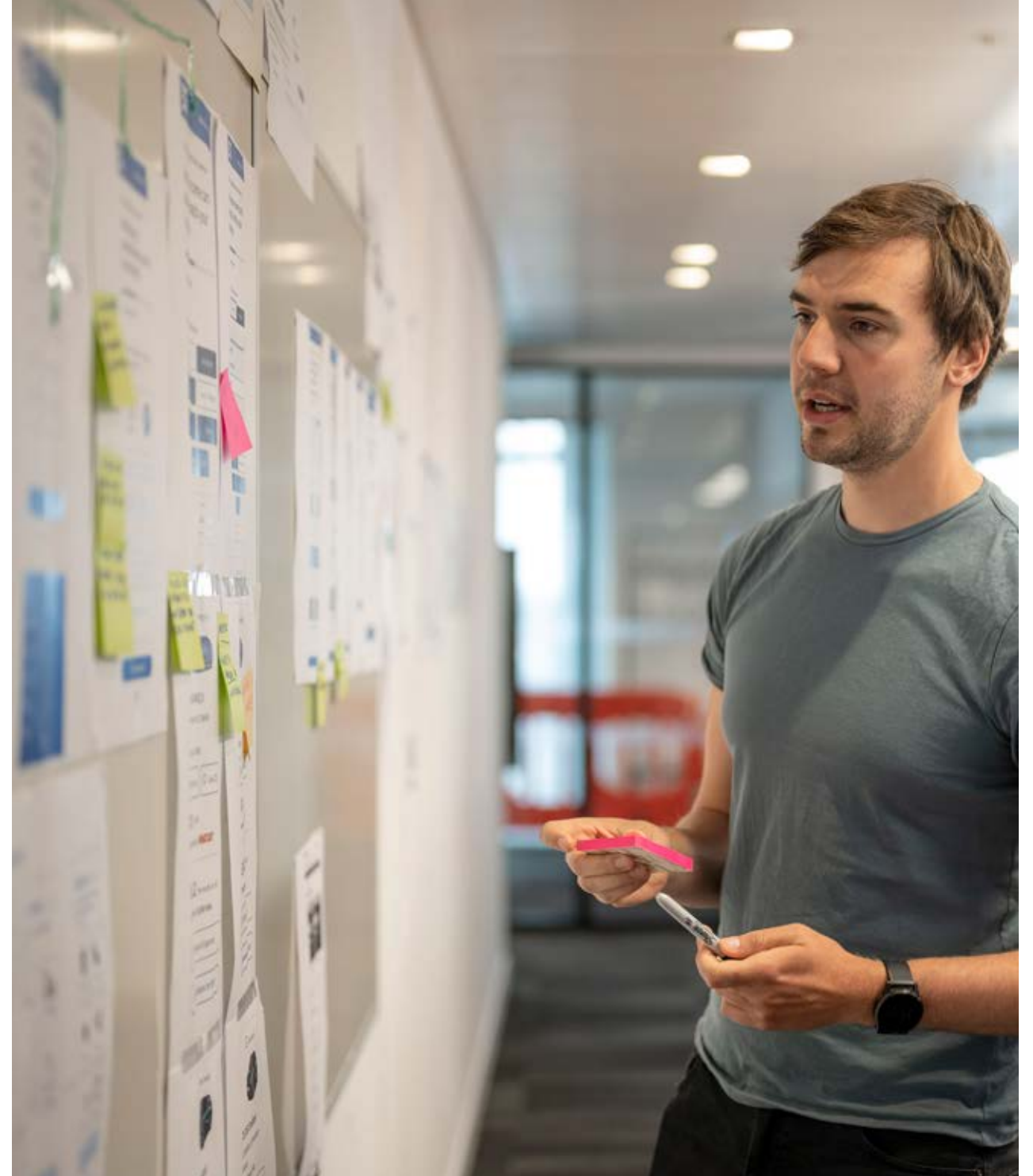
Commercial credit risk policy requires a company's sustainability-related risks to be assessed. This includes the potential physical and transition risks that the business and its supply chain may be exposed to, and the risk of assets becoming stranded.

We ensure that ESG-related risks are considered for all commercial lending customers that bank with us, with specific commentary in new and renewal credit applications where total aggregated hard limits exceed £500,000 (excluding automated decisioning processes for smaller counterparties). This commentary including any supporting factors and mitigants is documented within the credit application to support the credit officer in making their decision, ensuring the relevant ESG factors are considered.

We have integrated climate risk considerations into various aspects of our commercial credit risk portfolio activity. Transition risk and physical risk impacts are considered as part our industry sector risk monitoring. This sector risk monitoring is used to assess the performance and outlook across industry sectors and can drive actions in response to emerging risks (e.g. credit appetite changes).

Where elevated climate risks are observed for a particular industry sector (e.g. a forthcoming regulatory change), this would increase the risk driver and could lead to an increase in the overall sector risk, and trigger mitigating actions.

Sector ratings are updated and reviewed on a monthly basis, and are reported within our commercial credit risk governance forum for visibility to senior decision-makers.



Risk management and scenario analysis continued

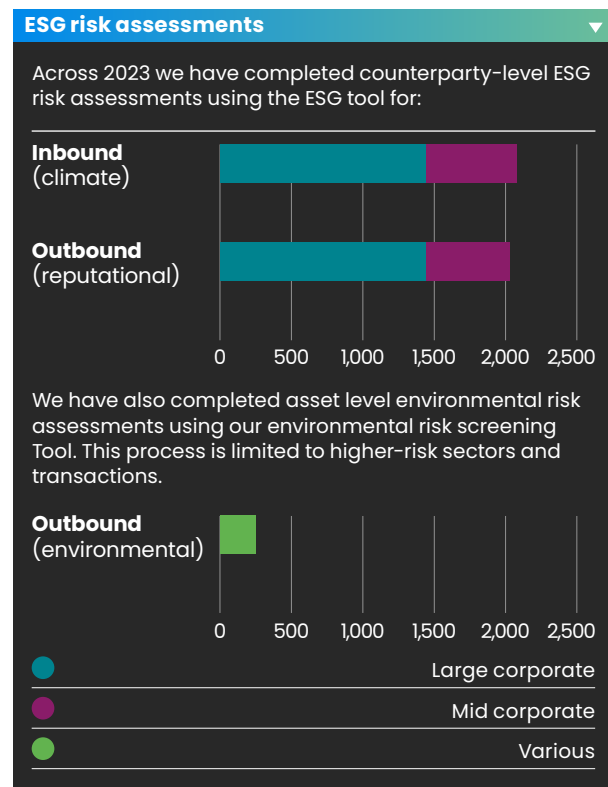
Case management

Our ESG risk management process continues to evolve and add value to the existing credit assessment process through our ESG tool which is a qualitative assessment of both Inbound (climate) and Outbound (reputational and environmental) risks for high risk exposures within our Commercial Banking portfolio.

Where areas of concern are identified, we will engage with the client or take mitigating actions to ensure the lending remains within risk appetite and in line with our external commitments.

Requirements for case management processes to be followed are regularly reviewed and are set based on business unit, sector and overall materiality.

The chart below outlines the number of cases assessed across 2023 through our case management processes.



Expansion of assessments to Mid Corporate

During 2023, we expanded the scope of our inbound and outbound assessments using the ESG tool to include further requirements for Mid Corporate.

Expansion of assessments to SME

Supporting our SME clients is core to our purpose of Helping Britain Prosper. Throughout 2023 we have been developing a bespoke climate risk assessment for our SME clients within our commercial and residential real estate and agricultural sectors. The launch of these assessments further supports our relationship managers to have better quality conversations with their clients and to better understand their transition journey and how we can support them further. These assessments are scheduled to be launched in March 2024 to support our NZBA targets for these sectors.

Inbound case management

We have a specialist team in the credit risk function who are responsible for evaluating the climate risks associated with Commercial Banking clients, and project finance transactions.

- These reviews are conducted for clients/projects in higher-risk industry sectors when we are evaluating new transactions and the annual renewal of existing credit facilities. This analysis considers: the transition risk associated with the client or transaction; a detailed evaluation of the client's transition strategy; adherence with internal de-carbonisation targets and net zero strategy; and an assessment of the potential physical risk associated with the client/transaction. The recommendations and outcomes of these reviews form an important part of the credit assessment and will be used by the credit officer to support decision-making
- In 2023 the Group has developed an advanced framework for assessing the credibility of client transition plans. Referencing external standards such as the Transition Plan Taskforce (TPT) and utilising different climate-related data (e.g. emissions trends) we have developed a robust assessment framework. We have prioritised our higher-emitting and material exposure clients within the commercial bank for engagement with 36 reviews completed by the end of 2023. We will expand this activity through 2024 to cover our top 100 emitting clients, and we will embed the outcomes of the CTP assessments into our risk-decisioning processes



Outbound case management

Outbound risks are assessed at a counterparty and transactional level where appropriate and follow two formal processes which are to consider reputational and environmental Risks. These processes are covered in more detail below. In 2024, we plan to enhance the outbound risk assessments to incorporate nature-related considerations.

- The reputational risk process defines a formal approach for identifying and monitoring outbound and reputational risks and is completed at initial lending request and at the client's annual review, including trigger-initiated reviews. The review considers both current and historic concerns such as potential ESG risks and incidents including adverse media. The outcome of the review will drive the level of approval required and any associated conditions
- As ESG risks continue to evolve, we update our assessments and question banks and have included greenwashing risk as an additional consideration throughout 2023
- As we continually seek to enhance our control framework and processes in relation to our external sector statements, we have formally incorporated this as a factor within our reputational risk assessment process. This

- requires the relationship managers to consider and attest that our clients are in adherence with our external sector statements, with second line oversight provided by credit officers and our specialist ESG teams where appropriate
- Environmental risk must be assessed at origination and monitored on an ongoing basis throughout the customer lifecycle, including at specific trigger points. Our assessments are risk based and focus on higher-risk sectors and transactions. All cases that are identified as a higher risk are subject to further review, and where specific or material environmental risks or concerns are identified, these may be referred to environmental risk consultants for an opinion on the adequacy of the mitigants in place or recommendations on managing the environmental risk. The key findings from such due diligence are factored into credit applications and will be considered as part of the credit decisioning process
- We continue to be a signatory to the Equator Principles, which is a risk management framework for managing environmental and social risks in project finance transactions, such as large-scale energy, industrial or infrastructure projects. It aims to ensure that such deals, where the Group provides finance or advice, meet minimum standards for due diligence and monitoring in keeping with responsible finance principles

Risk management and scenario analysis continued

Retail

Homes

As the UK's largest mortgage lender we continue to develop our scenario analysis capability to understand the potential impacts of climate risk on our customers' affordability and increased need for lending to inform our credit risk strategy.

