



Manufacturing sector statement



Lloyds Banking Group
Manufacturing sector statement
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Contents

Context	3
Scope and Approach	3
Insurance and Investment Activities	3
Risk Management	3
Client Monitoring and Due Diligence	3
Statement Criteria	4
Manufacturing	5
Glossary	7
Disclaimer	8

Context

At Lloyds Banking Group (the Group), our purpose is Helping Britain Prosper. As one of the UK's largest financial services provider, we have an important role to play in creating a more sustainable and inclusive future for people and businesses. 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.

We are committed to operating in accordance with international standards including the International Bill of Human Rights¹, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the International Labour Organization Declaration on Fundamental Principles and Rights at Work. *Clients* must comply with all applicable laws and regulations, and we expect them to respect the human rights of both their own workforce and those in their supply chain.

Scope and Approach

These statements apply to the specific *client* entities that have a direct lending relationship with the Group, including direct loans from Scottish Widows².

The criteria set out in these statements form part of our broad multi-factor credit risk assessments and credit decisioning process, including any new or extended direct lending relationship with the *client*.

Insurance and Investment Activities

Where our Insurance business invests its own funds or customer funds in assets traded in the public markets, these statements do not apply, and instead we use professional third-party asset managers. For our mandated funds where we have full control over investments, our asset managers are required to follow the Scottish Widows Exclusions Policy and the Scottish Widows Stewardship Policy as applicable. The overall ambition of these policies is consistent with the ambition of these sector statements, which is to align lending and investments with the transition to a sustainable and low-carbon economy, thus reducing our exposure to Environmental, Social and Governance (ESG) related risks that could translate into financial risk for both the *client* and the Group.

Risk Management

As a Group, managing risk effectively is fundamental to our strategy and future success. Our approach to risk plays a key role in the Group's strategy and is founded on an effective control framework, which guides how our colleagues work and behave and the decisions they make. As part of this framework, risk appetite – the amount and type of risk that the Group is prepared to seek, accept or tolerate in delivering our Group Strategy – is embedded in policies, standards, authorities and limits across the Group. Our prudent risk culture and appetite, along with close collaboration between the Risk Function and the Business Units, supports decision-making. All lending decisions are based on a comprehensive credit risk assessment of potential borrowers which includes credit, financial and other factors as part of our broad multi-factor risk assessment framework.

Addressing the potential impacts of climate change, how our *clients* are engaging with the opportunities and challenges created by climate change and the need to transition to a low-carbon economy plays a key role in our risk management approach to sustainability. Where ESG related risks may lead to financial exposure – such as regulatory penalties, litigation, operational impacts or stranded assets – they are considered in credit decisions as part of our broad multi-factor risk-based assessment.

We use individualised, risk-based assessments to evaluate ESG related risks that could translate into financial exposure. ESG risk management is integrated into our broad multi-factor risk-based decisions where material ESG factors could affect creditworthiness or operational resilience.

We have a range of external sector statements that apply to the Group's *direct lending* activities, which reflect the approach we take to the risk assessment of our *clients* related to climate change and other ESG related issues.

Client Monitoring and Due Diligence

In all sectors *clients* must comply with all applicable laws and regulations. If we become aware that a *client* has breached any applicable international, regional or national laws, we would require the *client* to implement action plans that aim to address and resolve such breaches.

¹ Comprising the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights.

² Sector statements are applicable to *clients* where we can identify *client* activity by their standard industry classification (SIC) code (excluding automated decisioning for smaller counterparties, currently for new lending of £100,000 or less).

Where appropriate, we maintain regular engagement with *clients* with whom we have a direct lending relationship, including reviewing publicly available information such as filings, press coverage and analyst reports. ESG related risks are considered for all such *clients* and are addressed in new and renewal credit applications. We take a risk-based and bespoke approach to ESG risk assessment for specific sectors and financial thresholds, recognising that the nature and materiality of ESG related risks can vary significantly across industries. For project finance activity, the Group is a signatory to the Equator Principles and applies them to all relevant transactions.

As part of our control framework and to monitor *client* adherence to our sector statements, we have a number of ESG Risk Management processes in place, which are outlined in the Risk Management section of our [Group Sustainability Report](#). These include processes for assessing counterparties and transactions in relation to environmental risks, including both climate and nature considerations, alongside social and governance considerations.

To assess these risks effectively, we use our ESG Risk Tool, which incorporates tailored assessments designed to identify and mitigate potential risks. These assessments form part of our broad multi-factor credit assessment, ensuring transparency and accountability. Higher-risk *clients* and transactions are subject to enhanced due diligence, with defined escalation routes overseen by ESG Credit Risk specialists. This process helps ensure that ESG related risks with potential financial implications are appropriately addressed within the credit decisioning.

