



Lloyds Banking Group

External Sector Statements

Introduction

Our purpose is to help Britain prosper, and our Helping Britain Prosper Plan takes us beyond business as usual. It tackles the social, economic and environmental issues that matter most to Britain: its people, businesses and communities. It differentiates our Group and unites and inspires our Group and colleagues to meet some bold commitments.

Aligned to this, our sustainability strategy outlines our commitment to supporting the UK's transition to a sustainable, low-carbon economy. We support the aims of the 2015 Paris Agreement, and the UK Government's commitment to a Net Zero economy by 2050, which we recognise will require a radical reinvention of our ways of working, living and doing business. We also support the Taskforce on Climate-Related Financial Disclosures (TCFD) Framework and are planning to achieve full disclosure by 2022.

Lloyds Banking Group are also committed to operating in accordance with the International Bill of Human Rights (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). We also take into account the UN Framework and Guiding Principles and other internationally accepted human rights standards including the OECD Guidelines for Multinational Enterprises and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and other Core Conventions. Specifically, we are a signatory to the UN Global Compact and do not tolerate slavery, trafficking or forced labour in any part of our business or supply chain. Please refer to our [Group Responsible Business Report](#) and [Reporting Centre](#) for further information.

We expect all of our customers to comply with applicable international conventions, sanctions and embargoes, legislation, and licensing requirements whilst showing a clear commitment to robust Environmental, Social and Governance (ESG) and risk management.

Risk management

As a Group, managing risk effectively is fundamental to our strategy and future success. We are a simple, low risk, UK-focused financial services provider with a culture founded on strong risk management and a prudent through the cycle risk appetite. These are at the heart of everything we do, and ensure constructive challenge takes place across the business and underpins sustainable growth.

Our approach to risk is founded on an effective control framework, which guides how our colleagues work, 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, authorities and limits across the Group. Our prudent risk culture and appetite,

along with close collaboration between the Risk division and the Business, supports decision-making. Our approach to risk plays a key role in the Group's strategy of becoming the best bank for customers, colleagues and shareholders.

Addressing the potential impacts of climate change, how our customers 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. As such, we have a range of external sector statements that apply to the Group's activities which reflect the approach we take to the risk assessment of our customers. To support this, Lloyds Banking Group has rolled out dedicated sustainability training to colleagues and Commercial Banking has embedded sustainability commentary into the credit assessment process.

Scope and approach

These sector statements apply to the Group's banking customers that have a direct relationship with Lloyds Banking Group and reflect our risk assessment approach for the following sectors:

- Power
- Coal
- Mining
- Oil & Gas
- Forestry (incl. Palm Oil)
- Defence.
- Manufacturing (incl. Manufacturing of Plastic Goods)
- Automotive sector (incl. Freight transport by road)
- Agriculture (incl. Agricultural Commodities)
- Animal Welfare
- Fisheries
- UNESCO World Heritage Sites (incl. Ramsar Wetlands).

Where our Insurance business lends any shareholder assets to borrowers, these sector statements will apply. Where our Insurance business invests such assets in bonds issued on the public markets, we use professional third party asset managers. When our asset managers consider investing in new issues of such bonds, we advise them of these sector statements and ask them to reflect them within their decision-making.

These sector statements do not apply to assets held for and managed on behalf of our Insurance customers. The majority of these assets are managed to an overall ESG policy and criteria by third party managers who are signatories to the United Nations Principles of Responsible Investment (UN PRI). Furthermore, either directly or through 3rd party Asset Managers, we have the ability to use our position as Asset Owner to challenge the behaviour of the companies in whom we are invested. This can be used to challenge the approach to active stewardship and an updated Engagement Policy will be published in due course.

We regularly review all of our customers that we have a direct banking relationship with. Where they appear to be operating outside of our risk parameters, we will work with our customers to understand how they plan to transition to meet our risk parameters. If the customer does not transition, we will exit the relationship at the earliest opportunity.