Climate risk is primarily managed through the integration of third-party climate risk data at the point of acquisition. EPC controls are in place for buy-to-let properties, with exposure to physical risks (such as flooding) managed within the mortgage origination criteria/property valuation process. Where a property is uninsurable we will not lend.

Our considered approach to risk management reflects ongoing challenges in climate policy, data and models, and an ongoing need to work closely with government and agencies such as Flood Re to mitigate the risks around flood resilience.

Retail motor

We have a measured approach to the adoption of EVs, reflecting the rapid and continued development of EV technology and changing consumer demand. This ensures the pace and quality of growth is understood and regularly reviewed, keeping inbound risks (transition risk impacts on residual value risk) within appetite, considering mitigation where appropriate, while continuing to offer support to the transition from internal combustion engines to electric vehicles.

For any new partnerships, retail motor leverage the commercial counterparty-level ESG risk assessment tool undertaking both inbound (climate) and outbound (reputational) risk assessments for large corporate businesses. This ensures a consistent approach to our large corporate counterparties across Commercial Banking and Retail.

General insurance

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 on 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 for 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 inland flood, coastal flood 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 a regular review of available research and models on climate change.

Key metrics

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 windstorm damage. Climate scientists predict that the frequency and severity of flooding could increase in coming years.

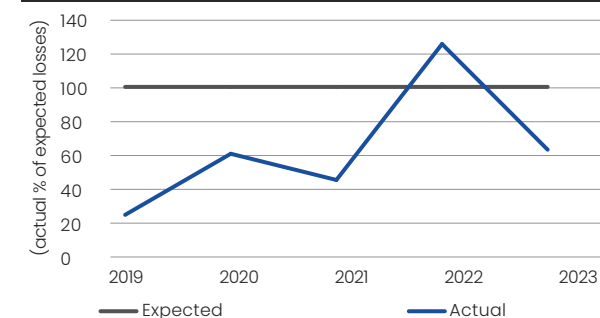
For example, sea level in the UK could rise by up to one metre by the end of the century. This size of increase would likely affect the frequency and severity of our claims experience. Being able to identify and monitor trends in the increased physical risks, through a variety of metrics, is therefore 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 to reflect the level of potential flood risk, with higher bands representing a higher risk of flooding. We can use this banding to manage our exposure in high-risk areas. Increasing the proportion of our portfolio in higher-risk bands could lead to significant increases in losses in the event of increasing severe events.

Percentage of insured properties which are in higher risk flood bands as at:

Sector	Dec 2023	Dec 2022	Dec 2021
Inland flood	2.7%	2.7%	2.7%
Coastal flood	0.5%	0.6%	0.6%

Severe weather losses



In addition, we monitor actual weather-related losses against expected weather losses. The graph above shows actual versus expected average annual loss on a net of reinsurance basis and covers inland flood, wind, coastal flood and freeze. Actual weather losses performed better than expected from 2019 to 2021 and in 2023 due to relatively benign activity. However, due to the extreme cold weather in December 2022, in addition to small windstorm losses, actual weather losses for 2022 exceeded expected losses. The total cost of the December freeze event has increased from the estimate disclosed in the prior year. This is not unusual with large weather events due to the inherent uncertainty underlying the cost, especially for estimates made soon after the event, as it takes time for the estimate of cost to stabilise.

The expected weather losses is a long-term view, so there can be significant volatility depending on weather events.

Scottish Widows

This section details our approach to managing climate risk for our Scottish Widows branded products and offerings, as well as the shareholder investments held to back our insurance liabilities.

Entity and product-level disclosures required under the FCA's ESG Sourcebook will be published by June 2024.

Scottish Widows Group also underwrites the home insurance propositions for Lloyds Banking Group. Details of this can be found on **page 127** of this report.

Emissions referred to in this section refer to Scottish Widows' Scope 3 'financed emissions' which are calculated from the Scope 1 and 2 emissions generated from our investments or lending.



Our ambition

Our ambition is to align all our investments with the goals of the Paris Agreement by targeting net zero emissions, by 2050 or sooner (from a 2019 baseline). To support this, we have set ourselves the following targets and milestones.

2025

Invest between £20–25 billion in climate-aware investment strategies¹, with at least £1 billion invested into climate solutions investments¹

2030

Halve the carbon footprint² of our investment portfolios

2050

Net zero across the entirety of Scottish Widows investments



¹ Climate-aware investment strategies: We're working closely with our appointed investment managers 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. We will invest in climate solution investments either within these strategies or other funds. For more information on our calculation methodology for these targets please see sustainability metrics basis of reporting which is available at [our download centre](#).
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.

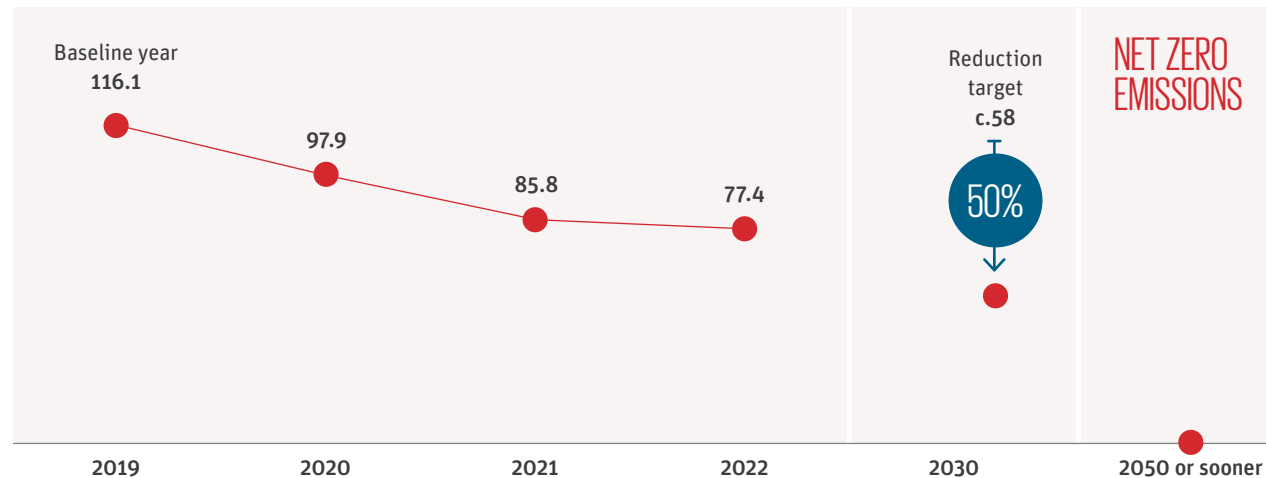
PENSIONS AND INVESTMENTS

Carbon emission reduction targets

By targeting a gradual reduction in overall emissions contained in our investment portfolios to net zero, we are engaging with companies we invest in directly, and via our investment management partners, to encourage them to embark on decarbonisation pathways of a scale and pace needed to meet the global warming objectives of the Paris Agreement.

The extent to which we can meet our 2030 and 2050 portfolio decarbonisation targets is influenced by the pace towards net zero of the wider economy. However, our investment decisions on asset allocation, company exclusions and shareholder engagement are consistent with the transition to net zero in the real economy.

Carbon footprint (tCO₂/£m)



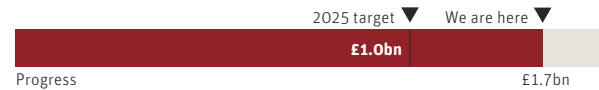
£21.7bn

achieved in discretionary investment in climate-aware strategies by the end of 2023



£1.7bn

achieved in discretionary investment in climate solutions by the end of 2023



Embark Group

The Embark Group, one of the UK's fastest-growing diversified financial services businesses, became part of Scottish Widows Group Limited in January 2022. With c.£35 billion¹ of assets under administration on its platform (of which the Embark Investments Authorised Corporate Director has responsibility for c.£575 million), representing the interests of over 380,000 individual clients, Embark is committed to developing its ESG policies to align, over time and where appropriate, with those of Scottish Widows in support of investors looking to make better-informed and responsible investment decisions.

The Embark leadership team recognises that the TCFD recommendations provide an important framework for stronger engagement on climate-related risks and opportunities with the management teams of companies represented in its investment solutions. There are additional ongoing efforts to providing financial advisers and customers who access the Embark platform with tools and information to foster greater awareness of where and how they can allocate capital to support investment in ways which represent their views on ESG matters.

Work is ongoing with Embark's leadership team on finding the right approach to integrate Embark investments into Scottish Widows overall portfolio plans and commitments.

As the carbon footprint is sensitive to market fluctuations in addition to the absolute value of emissions and our own investment activity, we expect to see short-term variation of the footprint and will be studying the medium-term trend from future reporting.

¹ Note this £35 billion does not form part of the net zero targets outlined in this report, due to this being entirely customer directed funds managed by third parties.

RISKS AND OPPORTUNITIES

Climate-related risks and opportunities over the short, medium and long term.

As part of Lloyds Banking Group, Scottish Widows Group approaches climate risk management in a consistent way to the overall Group. Details of the Lloyds Banking Group approach, including definitions, and examples of risks and opportunities that arise in relation to climate change can be found in pages 154 to 157 of the Group's [annual report and accounts 2023](#).