We regularly review all of our *clients* with whom we have a direct lending relationship, and where we identify that they appear to be operating below our requirements, we will work with our *clients* to understand how they plan to transition to meet them.

Statement Criteria

Our statements outline a number of criteria for our *clients*, which are grouped into the following categories.

Prohibited Mandatory criteria that <i>clients</i> must not be breaching at the organisational or project/transaction level as relevant. Example: “We will not provide financing to...” “We will not provide direct financing...” “We will not provide project specific finance...”	Required Mandatory criteria that <i>clients</i> must meet at the organisational or project/transaction level as relevant. Example: “We will only provide financing to...”	Expected Non-mandatory criteria we expect <i>clients</i> to meet or to comply with over time. Example: “We expect <i>clients</i>...”	Encouraged Non-mandatory criteria we encourage <i>clients</i> to consider, given industry best practice. Example: “We encourage <i>clients</i>...”
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Words in *italics* are defined in the Glossary table and clarify the intended scope of certain words in this statement.

The background features a dark green base with large, flowing, organic shapes in a lighter green and black. The word "Manufacturing" is centered in a white, bold, sans-serif font.

Manufacturing

Context

Manufacturing accounts for nearly half of UK exports³. Manufacturers are already generally aware of the regulatory environments in which they operate, and sustainability is increasingly becoming a focus point and competitive advantage for the manufacturing sector.

A number of manufacturing sectors are highly regulated (e.g. Chemicals) and as part of our ongoing risk assessment we monitor in relation to compliance with applicable environmental licences, approvals and requirements for our corporate and institutional bank *clients*.

We recognise the manufacturing sector includes a range of activities, and it is highly unlikely that a single *client* will be involved in all of them. There are also a number of potential risks that can arise in some manufacturing activities, including⁴:

- Child labour, both in final manufacturing and in the supply chain
- Workplace conditions, and health and safety standards, in final manufacturing and in the supply chain
- Product stewardship – consumer health and safety, product safety and labelling, and responsible marketing
- Supply chain and ethical sourcing of materials
- The impact of manufacturing processes which can affect the health and livelihood of employees and communities

Scope

Our approach covers the following activities:

- Manufacturing of goods from raw materials, including the processing or assembling of goods from secondary or processed raw materials

Company Level Criteria

Encouraged

We encourage our clients to take the following issues into consideration:

- Improving production efficiency and future-proofing production processes
- Utilising low-carbon energy sources and reducing energy consumption overall
- Reducing waste and increasing the ability to recycle through circular economy initiatives
- Reducing and refining materials usage

³ UK in a Changing Europe: Manufacturing after Brexit (2022)

⁴ UNEP Finance Initiative - Human Rights Guidance Tool for the Financial Sector

Glossary

Terms	Definition
Client(s)	Client(s) refers to businesses and does not include individuals.
Finance, financing or direct lending	Finance, financing or direct lending refers to all primary lending activity by the Group. Passenger or light commercial vehicle leasing/ financing activity is not included.

Disclaimer

These sector statements are intended to set out, at a high level, how Lloyds Banking Group approaches and manages selected sustainability-related issues across certain sectors. These statements are intended to provide non-exhaustive, indicative and general information only, and there can be no guarantee as to the accuracy, currency or completeness of the information contained in these statements.

These statements represent our policy positions as at the date of publication and their application may be affected by a wide range of circumstances some of which may be beyond our control, including, but not limited to, legal requirements or prohibitions in particular jurisdictions, government policy, the overall regulatory environment and/or client behaviour, and the application of these statements remains subject to compliance with local laws and regulations. These statements may be varied due to the foregoing or other factors and/or replaced at any time without notice or giving reason, and no assurance or representation is given that these sector statements will meet any present or future expectations or requirements, or be followed in all instances. We accept no obligation or duty to update these statements or provide notice of any exceptions.

These sector statements may contain forward-looking statements, including as to our intentions and objectives, which are based on current expectations and projections about future events. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Lloyds Banking Group's ability to control or predict. Forward-looking statements are not guarantees of future actions.

These sector statements do not form part of any offering documents and are not binding (contractually or otherwise). These sector statements are for Lloyds Banking Group's use only and Lloyds Banking Group accepts no duty of care, responsibility or liability in relation to these statements or their application or interpretation, including as to their accuracy, completeness or sufficiency, or any outcomes arising from the same. No representations or warranties, express or implied, are made as to the fairness, accuracy, completeness or correctness of the information contained in these statements. We do not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort (including negligence) or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using these statements or arising from any omission from them. Third parties should seek their own independent advice before making any decisions based on the information provided in these statements. Lloyds Banking Group is under no obligation and does not give any undertaking to provide any additional information in relation to these sector statements or their application, or to update these sector statements to correct any inaccuracies or errors.