Customer monitoring and due diligence

In all sectors, and especially those which experience heightened exposure to sustainability and human rights risks, we aim to work with customers who:

- Implement effective, market-based solutions that take into account any social and environmental concerns about their operations;
- Operate safely and securely within a defined framework that upholds human rights;
- Align their operations with the principles of this framework and with the United Nations Global Compact's labour, environment and anti-corruption standards; and
- Assess the long-term impact of their activities across the entire supply chain, considering indigenous people and local communities specifically.
- NB: Lloyds Banking Group is a signatory to the Equator Principles and ensures their application in all project finance activity.

We have regular meetings / engagements with our customers (where appropriate) that we have a direct banking relationship with, and regularly review their public filings, press reports and analyst presentations. Within Commercial Banking, credit policy requires all credit applications to comment on the sustainability risks and opportunities associate with that customer.

We expect our existing customers to:

- Demonstrate that they can comply with applicable greenhouse gas ('GHG') regulations and/or monitor GHG emission;
- Comply with our Anti-Money Laundering & Counter Terrorism and Sanctions & Related Prohibitions policies;
- Comply with appropriate environmental and health and safety requirements in all jurisdictions;
- Respect human rights, both of their own workforce but also those in their supply chain and comply with all relevant legislation, regulations and directives, including the Modern Slavery Act and its reporting obligations, in the countries and communities in which they operate;
- Align with recognised international standards, including the United Nations Global Compact Framework; and
- Report on the effects of climate change (both direct and indirect) in line with the Financial Reporting Council and / or TCFD recommendations (where appropriate).

If a customer breaches any relevant international, regional or national laws we will ensure that appropriate action plans are implemented to address and resolve such breaches.

In addition, we review customer operations in High Conservation Value Forests, UNESCO World Heritage Sites, UNESCO Ramsar Sites, UNESCO Man & Biosphere Sites or IUCN Cat I-IV Sites.

Sector Specific Statements

As a Lloyds Banking Group is a UK focused financial services provider whose strategy is to support prospects and customers that are closely linked to the fortunes of the UK economy. We recognise our responsibility to help address the economic, social and environmental challenges that the UK faces and remain fully committed to Helping Britain Prosper and supporting environmental sustainability.

The following sectors have been selected because they contribute significantly to UK and global economic growth. These sectors underpin job creation, tax receipts and royalties, and indirectly support community development. However, some activities undertaken in these sectors have the potential to impact environment and local communities negatively. As a consequence, they are often highly regulated.

Power Sector

Our approach covers all customers involved in the following activities:

- Thermal power generation, including gas and oil stations:
- Distribution and transmission:
- Renewables, including onshore and offshore wind, tidal, solar, hydro and biomass; and
- Nuclear.

See our Coal sector statement for more information on Lloyds Banking Group's approach to coal based power.

Lloyds Banking Group will not:

- Finance new large dams¹ for hydro-electric projects that are inconsistent with the World Commission on Dams Framework;
- Finance new nuclear projects in countries that are not members of the International Atomic Energy Agency (IAEA), have not ratified the Convention on Nuclear Safety, the Convention on the Physical Protection of Nuclear Material, the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management, the Treaty on the Non-Proliferation of Nuclear Weapons, and the International Convention for the Suppression of Acts of Nuclear Terrorism; and
- Finance new customers that are lead contractors in the construction or design of nuclear plants/facilities or lead contractors involved with the transport, storage and disposal of nuclear waste in countries that have not ratified or acceded to the Nuclear Non-Proliferation Treaty.

1. Finance large dams that exceed 15m in height or exceed 5m in height and 3 million cubic metres in reservoir volume.

We actively encourage our customers to reduce their reliance on revenue from carbon intensive activities, and to transition to a lower-carbon economy, in line with the aims of the Paris Agreement.

We will review transactions involving solid and gaseous biomass power plant for heat and electricity generation in order to assess the sustainable use of biomass. We expect that any biofuel product will be certified as meeting the EU Renewables Energy Directive.

Coal Sector

Our approach applies to all customers involved in the following activities:

- Coal mining:
 - Exploration;
 - Coal mine construction; and
 - Coal mine operation.
- Coal power:
 - Coal power generation.
- Other:
 - Provision of services or supply of equipment to coal-fired power stations and / or thermal coal mines.