More detail on how Scottish Widows Group recognises climate risk is set out on **pages 171 to 173** of this report.

Identified risks

As identified in pages 154 to 157 of the [annual report and accounts 2023](#) and accounts climate risk manifests in two main categories: Physical Risk and Transition Risk, with the Group considering risks from the perspective of inbound risks, where the external environment affects the Group and outbound risks, the risks that the Group places on society.

In the context of Scottish Widows the main climate-related risks impacting insurance and annuities include:

Key commercial considerations of climate change in the context of demographic risk:

Mortality risk	Potential for people to die sooner than expected due to climate-related factors (e.g. temperature shocks and volatility or air pollution) resulting in increased life insurance claims.
Morbidity risk	Potential for people to become sick more often than expected or for longer than expected due to changes to climate (e.g. spread of vector borne disease, impact on resources or deteriorating air quality) resulting in increased critical illness and/or disability claims.
Longevity risk	Potential for reduced excess winter mortality due to warmer conditions, but conversely, increased heat-related deaths, resulting in some variation in the duration of annuity payments.

Physical risk may impact our business through:

Market and credit risk	The value of assets held by Scottish Widows will be affected by balance sheet performance of the underlying companies while government bonds values will be affected by economic performance. Damage and revenue disruption from extreme weather events could erode value on a short or long-term basis depending on the hazard type and the impact on the affected assets.
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Transition risk may impact our business through:

Market risk	Risk of loss of value of shareholder or customer assets due to poor, late or costly transition by the companies we invest in; there will be winners and losers during the transition with more significant impact on those companies deemed to be less valuable in the new economy.
Credit risk	Corporate customers who are in sectors specifically exposed to the transition will see potential disruption to business models, impacts from upward pressure on carbon-related costs and likely increased expenses as they try to adapt. This will lead to changes in their balance sheets that may ultimately increase the credit risk of lending to them.
Litigation or reputational risk	Risk from not delivering on public targets and commitments or clearly disclosing current position on climate or from poor management of customer/client exposures.
Regulatory risk	Risk from not meeting existing and upcoming climate-risk-driven regulatory requirements. New climate-related regulation may be costly to implement and lead to additional processes, data and resources; diverging regulation across jurisdictions may add risk.

The speed with which the wider economy transitions and the extent to which we align with this will affect the level of exposure we have to these risks. The time horizons during which these risks may manifest is uncertain. We have translated these risks into six overarching risks impacting our business, and more details are on **page 171**. We use continuous risk management and qualitative assessments to help consider the materiality of these risks to our business which helps to inform the controls that we have in place to monitor and manage the risks.

Identified opportunities

We believe that implementing our net-zero strategy and the other initiatives highlighted on **pages 164 to 165** provides an opportunity for us to play our part in contributing towards change in the real economy.

CLIMATE GOVERNANCE IN SCOTTISH WIDOWS

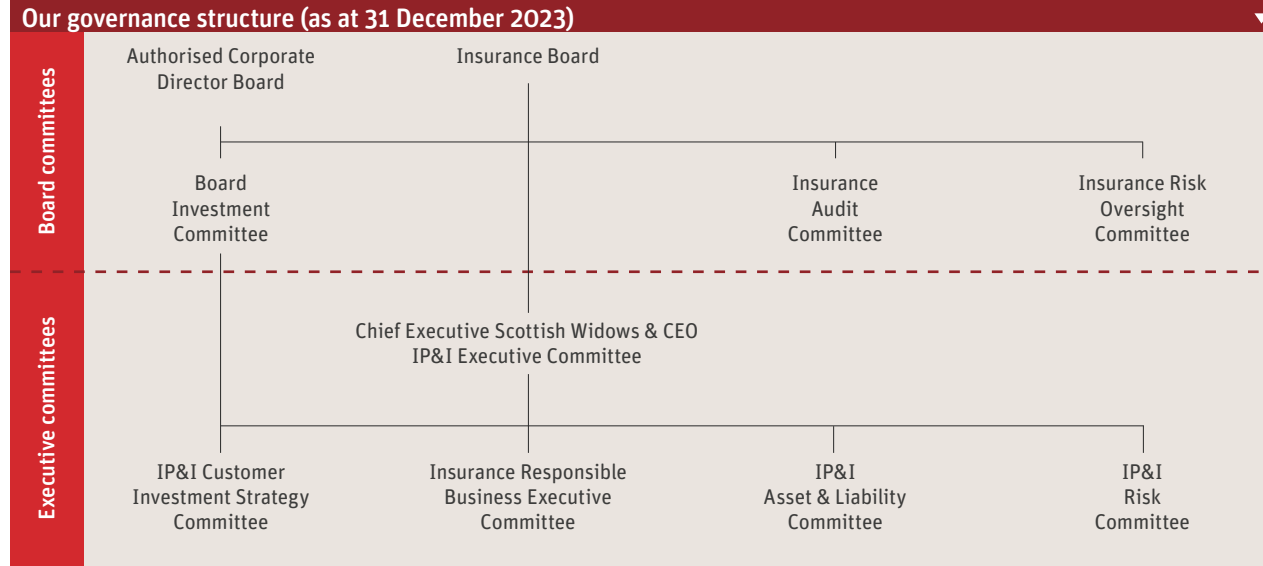
Governance for climate-related risks has been embedded into our existing governance structure, which is complementary to governance of the wider Lloyds Banking Group’s sustainability strategy, with key boards and committees meeting regularly in a calendar year.

The Insurance Board is the ultimate authorisation body for matters which concern the operation of Scottish Widows’ business. In 2023, the Insurance Board’s Sustainability Committee’s remit for sustainability and responsible investment was transitioned and embedded within the responsibilities of the Board and its other committees, including a newly established Insurance Board Investment Committee, following which the Insurance Sustainability Committee was decommissioned.

During 2024, we will continue to ensure sustainability is at the heart of governance and ESG is fully embedded across the committee structure and into all business-as-usual considerations. The Insurance Responsible Business Executive Committee remains in place.

Insurance Board

The Insurance Board has an overall responsibility to promote and assess the long-term sustainable success, safety, and soundness of the Insurance, Pensions and Investments (IP&I) business,



generating value for Lloyds Banking Group as ultimate shareholder, and to contribute to the wider society and engage actively in the affairs of the IP&I business. This includes a requirement to keep abreast of material changes in its business and the external environment, which includes climate-related issues, as well as acting in a timely manner to protect the long-term interests of the IP&I business. These responsibilities and certain matters reserved for the approval of the Insurance Board are set out in the ‘Schedule of Matters Reserved’, which is reviewed annually, and inform matters for consideration and discussion at Insurance Board meetings. The Insurance Board meets no less than eight times a year.

The Insurance Board also undertakes an annual review of each of its committees’ purpose and responsibilities (Terms of Reference) and is kept informed at each Board meeting of key matters, discussed via individual committee Chair Reports. The Insurance Board also ensures that its composition is sufficiently diverse in knowledge, skills, experience and background to effectively debate and take decisions informed by an awareness and understanding of climate-related threats and opportunities. The Insurance Board maintains regular exchanges and dialogues with peers, policymakers, investors and other stakeholders to encourage the sharing of methodologies and to stay informed about the latest climate-relevant risks and regulatory requirements.

As the stewards for long-term performance and resilience, the Insurance Board determines the most effective way to integrate climate considerations into its structure and committees. During 2023, the Board’s consideration of environmental matters and its management of climate risks was taken out of a bespoke Insurance Sustainability Committee and integrated within business as usual, following the establishment of the Board Investment Committee.

To support the Board, management assesses the materiality of climate-related risks and opportunities for the IP&I business on an ongoing basis and take actions that are proportionate to the materiality of climate to the IP&I business. Material climate-related risks, opportunities and strategic decisions are disclosed to all stakeholders – particularly to investors and, where required, regulators. Such disclosures are made, for instance, within filings, such as annual reports and accounts, and are subject to the same disclosure governance as financial reporting.

Responsible Business Executive Committee

The Insurance Responsible Business Executive Committee is responsible for the development and delivery of the ESG strategy for the Insurance Group (including stewardship activities across Scottish Widows’ investment book and other sustainability goals such as decarbonisation). The Responsible Business Executive Committee met nine times in 2023.

Insurance board key decisions

The Board is engaged (either directly or via its committees) on a regular basis on our sustainability agenda, receiving regular briefings to build understanding and capability and attending relevant external briefings. Briefing sessions provided share information on critical sustainability trends, stakeholder responses (e.g. government, regulators and investors) and strategic responses from a business perspective.

Strategy

- Knowledge sessions included a briefing on nature, including priority actions for nature-related objectives and plans
- Investment rationale for lower carbon strategies
- Carbon emissions associated with the Group’s Places strategy
- Role of Scottish Widows as enabler of financial wellness for UK customers within the Social pillar of ESG

Key decisions

- Approved Scottish Widows Responsible Investment and Stewardship Report 2022
- Approved various thought leadership reports for publication: Retirement Report; Women and Retirement Report; and Green Pensions Report

Oversight

- Regular climate risk reporting
- Target operating model, including responsibilities, structure, resourcing, and development of plans to build capability
- How risks should be reflected in our risk management framework
- Knowledge sessions on legal and regulatory risks, including greenwashing risk

Key decisions

- Approved refresh to risk management system

Metrics and Targets

- Market insights of climate disclosures in the industry
- Evolution of climate-related metrics for 2022/2023 reporting
- Development of our approach to climate-related scenario analysis

Key decisions

- Approved metrics and targets published in the Scottish Widows Group TCFD Report 2022, including input into Lloyds Banking Group Environmental Sustainability Report 2022

CLIMATE ENGAGEMENT, PARTNERSHIP AND INITIATIVES

PARTNERSHIPS, INITIATIVES AND COLLABORATIONS

Our active participation in partnerships and collaborations fits into our goal to support and encourage greening across the real economy, and not solely achieving a green investment portfolio.

Scottish Widows recognises that we can be most effective through collaboration, and we continue to work with other external bodies, organisations and initiatives pursuing responsible investment and climate-related policy or advocacy initiatives.

Institutional Investors Group on Climate Change (IIGCC)

The IIGCC is the European membership body for investor collaboration on climate issues, representing investors with more than €50 trillion of assets. Our IIGCC membership has been one of the most important elements of our Responsible Investment initiatives. In the past we have contributed to the development of the Net Zero Investment Framework among other initiatives, as outlined in our previous Scottish Widows Responsible Investment and Stewardship reports. Over the course of 2023, we have participated in two further key initiatives:

Climate Solutions Working Group

During 2022, and continuing into 2023, one of our key contributions has been to co-lead the Climate Solutions Working Group. This group has produced guidance documents for asset owners and managers to measure, monitor and disclose their relevant investments across different asset classes. This is particularly important as many more asset owners and asset managers have made, or are looking to make, specific commitments to invest in climate solutions as part of being a signatory of the Paris Aligned Investment Initiative. We have contributed, reviewed and communicated the guidance, as well as overseeing its creation through encouraging collaboration with other IIGCC members.

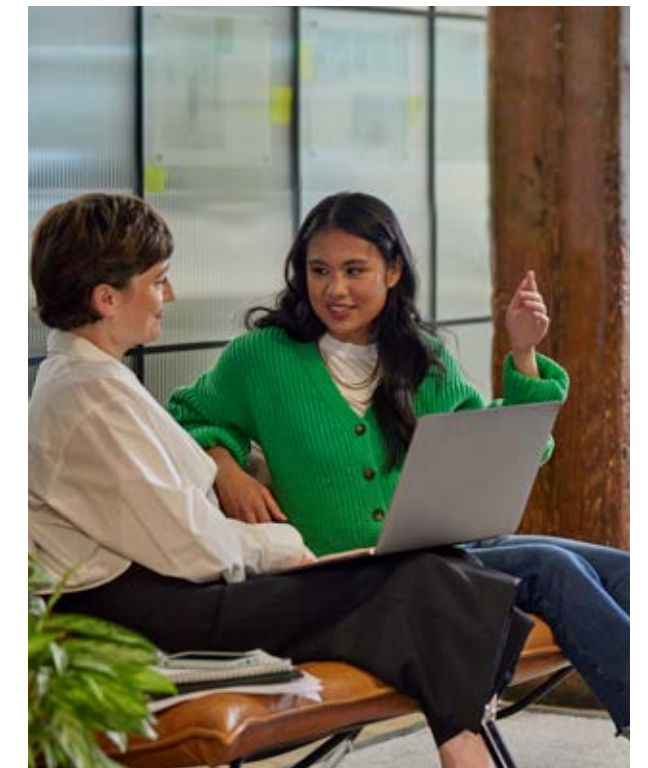
Net Zero Engagement Initiative (NZEI)

This Initiative was set up to scale and accelerate climate-related corporate engagement, to support investors in aligning more of their investment portfolio with the Paris Agreement and accelerate real-world impact. Whilst the Climate Action 100+ (CA100+) initiative focuses solely on the biggest high-emitting companies, the NZEI has expanded the universe of companies beyond the CA100+ focus list, to help investors more broadly align their portfolios with net zero initiatives. In 2022, the IIGCC launched a new Net Zero Engagement Platform, creating a central hub for corporate collaborative engagement workstreams, to accelerate progress against goals. Along with a group of five other investors, we participated in an Engagement Sub-Group, to provide close support for accelerating engagement and escalation with specific CA100+ target companies and in supporting a plan to engage with an additional number of real economy companies. The aim is to make progress across both the supply and demand side of high-CO₂-emitting sectors. We were signatories to letters to all these 107 companies and are directly engaging with one of those, alongside another investor.

Other

We have provided our input to the IIGCC's Net Zero Voting report, alongside its Asset Owner Stewardship Working Group. The aim of this paper is to help the industry exercise its rights and responsibilities better to help support companies set the right transition plans and make progress on these. Our feedback has been in the areas specific to asset owners and the various voting approaches they can take to direct or influence their investment managers to align voting behaviours with their own beliefs and expected outcomes.

We are represented in the Scope 3 emissions project group, starting in Q4, 2023 and continuing through 2024. The Scope 3 project group has been established to lead on the development of implementation guidance to support investors in addressing the Scope 3 emissions of their investments in the context of achieving net zero portfolio emissions. Specific aims are to identify challenges for investors and potential practical solutions to address them.



Scottish Widows continued

Climate Action 100 and Transition Pathway Initiative

Scottish Widows continues to support these initiatives, using these towards our assessment of company transition plans, engagement activities and voting actions.

Transition Plan Taskforce

We are a part of the sector-specific (asset owner) working group, an industry collaboration to co-develop additional guidance and a disclosure framework relevant for asset owners where the ‘sector-neutral’ guidance and framework was lacking. Transition plan disclosure guidance extends beyond the asset owner’s own corporate transition to include relevant investment activities such as stewardship and investee engagement.

United Nations Principles for Responsible Investment (PRI) Collaborative Stewardship Initiative on Nature

Scottish Widows has been involved in the Strategic Advisory Council of PRI’s Stewardship initiative on Nature, titled as Spring. The objective of the Council is to support the design and development of the initiative and to provide input, advice and insights to the PRI Executive on the strategy and activities of the initiative. Its initial focus will be on forest loss and land degradation, as a key driver of biodiversity loss, and will likely expand to other drivers of biodiversity loss as the initiative develops further.

The initiative will focus on enabling policy alignment and implementation across geographies to help generate positive outcomes for nature and investor portfolios. Focusing investor efforts on policy will make it more likely that systemic risks are addressed across economic sectors and at an appropriate pace.

Scottish Widows is already a participant of PRI’s stewardship initiative on human rights, Advance, and is engaging with several investors.

Association of British Insurers (ABI)

We are also a member of the ABI Board and the Board’s Climate Change Sub-Group, as well as its Climate Change Working Group. In 2023, our contributions to the Climate Change Working Group supported development of an industry Guide to Action on Nature, which, in recognition of the need for nature to support net zero ambitions, complements the previously published Climate Change Roadmap by setting out a detailed framework for how insurance and long-term savings providers can develop strategies for nature.

Farm Animal Investment Risk and Return (FAIRR)

We became members of the FAIRR Initiative in 2022. The initiative provides detailed ESG insight into animal agriculture and global food companies. The initiative is a great resource for our climate, biodiversity and human rights stewardship themes in the food sector, providing in-depth company research and company engagement opportunities. Over 2023, we have been involved in multiple initiatives with FAIRR, ranging from stewardship workstreams on Waste and Pollution, Protein Diversification, Working Conditions, to policy advocacy relating to the food sector and contributing to its thinking around investor action on regenerative agriculture.

World Benchmarking Alliance (WBA)

The WBA is a not-for-profit organisation established to assess and rank companies based on their contribution to the Sustainable Development Goals (SDGs). In 2021, we became members of the WBA to strengthen our direct and collective engagement efforts, and heighten knowledge of emerging ESG themes (e.g. biodiversity, human rights, Just Transition). In 2023, we joined their collective engagement initiative on Just Transition, focusing on three companies in the Oil and Gas sector. We are also participants in the Collective Impact Coalition (CIC) on Human Rights Investor Strategy and Actions sub-group.

UK Sustainable Investment Forum (UKSIF)

As a member of the UKSIF, Scottish Widows continues to contribute towards industry best practice and to advance the regulatory and policy agenda towards creating well-functioning markets which embrace and embed long-termism. We are currently participating in its working group to support the development of the UK Taxonomy and sustainability-related regulation.

Alongside our participation in industry collaborations, we are also active in advocating for the policy environment conducive to the climate transition. Some examples of our activities in 2023 are:

1. Scottish Widows, alongside several other financial Institutions and UKSIF, signed a letter to the Prime Minister expressing concern at the government’s recent public statements and policy signals regarding net zero. There is a risk that the recent announcements could undermine confidence in the UK’s commitment to meeting its medium and long-term net-zero goals. We have urged the government to provide long-term policy certainty on issues like predictable carbon pricing mechanisms, the transition to EVs, and improved energy efficiency standards for housing, to boost confidence in its long-term net-zero agenda. This is essential so that the finance industry can help drive capital towards innovative companies and infrastructure, and deliver prosperity across the UK, improving productivity, pay and creating approximately 1.7 million ‘green collar’ jobs, also aligned to ambitions of the Chancellor’s Mansion House speech. We believe that to protect the UK’s competitive advantage as the world’s largest net exporter of financial services, purposeful and predictable sustainable finance policy is fundamental, and can help position the UK’s financial services sector as a global leader in green investment.

2. Scottish Widows is a signatory to the first global investor statement, coordinated by FAIRR, urging G20 Finance Ministers to reallocate their agricultural subsidies in alignment with climate and nature objectives. This statement followed the Global Biodiversity Framework agreed in Montreal. According to the UN, governments provide nearly \$500 billion per year of agricultural support that is price-distorting and environmentally and socially harmful¹. Action on subsidy reform by G20 Finance Ministers is essential for climate mitigation and long-term environmental resilience which is critical for global financial stability, since climate change and nature loss are sources of systemic risk to investments. The IPCC estimates that up to 34 per cent of existing areas for crops and livestock production could be unsuitable by the end of the century, materially impacting agricultural supply chains and companies. Building on a previous investor statement focusing on the EU’s agricultural subsidies, this alliance of investors drew attention to four recommendations to ensure that reforms to agricultural subsidies also include climate and nature protection, as well as the importance of supporting a Just Transition for affected stakeholders to protect sustainable investments and maximise opportunities.

¹ <https://news.un.org/en/story/2021/09/1099792>.