Lloyds Banking Group will not:

- Finance new¹ coal-fired power stations;
- Finance thermal and metallurgical coal mines whether or not the coal is mined for the customer's own purposes or for sale on the open market;

- Provide general purpose banking or funding to new customers where >30% of their revenue comes from operating coal-fired power stations and/or thermal and metallurgical coal mines; and
- Finance (whether for new or existing customers) any coal mine using mountain top mining (MTM) techniques. These include mountain-top-removal (MTR), contour and steep slope mining techniques.

¹New projects include: - completely new plants, major expansions to existing plants and existing plants/customers where the Group does not already provide facilities. For the purpose of this statement, the term financing/finance also covers all types of related banking or capital market products and services, including guarantees, letters of credit, swaps, and other associated facilities.

The Group will continue to work with existing customers whose operations include coal mining or power generation from coal, or who supply equipment or services to these sectors, encouraging these customers to reduce their reliance on revenue from these sources, and support the transition to a lower-carbon economy, in line with the aims of the Paris Agreement.

We expect our existing customers operating coal-fired power stations to demonstrate that they comply with applicable greenhouse gas ('GHG') regulations and/or monitor GHG emissions.

Existing customers whose overall operations include coal mining and coal power generation or who supply equipment or services to the sector will be expected to explain how they plan to reduce their reliance on revenue from coal fired power stations and/or thermal and metallurgical coal mines. This may include, but is not limited to, the following:

- Existence of a diversification strategy to reduce the share of coal in power generation mix (and progress made against this) with a view to eliminating such UK coal power generation in line with UK Government commitments;
- Existence of a diversification strategy to reduce the share of revenue from thermal or metallurgical coal mines (and progress made against this) with a view to reducing such revenue stream to <30% by 2025;
- Publically disclosed safety track record (work fatalities and accident rates);
- Committing to targets to reduce and eliminate emissions relating to coal; and
- Environmental data such as atmospheric emissions of sulphur dioxide, nitrogen oxide, carbon dioxide, water consumption and other specific emissions.

Mining

Our approach applies to all customers involved in the following activities:

- Exploration;
- Mine construction;
- Minerals extraction and mine operation;
- Processing of minerals; and
- Mine closure and rehabilitation.

See our Coal Sector statement for more information on Lloyds Banking Group's approach to Coal Mining.

Lloyds Banking Group will not:

- Finance (whether for any new or existing customer) any mine using the mountain-top-removal technique;
- Support new customers involved in the extraction of asbestos;
- Support new or existing customers engaged in gold mining that use cyanide or mercury in processing operations without adoption of the International Cyanide Management Code for cyanide (or equivalent) or appropriate chemical management controls (for mercury);

- Support new or existing customers involved in the disposal of tailings in rivers or shallow sea environments; and
- Support (new or existing) customers undertaking deep-sea mining.

We look for appropriate alignment with recognised international frameworks concerning the mining, processing, sale and peaceful application of uranium and adherence to the uranium product stewardship principles established by either the World Nuclear Association or the Australian Uranium Association.

We review customers' compliance with the requirements of the Kimberley Process Certification Scheme for mining and trading of rough diamonds.

We review customer operations in High Conservation Value Forests, UNESCO World Heritage Sites, UNESCO Ramsar Sites, UNESCO Man & Biosphere Sites or IUCN Cat I-IV Sites.

Oil & Gas

Our support for customers that require upstream financing focuses primarily on the UK's North Sea fields rather than on emerging markets in other parts of the world. However, some of our customers' have global reserves and operations. Within the UK Continental Shelf, we are the lead bank on a number of Reserve Based Lending structures. In these instances, we act as technical bank (for which we receive fees) on behalf of a syndicate of lenders. As part of this process, we employ qualified reservoir engineers who function as our first line of risk defence.

Our approach covers:

- Exploration and production (upstream):
- Transportation and midstream processing, for example liquefaction of natural gas and storage (midstream): and
- Processing and refining (downstream).