CLIMATE ACTION PLAN: PROGRESS UPDATE

Announced in 2022, our five-year Climate Action Plan outlines our current plans for action on climate change with regard to our overall portfolio. It sets out four key actions to aid us in achieving our net zero targets and limit global warming to 1.5°C. As best practice evolves, so too will this Climate Action Plan and our actions to implement it. In July 2023, we published a report outlining progress made towards our [Climate Action Plan](#) ↗.

The following summarises activity contributing towards our Climate Action Plan over the course of 2023:

01 Develop climate-aware investment strategies and climate solutions investments

Over the course of 2023, we have continued to work closely with our core appointed strategic investment managers to develop and refine a range of funds that have a bias towards investing in companies that are adapting their businesses in a way that is less carbon intensive and/or developing climate solutions. At the start of last year, we launched the Scottish Widows Global Environmental Solutions Fund¹, which provides targeted thematic exposure to global companies actively involved in providing solutions to the climate crisis or other areas of environmental challenges. The fund, which is actively managed, provides access to a wide range of environmental investment themes such as alternative energy, clean mobility, transport and infrastructure sustainability, forestry, sustainable agriculture, biodiversity and pollution prevention.

As at 2023 year-end, our climate-aware strategies assets increased by £4.2 billion compared with the previous year. This brings us to a cumulative £21.7 billion, well on the way to meeting our £20–25 billion goal by the end of 2025. Having already exceeded our goal in 2022 to achieve £1 billion investment in climate solutions by 2025, 2023 year-end saw this figure reach £1.7 billion¹.

We continue to seek out opportunities to invest in climate-aware solutions through our loan investment activity too. Our existing book contains a range of green infrastructure projects, including green energy solutions across wind and solar power generation, as well as smart metering. In 2023 we completed a £30.8 million investment to support the acquisition of land and lease income of an onshore UK wind farm.

¹ We welcome the new rules on sustainable disclosures from the FCA and over 2024 we will be actively considering the new labelling regime as it applies to our funds.
² We define 'at risk of becoming stranded assets' as investments that are likely to suffer from unanticipated devaluation caused by environmental considerations such as climate change and society's attitudes towards it.

02 Integrate climate considerations into asset allocation optimisation

Our Responsible Investment & Stewardship Framework and policies influence fund selection and asset allocation decisions across our portfolio to ensure that material ESG considerations are embedded. Schroders, our strategic appointed asset manager for active fund management, integrates ESG risks and opportunities into their security analysis and portfolio management decisions to achieve long-term sustainable investment returns. As our appointed passive fund asset manager, we work with BlackRock to deliver tailored strategies that integrate ESG considerations. For example, the launch of the Global Corporate ESG Insights Bond Fund, which applies ESG-related tilts to achieve its aims.

When setting the strategic asset allocation (SAA) for our multi-asset funds, we use a variety of optimisation tools, including modelling that incorporates climate considerations into the economic forecasts. Specifically, we use long-term (from 10 to 40 years) asset class forecasts from a variety of sources, including Moody's Analytics who provide year-on-year forecasts over the next 40 years and 10/30-year forecasts from Schroders, with the longer-term forecasts incorporating Schroders' projected impact of climate change upon a variety of asset classes.

03 Exclude high-carbon investments that we believe present a high risk of becoming stranded assets

Our exclusion policy, which has been in effect since 2020, is reviewed annually. This policy helps to ensure that our investment approach is aligned with the long-term interests of our customers. As two of the most CO₂-intensive fossil fuels, the carbon, climate change and social impact of companies involved in thermal coal and tar sands is not aligned with our long-term investment strategy. Adherence to this policy has directly resulted in our divesting nearly £3 billion in total from companies we have deemed as 'at risk of becoming stranded assets'².

04 Focus our stewardship activity on companies failing to address climate risks

To support decarbonisation in line with our targets, a strong engagement programme is needed with investee companies. Our primary role is to monitor the stewardship activities of our appointed investment managers and we engage with them to discuss the quality and coverage of these. In addition, we directly engage with some material high-emitting holdings in a measured manner and over 2023 have directed voting in some of these on key climate and environment issues. Examples of directed voting actions include voting against certain climate transition plans and relevant director reappointments or reports and accounts at companies where enough progress on climate transition hasn't been made, climate risks have not been articulated in financial statements or there has been backtracking on previous climate targets, despite a long-standing history of engagement by investors. We have also supported multiple shareholder resolutions which have requested disclosures around activities like climate lobbying, physical and transition risks, Scope 3 GHG emissions (including related medium- to long-term targets for reduction), methane measurement and on energy transition social impact, i.e. Just Transition.

We report annually on our progress on these areas through our Responsible Investment and Stewardship reporting, typically published in July each year. The 2023 report, to be published in July 2024, will include greater detail on our climate and environment-related stewardship activities, including those mentioned above.

Our most recent report, relating to 2022, is published here: [Our Responsible Investment Research | Scottish Widows](#) ↗.

SCENARIO ANALYSIS – INVESTMENTS

A wide range of scenario analyses is used to provide insights to aid our understanding of climate risk and support our decisions. Our approach, along with the scenarios discussed follows that outlined on **pages 151 to 155**.

Climate is one of many factors that influence an asset's performance.

In the illustrative scenarios:

- Global economic performance is best in an orderly transition to a low-carbon economy
- Coal, oil, gas and petroleum sectors are the most sensitive to the transition to a low carbon economy

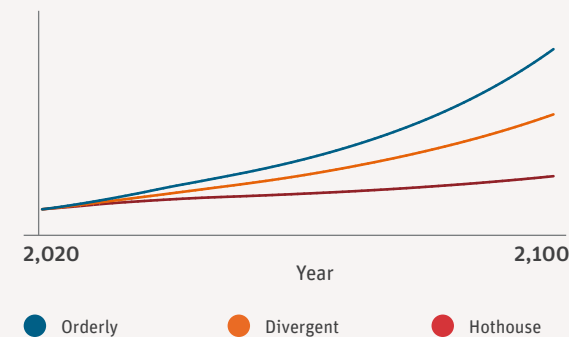


Global outcomes

This graph shows projected global outcomes in the illustrative scenarios. They show the aggregate effects of socioeconomic pathways and of climate risk given those pathways. These aggregate effects are influenced more by the choice of socioeconomic pathway than by the impact of climate risk.

As Gross Domestic Product (GDP) measures the size of a country's economy, a higher GDP is expected to lead to higher earnings, growing asset prices and better investment performance. The orderly transition to a low-carbon economy has the best overall performance. This is because it is assumed to have more coordinated actions and a higher rate of technological development.

Global GDP

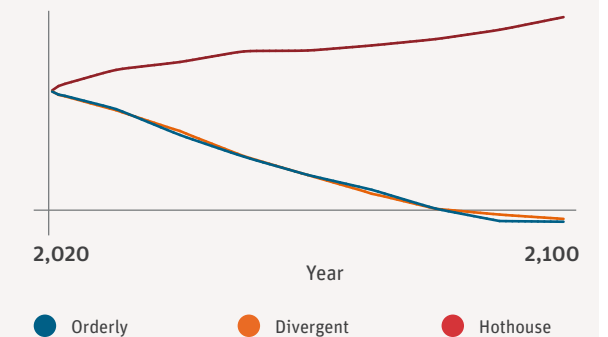


Carbon emissions

In the chart below, we project the pathways of CO₂ equivalent emissions in each of our chosen scenarios. We see that the divergent and orderly scenarios have similar profiles, but that they are not identical, as they arise in different SSPs, where different assumptions are being made about the development and coordinated deployment of technology.

As a result of these emissions pathways, by 2100 in the orderly and divergent scenarios, the increases in surface temperature have stabilised and the global economy is growing, whilst in hothouse the temperature is increasing, and globally economies are experiencing increasing damage from physical risks.

Emissions CO₂ equivalent



Scottish Widows continued

Sectoral sensitivity to climate risks

Since we hold a diversified portfolio of assets, projected aggregate equity returns largely reflect global GDP performance. We consider the impact of physical risk on asset returns to be quite speculative, so we consider the impact of transition risk alone, relative to counterfactual projections that do not recognise climate risk at all.

There are significant differences among the underlying sectors in both the orderly and divergent scenarios. This sectoral differentiation can be helpful in developing our investment strategy, especially when coupled with our view of the relative likelihoods of the scenarios and of the sectoral emissions profiles.

In this chart, we focus on the impact of climate risk on broadly defined sectors. We consider the quantitative impact of transition risk alone in the high transition scenarios, and limit our outlook to 2050.

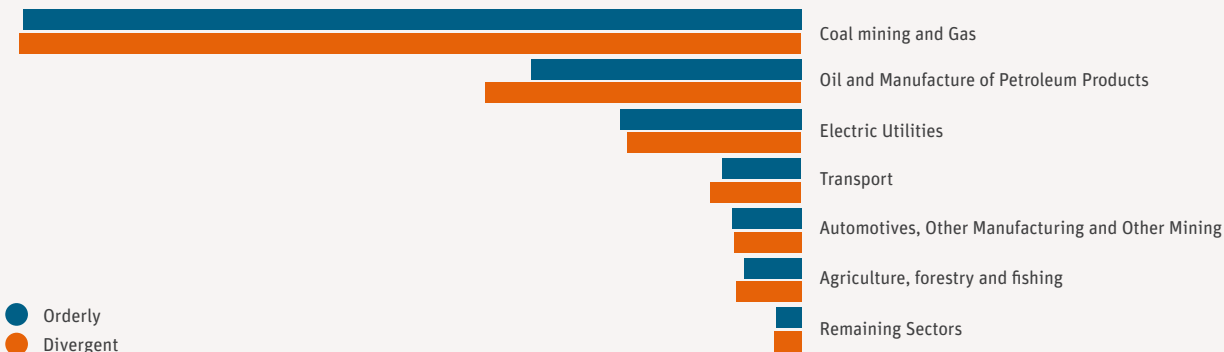
The chart is based on projected equity values at 2050, with currency movements hedged, compared to counterfactual projections.