Lloyds Banking Group will not support the following:

- Project specific finance involving oil or gas exploration and production operations in the *Arctic*¹ (including the *Arctic National Wildlife Refuge*) region or *Antarctic territories*²:
- Reserve Based Lending or Borrowing Based Financing for Oil & Gas companies with oil or gas exploration or production operations in the *Arctic*¹ (including the *Arctic National Wildlife Refuge*) region and *Antarctic*² territories (where such lending / financing attributes value to an *Arctic*¹ or *Antarctic*² asset as security or for repayment of the financing):
- Project specific finance involving the exploration, extraction or production of oil from oil sands:
- Project specific finance exclusively dedicated to the transport or storage of oil from oil sands:
- Coal liquefaction: and
- Project specific finance involving Onshore shale fracking.

¹The Arctic Ocean as defined by the International Hydrographic Organization (IHO)

² Antarctica is defined as the land and ice shelves south of 60°S latitude as per the [Protocol on Environmental Protection to the Antarctic Treaty](#)

Lloyds Banking Group will not generally support businesses involved only in exploration. In addition to our standard customer due diligence, we also look for alignment with Global Gas Flaring Reduction Partnership (GGFR) and endorsement of the World Bank's "Zero Routine Flaring by 2030" initiative.

Forestry (incl. Palm Oil)

Forestry plays an important role in meeting global demand for raw timber, pulp and paper manufacture, palm oil and rubber. However, we recognise that certain practices carried out in the sector are considered unsustainable.

These activities contribute to environmental damage and impact negatively on biodiversity and local livelihoods. The Group is a signatory to the Woodland Trust and the Banking Environment Initiative & Consumer Goods Forum 'Soft Commodities' Compact, which supports transformation of the soft commodities supply chain and drives efforts toward zero deforestation by 2020. The Group also endorses the New York Declaration on Forests (NYDF) Secretariat at UNDP.

Our approach applies to all customers involved in the following activities:

- Forestry activities including management, clearance and timber production;
- Raw timber wholesale;
- Pulp and paper manufacture;
- Palm oil and rubber cultivation; and
- Upstream palm oil production units.

Lloyds Banking Group will not support businesses directly involved in:

- Deforestation or the burning of natural ecosystems for the purpose of land clearance relating to the establishment of large scale agricultural plantations;
- The removal of primary or High Conservation (HCV) forests;
- Illegal logging, the purchase of illegally harvested timber;
- Removing or harming peat lands;
- Polluting soil, water and air as a result of their activities; and
- Producing, processing and/or trading of palm oil by companies that are not a member of - or in the process of becoming a member of - the Round Table for Sustainable Palm Oil (RSPO) and / or the International Sustainability & Carbon Certification (ISCC).

Lloyds Banking Group requires its customers to comply with relevant industry standards. These include but are not limited to the Forest Stewardship Council (FSC) certification, Programme for the Endorsement of Forest Certification (PEFC); and (for Palm Oil) the RSPOISCC.

Defence Sector

We recognise that there are inherent ethical and social risk associated with the manufacture and supply of weapons. We also recognise that there are significant environmental risk associated with the defence and aerospace industries, as well as the potential risk of corruption and money laundering.

Our approach applies to all customers involved in the following activities:

- The manufacture, sale, trading, storage or maintenance of weapons (or specific finished components of weapons); and
- The servicing of military equipment and facilities.

Lloyds Banking Group will not support businesses:

- Who engage in any activities prohibited by international conventions ratified by the UK Government (including Cluster Munitions, Anti-Personnel Landmines, Biological and Toxin Weapons, Chemical Weapons and permanent Blinding Laser Weapons);
- Involved in the manufacture, sale, trade, servicing or stockpiling of nuclear weapons other than when these activities are undertaken in connection with the national nuclear weapons programmes of the UK, US or France; and

- Involved with any equipment that is solely designed for use in capital punishment, torture or other cruel, inhuman or degrading treatment or punishment.

This approach also applies to:

- Customers who are majority owned subsidiaries of a parent group whose activities involve weapons banned by international convention. If any group company is involved in such activities the whole group will be prohibited from doing business with us.

As a result of our UK focused business strategy, UK export licensing requirements guide many of our decisions on whether or not to support customer transactions. However, we recognise that some customers may supply goods and services to or from countries that are not subject to the same stringent licensing requirements.