The sectors that are more sensitive to the transition to a low-carbon economy are 'Coal Mining and Gas' (including Gas Utilities) and 'Oil and manufacture of Petroleum Products'. Our modelling suggests that in these scenarios, the impacts on these sectors can be similar in the short to medium term, but that in the very long term the impact is stronger in the divergent scenario. The ordering of the sectors in the chart would also change if we changed the term of the outlook.

More granular analysis suggests that within sectors, there is a wide range of returns by region, and that this range can depend significantly on the underlying SSP.

By design, in our hothouse scenario, we would not see the impact of transition risks, but we would expect to see the impact of physical risk in the long term. As discussed above, we would expect an adverse overall economic outcome, but we consider quantification of these impacts to be speculative at this stage.

Impact of transition risk on equities



1.9

Conclusions

The socioeconomic pathways have a greater effect on modelled outcomes than climate risk in isolation, though we do see some marked differentiation by climate risk among sectors when we project a significant transition to a low carbon economy.

Challenges with the analysis

This analysis requires us to model the global economic impacts over several decades of climate risks. Inevitably, such a task involves simplifications and speculative judgements. For example:

- We model government policy to effect a transition by means of a single, simple tax on emissions of GHGs, whereas actual policy would also involve regulations and incentives
- Since there is no historical precedent to guide us, we must speculate on the impact of physical risk on economic output. It is arguable that for various reasons the economic impact of physical risk is understated, for example, we make no explicit allowance for disruptions to supply chains or to political stability
- Climate scenario analysis covers carbon emissions but other aspects of sustainability, e.g. biodiversity and its interaction with climate change, are not currently addressed

Climate scenario analysis requires data for the assets, which is not available for the entire portfolio. While we have been able to model the majority of our assets, for those with inadequate data we do not explicitly model the returns. Implicitly, the projected return on such assets is the same as that on the assets we have modelled. Where precise matching of the sector of an asset to a modelled sector has not been possible, we have adopted an appropriate proxy.

While we consider the approaches we take to be reasonable, we must recognise that our model outputs are indicative rather than definitive and treat them with appropriate caution. While climate science itself is very well developed, determining the economic impacts of climate change is problematic, and there is no single agreed method used across the industry. The margin of uncertainty in any translation of climate risk into economic impacts is wide.

For these reasons, this type of modelling is only one of several components of our climate risk management process and is not acted upon in isolation.

Business strategy

We regularly review our strategy using scenario analysis to assess its resilience.

Short to medium term

We assess risks to the achievement of our strategic objectives over the short to medium term. This year, amongst other stress tests, we considered a bespoke climate scenario and compared this to the base planning scenario. In the analysis, we projected our balance sheet and profit and loss account. The key components of the stress scenario were weather events that previously occurred every 10 years occurring every year, stresses to asset values and projected deterioration of the business environment with reduced sales and more people stopping policies, possibly as a consequence of reputational risk.

This analysis showed us the variation in projected profitability caused by an adverse climate scenario. If this scenario were to occur the financial stability of Scottish Widows would remain secure.

Long term

Our business strategy is kept under continual review to ensure that it remains current and resilient in the face of emerging risks.

Long-term climate scenario analysis alerts us to potential changes in the economic and physical environment, to which we adapt by reviewing, for example, our pricing and underwriting standards and our investment strategy.

Next steps

Analysis of the impact of climate risk on the economic and financial system is in its infancy and we will continue to develop our analysis and the availability, coverage and quality of climate-related data.

METRICS AND TARGETS

Overview of financed emissions

Our 2022 carbon footprint was 77.4 tCO₂ /£m, down from our 2019 baseline of 116.1 tCO₂ /£m. We saw a decrease in the footprint from 2019 to 2020 relating to the fall in investee company emissions during 2020, in part due to reduced production and energy usage during the COVID pandemic. Some company emissions increased during 2021 post-pandemic, but on average global company values increased relative to emissions causing the footprint to fall.

The 2022 results reflect the value of investee companies during 2022 but the emissions still largely relate to 2021. Market values and emissions have not moved consistently during 2022 across different regions and sectors, for example, the US and emerging market indices fell, but the UK was relatively flat. In terms of higher-emitting sectors such as oil and gas, the emissions increased but the company market values increased by more, meaning the oil & gas footprint has reduced relatively. As the carbon footprint is sensitive to market fluctuations in addition to the absolute value of emissions and our own investment activity, we expect to see short-term variation of the footprint and will be studying the medium-term trend from future reporting.

Note the Assets Under Management (AUM) of £166.4 billion at year-end 2022 represents the total assets in scope of our headline net zero target.

Further detail of financed emissions

Our carbon footprint is a key indicator in helping us assess our progress against our net zero commitment. Although we have presented weighted average carbon intensity for the first time, in line with developing industry practice and regulatory expectations, carbon footprint is still our preferred measurement of progress against our net zero target. The metrics and targets we monitor help to inform our investment strategy as demonstrated in our Climate Action Plan, namely the launch of our climate-aware investment strategies. For further information on these strategies, see the [Climate Action Plan](#) Update section on **page 166**.

Refer to our sustainability metrics basis of reporting, available on [our download centre](#), for details on how our financed emissions metrics are calculated.

Total financed emissions

		Total AUM £bn	AUM in scope according to PCAF methodology and for which emissions data is available £bn	In-scope AUM for which emissions data is available %	Estimated total MtCO ₂ e (Scope 1 and 2 emissions, for investments where data is available)	Carbon Footprint (where data is available)* (tCO ₂ e/£m invested)	PCAF data quality score	Weighted average carbon intensity (where data is available)** (tCO ₂ e/£m sales)
2022	Policyholder	145.7	115.1	79%	9.1	77.7	2.3	192.0
	Shareholder	20.7	12.7	61%	1.1	75.6	3.7	121.5
	Total	166.4	127.8	77%	10.2	77.4 ✓	2.4 ✓	188.0
2021	Policyholder	161.1	114.4	71%	9.7	86.7	2.2	192.8
	Shareholder	27.3	15.4	56%	1.1	78.8	3.6	125.6
	Total	188.4	129.8	69%	10.8	85.8	2.3	188.3
2020	Policyholder	144.7	95.6	66%	9.1	97.6	2.2	N/A
	Shareholder	28.5	14.5	51%	1.2	100.5	3.8	N/A
	Total	173.2	110.1	64%	10.3	97.9	2.4	N/A
2019	Policyholder	143.1	96.6	68%	11.0	116.6	2.1	N/A
	Shareholder	26.7	14.4	54%	1.5	112.3	3.7	N/A
	Total	169.8	111.0	65%	12.5	116.1 ✓	2.3 ✓	N/A

Assets not included in emissions calculations

	2022			2021
	Policyholder £bn	Shareholder £bn	Total £bn	Total £bn
Assets excluded: government bonds	10.1	3.3	13.4	18.4
Assets not in scope of PCAF methodology	3.3	2.0	5.3	5.4
Assets for which emissions data is not available	17.2	2.7	19.9	34.8
Total	30.6	8.0	38.6	58.6

* Emissions per £1 million invested is calculated using the market value of equity + book value of debt investment rather than the AUM in the table where assets are quoted at market value. The market value of equity + book value of debt equivalent total is £131.5 billion for 2022 (£126.2 billion for 2021). Note: coverage for weighted average carbon intensity may be lower than for footprint due to lack of revenue data on certain asset types.

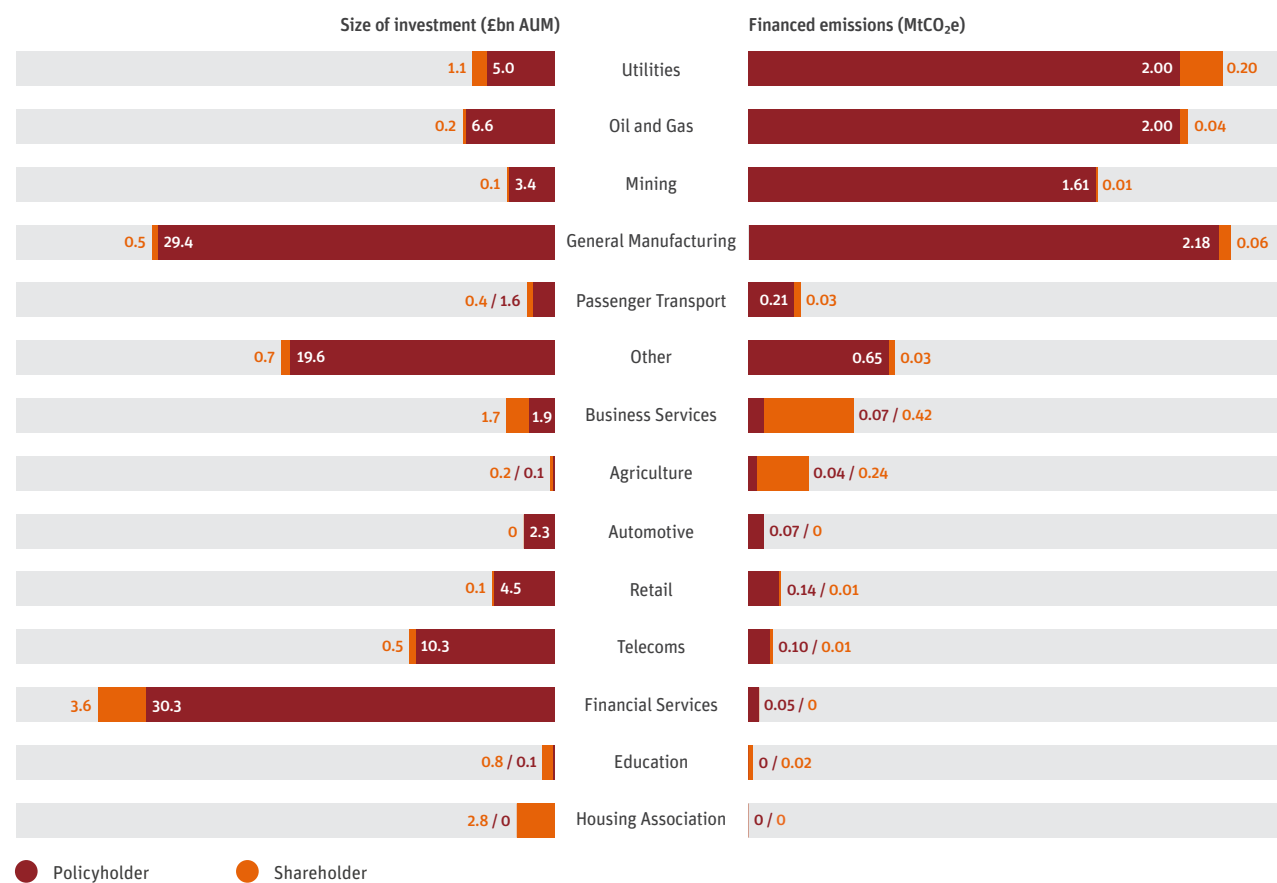
** Weighted average carbon intensity expresses the portfolio's financed emissions per unit of sales revenue of the investee companies.

✓ Indicator is subject to limited ISAE 3000 (revised) assurance by Deloitte LLP. Deloitte's 2023 assurance statement and the sustainability metrics basis of reporting 2023 are available online at [our download centre](#).

Scottish Widows continued

Sectoral analysis of emissions

The following bar chart shows a sector breakdown of the total financed emissions. This view is intended for illustrative purposes at this time and sector headings and the allocation of individual companies to sectors may be subject to revision as best practices emerge. Data is at 31 December 2022.



Scope 3 emissions

Scope 3 emissions include all other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 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.

When it comes to Scope 3 emissions 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 watch the developments in data quality and will consider extending our portfolio targets to cover Scope 3 of our underlying holdings when there is market consensus on the appropriateness of available data.

Further details on our approach to Scope 3 emissions reporting can be found within the our sustainability metrics basis of reporting, available on [our download centre](#).

Scope 3 financed emissions for oil, gas and mining sectors

	2022			2021
	Total AUM £bn	Estimated total MtCO ₂ e (Scope 3 emissions, for investments where data is available)	Data quality score	Estimated total MtCO ₂ e (Scope 3 emissions, for investments where data is available)
Policyholder				
Oil and gas	6.6	24.4	3.1	23.5
Mining	3.4	8.4	3.4	12.2
Total	10.0	32.8	3.2	35.7
Shareholder				
Oil and gas	0.2	0.6	3.1	0.6
Mining	0.1	0.3	3.0	0.4
Total	0.3	0.9	3.1	1.0
Scottish Widows total				
Oil and gas	6.8	25.0	3.1	24.1
Mining	3.5	8.7	3.4	12.6
Scottish Widows Total	10.3	33.7	3.2	36.7

RISK MANAGEMENT

Overview

Within Scottish Widows Group, we recognise climate risk as a principal risk within our Enterprise Risk Management Framework (ERMF) and have integrated climate as a 'cross-cutting' risk across other relevant risks in our ERMF such as credit risk, insurance underwriting risk, market risk, conduct risk, and legal and regulatory risk.

Within our risk management system (Risk and Control Self Assessment (RCSA)), as well as mapping existing or new controls to our key regulatory obligations to identify, measure, manage and report the impacts of climate change, we have grouped our key risks into six broad themes, which align to the Lloyds Banking Group's definitions of 'inbound and outbound' risk impacts (for definitions of inbound and outbound risk please see page 155 of the [Group's annual report and accounts 2023](#) ↗).

The materiality of these risks is assessed via continuous risk management using the same impact likelihood matrix that is used for all of our risks, and will vary over time.

Our key risks, current residual risk ratings, and examples of relevant controls are as follows:

This is a sample of the key risks faced by Scottish Widows Group and is not exhaustive. It is intended to illustrate how we have further embedded climate-related risks into our framework. It continues to be reviewed and will evolve over time.

Risk description	Risk appetite	Key controls	Time horizon
Physical and Transition Risk for Investments (across customer and shareholder assets) (inbound) This risk reflects an aggregation of credit, market and conduct risks relevant to the investment products	We accept this risk, as we will seek to minimise physical and transition risks from climate risk in line with the Group strategy. However, the overall position is dependent on the availability of assets and economic environment, and is therefore not fully within our own control	<ul style="list-style-type: none"> Due diligence around the selection and oversight of our external fund managers, including around ESG factors Dedicated Fund investment leads are responsible for all aspects of oversight, including review of climate-related risks and ESG factors and related data supplied by external fund managers 'ESG tool' is completed as part of our Credit Risk Assessment process 	● ●
Physical Risk Asset Portfolio (inbound) This risk reflects the underwriting and insurance risks arising from climate risks	We accept this risk, as we will provide General Insurance cover to properties that may be affected by the physical risks from climate risk given our strategic aim to protect customers. The level of risk is managed through our underwriting procedure	<ul style="list-style-type: none"> Weather modelling team of experts analyse trends in climate and weather patterns to inform models Sophisticated models have been developed to help inform underwriting decisions Robust model governance process is in place around the creation and use of those models 	● ● ●
Risk of failing to support the transition to net zero (outbound) This reflects strategic and reputational risk across our business	We accept this risk, as we wish to support the net zero transition in line with external expectations, Group strategy and economic environment. However, it is appreciated that achievement of net zero transition is reliant on many other parties and is therefore not fully within our own control	<ul style="list-style-type: none"> External commitments framework in place to report performance of existing commitments Stewardship and Exclusions policies, and External Sector Statements are in place to govern our investments and help how we influence the wider economy to move towards net zero 	● ●
'Greenwashing' risk across our enterprise (outbound) This reflects reputational, conduct and regulatory risk across our enterprise	We seek to avoid this risk. We have control over our external disclosures, marketing material and customer communications, so ensure that literature, activities and products do not mislead customers as to our green credentials	<ul style="list-style-type: none"> External commitments framework in place to govern new commitments Compliant communications checks are undertaken to ensure 'clear, fair and not misleading' In Q1 2023, SWG launched a Green Claims Framework, under which First Line Risk assess 'green claims' prior to publication, using this dedicated framework 	● ● ●
Disclosure and modelling risk (outbound)	We accept this risk, as we rely on models to make informed business decisions. We take a risk-based approach to reduce the risk	<ul style="list-style-type: none"> Annual disclosure process for ensuring production and governance of external reporting Processes in place for ensuring data quality, coverage, and methodology for climate-related data/metrics Model governance process in place for validation of models, including climate-related models 	● ●
Regulatory compliance risks (outbound)	We accept this risk, as we would not willingly be non-compliant with regulatory requirements, but this cannot always be avoided. We therefore take appropriate measures to interpret and comply with all relevant regulation and applicable laws and/or legal obligations	<ul style="list-style-type: none"> Horizon scanning and communication of new regulatory and/or legislative requirements is undertaken including ESG-related developments Executives are accountable for regulatory compliance within their own business areas, including ESG-related developments 	● ●

Time horizons key
 ● Short ● Medium ● Long



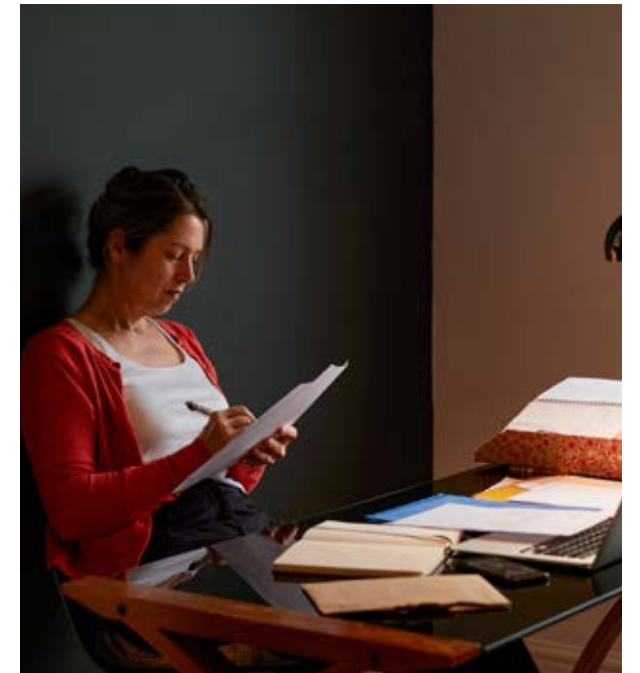
Assessment of risks

Our risk management framework aims to help us identify, measure, monitor, manage and report the financial risks related to climate change with regular reporting to the Board to enable timely decisions to be taken. Short-term risks and risks that have already crystallised are logged then monitored and assessed. This includes consideration of all risk drivers, including those relating to climate change, to ensure both inherent and residual risk ratings effectively reflect the exposure. As part of Lloyds Banking Group, Scottish Widows Group approaches climate risk management in a consistent way to our overall parent Group. We comply with the Lloyds Banking Group Climate Risk Policy which is set around eight 'Principles', and we have developed our own Insurance Climate Risk Procedures to reflect Insurance-specific practices and processes.

ESG tool

We continue to apply our own internal ESG tool at loan origination and as part of the annual review process. The tool, which focuses on both the inbound and outbound risks, assesses exposure and management of climate and ESG risk issues. These are overlaid with a transition risk assessment of the sector which has been analytically derived using emissions data, to produce scores reflective of the client's climate impacts and exposure to ESG risks. We also include specific ESG assessment and commentary in all our credit risk assessments.

The ESG tool is owned within Group. Further details can be found in the Risk management and scenario analysis section of this report on **pages 156 to 158**.



Scottish Widows continued

Embedding climate risk within our risk management framework

Existing policy framework

As a cross-cutting risk, climate change impacts will emerge through our existing risks. We have a Lloyds Banking Group Climate Risk Policy and Insurance Climate Risk Procedure which capture the overarching requirements for risk management, governance, scenario analysis and disclosure of climate risks. In addition to this overarching policy/procedure, internal policies where climate risk impacts might be expected have been reviewed and where relevant these have been updated, along with any related procedures and underlying processes. These include:

Insurance: Investment Exclusions Policy

Introduced in 2020, this defines the rules for exclusions that will be applied to our investments and aligns to Principle 2 of our Responsible Investment Framework, which forms part of the Insurance Investment Policy: ‘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’. This policy, which works in tandem with the Investment Stewardship Policy, defines our approach to public equities, bonds, and other corporate debt and is supplemented by the Group External Sector Statements which apply to the direct lending part of shareholder investments. We have key controls around communicating this policy to our investment managers.

Insurance: Investment Stewardship Policy

Also introduced in 2020, this defines the stewardship and engagement activity which we undertake in support of our Responsible Investment Framework and our commitments to:

- Be responsible stewards of the assets we oversee
- Influence investee companies to engender positive change
- Exercise strong governance over the asset managers we partner with

It aims to protect and maximise the value of investments in the long term, in line with our beneficiaries’ interests, through encouraging investee companies to plan and evolve their activities responsibly, to deliver value through stable and sustainable returns.

This policy was developed to meet the requirements of the FCA Policy Statement 19/13 (PS19/13) in relation to the Shareholders Directive II (SRD II) (COBS 2.2B) and the FRC Stewardship Code.

Insurance: Investment Policy

This policy also references the Responsible Investment Framework and that ESG factors should be considered as part of due diligence and assessment activity when selecting funds or purchasing assets.

Insurance: Reinsurance Policy

As part of the assessment of new reinsurance arrangements, reinsurers’ exposure to climate risk should be considered in their approach to managing forward-looking climate risk.

Insurance: Stress Testing Procedures

Climate stress testing has been added as a regular requirement for medium and long-term strategic planning.

Lloyds Banking Group: Insurance Underwriting Risk Policy

This policy requires that climate change is embedded in underwriting risk management processes including:

- Incorporating the effects of climate change in the demographic risk register
- Internal model development and improvement to incorporate the impact of climate change on both a short and long-term time horizon
- Monitoring of reinsurer stability with respect to climate change events

Lloyds Banking Group: Product Procedures

The product review process requires that climate risk, in particular the associated conduct risk, is specifically considered at all stages in the product lifecycle.

Lloyds Banking Group: Credit Risk Policy and Insurance Credit Framework Policy

For our Loan Investment book, we adhere to the Lloyds Banking Group Credit Risk Policy which was updated in 2021 to incorporate reference to ESG risk, and the Insurance Credit Framework Policy, which supplements the Lloyds Banking Group Policy and sets out the Scottish Widows Group specific approach to management of credit risk. As part of our credit risk assessment, both at origination and at annual review, we include a rating based on the output of the ‘ESG tool’, together with an assessment of the counterparty’s approach to ESG risk. Similar to our Insurance Investment Exclusions Policy, the Lloyds Banking Group External Sector Statements (which can be found [here](#) under Group codes and policies) apply to our Loan Investments book and set out our approach to key sectors where we have a direct lending relationship.

Risk appetite

The Risk Appetite Framework has been extended to include specific Climate Risk Appetite Strategy, preferences and metrics. The Board approved a Climate Risk Strategy Statement and statements expressing our preference to avoid risks arising from climate risk:

Climate risk is the risk that the Group experiences losses and/or reputational damage, either from the impacts of climate change and the transition to net zero (‘inbound’) or as a result of the Group’s response to tackling climate change (‘outbound’). We have no appetite to fail to proactively manage the risks and opportunities for our business as a result of climate risk. We will take action to support the Group and our customers transition to net zero and maintain our resilience against the risks relating to climate change.

We have aligned our risk preferences to our key risks, set out in the table on **page 171**. We have risk appetite metrics to help us monitor and report on key climate-related exposures, progress towards meeting key net zero commitments (for Investments), and to monitor the operation of key controls such as adherence to our External Commitments Framework.

NATURE

Thinking environmentally

Responsible investment is at the heart of our investment approach at Scottish Widows – degradation of nature is a systemic risk for our portfolios and our beneficiaries, but the prevention of degradation or protection of nature is also an opportunity. As we reported last year, it is important for us as an investor to develop a clear understanding of the potential impact from nature on the risk/return profile of our investee companies, for whom this systemic risk presents physical, transition and litigation risks, which could impact investment value in the short, medium, and long term. We continue to advance our understanding on how best to understand and manage nature-related risks emanating from portfolio exposure to dependency on and impact to the environment, and particularly, how best to consider in the context of the climate/nature nexus.

Work-to-date

Nature-related risks and opportunities

The Responsible Investment team at Scottish Widows has recognised the importance of developing a working knowledge of the natural world through partnerships with external experts on nature. Accordingly, in early 2023, the team partnered with the Zoological Society of London (ZSL) to complete specialised training focused on biodiversity in finance and issues across soft commodity value chains, with deep dives into palm oil, tropical forestry, and natural rubber. Recognising the need to drive awareness and embed capability throughout the whole business – not just responsible investment – the team supported this imperative by rolling out this training opportunity to colleagues from various business lines, including risk, finance and audit.

Following this training, Scottish Widows approached ZSL to collaborate on developing a suitable methodology for mapping nature-related risk in the investment portfolio, namely through identification of high-risk sectors and sub-sectors. As a nascent and fluid area of risk management for the financial services sector, the expertise of ZSL on not only the natural world, but also the use of appropriate methodologies and metrics, provides a strong foundation for well-informed action. Work to develop the methodology remains underway and updates will be made in due course.

As noted, management of nature-related risks also represents opportunities. In 2023, as part of a suite of new strategies, we worked with fund manager Schroders to launch a Global Environmental Solutions Fund. By targeting companies providing products and solutions – or delivering actions through their own policies – that help tackle critical environmental issues, this fund sees us taking steps towards driving major investment into better outcomes for the environment and our beneficiaries. The fund can invest in companies that are involved in advancing alternative energy generation and supply, clean mobility, transport and infrastructure sustainability, forestry, sustainable agriculture, biodiversity preservation and pollution prevention. As strong advocates for change through our stewardship programme, we recognise the imperative to support companies’ attempting to drive change – the fund also considers those which are directing 20 per cent of capital expenditure to the adaptation of their business and those exerting influence, through their policies and practices, over their supply chains or customers to reduce emissions.

We’ll continue to consider how we can best embrace nature as an investment theme so that matters linked to biodiversity and ecosystem loss such as deforestation, use of water, waste and pollution, and sustainable food can be included in our investment design.

Policy and industry advocacy

We continue to be an active voice on policy enhancement and the imperative for collaborative action to make a difference on the climate and nature crises. In March 2023, we published an advocacy paper entitled [‘Nature and Biodiversity: the pensions imperative’](#). Taking readers through fundamental science, the current state of the natural world, why it matters to pensions and other long-term investors, the risks posed and some of the ways those risks can be measured, we aimed to build awareness across the industry and beyond. Concluding the paper with a series of recommendations which highlighted opportunities for both government and industry, we issued a rallying call for much-needed action that would better enable our industry to help halt and reverse the loss of nature by taking action across investment activities.

An area of policy with particular importance is the mandating of economy-wide reporting aligned to the Taskforce on Nature-related Financial Disclosure framework. Launched in September 2023, it provides a consistent approach for thinking through nature-related issues and disclosures. Following our call to the government to make the UK the first country to mandate the framework, we have been and continue to be actively engaged in industry initiatives in support of a better understanding, future widespread adoption, and consistent application.

Through our strategic engagement with industry and government initiatives, we remain committed to playing a role in the prevention of further degradation and look forward to working within our industry on contributing to real-world outcomes which are better for the environment, society and the economy.



Scottish Widows continued

Stewardship

Last year we reported how we were looking ahead to further advancing our focus on nature through our stewardship programme, particularly through participation in relevant collective engagement initiatives, which serve as a key opportunity through which we will support the specific fights against loss of biodiversity and ecosystems. In 2023 we successfully applied to the United Nations Principles for Responsible Investment collaborative stewardship initiative on nature. Further information on this can be found in the Partnerships, Initiatives and Collaborations section.

Our thematic stewardship and engagement programme now includes the specific theme of biodiversity including but not limited to issues such as deforestation, within the broader theme of climate change and the environment. We view the elimination of deforestation as key to a sustainable future and, accordingly, it is one of our engagement priorities.

In our engagement with asset managers and relevant investee companies, dialogue is now beginning to include broader environmental characteristics and factors which affect ecological limits. To support this focus, in 2022 we joined the FAIRR (Farm Animal Investment Risk & Return) Initiative, which will be a key mechanism for us to collaboratively engage on biodiversity – with expertise in sustainable proteins, the initiative opens avenues to collectively engage with the food and agriculture industry on identified major pathways to address biodiversity loss.

Furthermore, we have advanced our approach to responsible investment and stewardship through the implementation of Voting Guidelines, which we use to monitor and, where appropriate, challenge our key managers' voting policies and practices to influence and encourage them to make their own in-house policies more progressive. Where relevant, our guidelines adopt a stance that investee companies should promote biodiversity, conservation, water quality, waste management and nature-based solutions to allow nature and people to flourish. These guidelines also set out our expectations that companies have (or are actively working towards) adequate policies and programmes on sustainable land and water use to protect nature and address community concerns on land use.



Coming up next

Having contributed to the Global Canopy's development of guidance for 'deforestation-free pension funds', we continue with our commenced adoption of appropriate areas of this guidance, which will help us to further identify and map key areas of deforestation risk within our portfolio and allow us to report on our activity to reduce the risk.

In our inaugural Green Pensions research carried out in 2022*, 72 per cent of respondents agreed it was important to them that their employers invested their pension savings sustainably. It is important that we continue our ESG integration for our flagship pension default option given what we know about our customers' attitudes.

* 2022 Green pensions report [↗](#).

Forward-looking statements

Disclaimer

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Forward-looking statements

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