Consequently, we undertake detailed due diligence for such transactions. We reserve the right to choose not to support transactions for customers trading weapons with these countries, whether or not the weaponry is regarded as controversial in nature or an appropriate export licence is held. We review our customers' compliance with UK Government and relevant non-UK jurisdictional import and export licensing and we look for a robust and transparent approach to anti-bribery and corruption practices.

We also review the nature of the equipment and its likely use as part of our standard assessment.

We undertake robust due diligence on all customers who may be involved in the following activities:

- The manufacture, trade, storage or servicing of weapons and military equipment;
- The manufacture, trading, storage or servicing of nuclear weapons or depleted uranium ammunition (or the components); and
- The manufacture, trading, storage or servicing of equipment that enables the deployment or transportation of weapons.

Customers in the UK, who sell firearms intended for sporting or amateur use, or for personal firearm ownership, require full certification under UK legislation. We verify their compliance with this legislation when they open their accounts with us.

Manufacturing (incl. Manufacture of Plastic goods)

Companies in the manufacturing sector account for a significant volume of the UK's trade with the rest of the world. Manufacturers are already generally aware of the regulatory environments in which they operate and that sustainability is increasingly becoming a focus point, and competitive advantage, for the manufacturing sector as they seek to:

- Adapt to changing consumer trends globally;
- Improve production efficiency and future-proof production processes;
- Utilise low carbon energy sources and reduce energy consumption overall;
- Reduce waste and increase the ability to recycle through initiatives like the "Circular Economy";
- Reduce and refine materials usage;
- Manage the sustainability and risks of their supply chain; and
- Ensure they are acting as a responsible member of society.

A number of manufacturing sectors are highly regulated (e.g. Chemicals) and we will ensure that all relevant environmental licenses, approvals and requirements are held and maintained as part of our ongoing risk assessment. Lloyds Banking Group will not support business without the relevant licenses or those that persistently breach regulations.

Whilst plastics are an important material in our economy, they can have serious downsides on the environment and health. The **European Strategy for Plastics in a Circular Economy** will transform the way plastic products are designed, used, produced and recycled in the European Union as it will deliver greater added value for a more competitive, resilient plastics industry and help protect the environment, reduce marine litter, greenhouse gas emissions and our dependence on imported fossil fuels.

We recognise the inherent sustainability risks associated with the sector and that the sector will experience a significant amount of material change in the medium to long-term as it transitions to lower carbon environments. We will support the sector as it transitions to a lower carbon environment through robust due diligence, risk assessment and sharing of knowledge and best practice as well as actively supporting investments in sustainable projects. This support is underpinned by our £10m sponsorship of the Advanced Manufacturing Training Centre educating and up-skilling the next generation of engineers, and our specific Helping Britain Prosper pledge on funding to the general manufacturing sector.

Automotive sector (incl. Freight transport by road)

The Automotive sector is a very important sector to the UK economy and LBG's Helping Britain Prosper plan as it is the UK's largest manufacturing export sector through both direct manufacturing and the supply chain.

We recognise that the sector will experience a significant amount of material change in the medium to long term through the development of:

- Alternative fuels;
- Autonomous vehicles;
- Potential changes to vehicle ownership; and
- Developments in connective technology.

Lloyds Banking Group will continue to support the sector in helping it to identify cost savings through the development, manufacture and operation of more efficient vehicles with a low environmental burden, and achieve CO₂ reduction targets. We acknowledge that these developments will be driven by Government and Local Council Policy and the roll out of infrastructure to support these.

Our approach covers:

- Original Equipment Manufacturers including their Captive Finance arms;
- Suppliers in to the sector;
- Financing and / or leasing of vehicles;
- Dealerships; and
- Road transportation and logistics service providers.

Within Lloyds Banking Group, we have also changed our own internal car scheme and will only supply zero emission vehicles from 2021 in line with our sustainability ambitions.

Agriculture (Incl. Agricultural Commodities)

The agriculture sector contributes significantly to the UK economy and accounts for 61% of the raw materials for the UK's food production and manages the environment of c70% of the UK's land area. It is also an increasing key provider of renewable energy for the UK from biomass, wind and solar based on agriculture land, accounting for over 10% of the UK's electricity generation.

The sector is increasingly aware and proactive in managing the risks associated with its use of natural resources through the adoption of sustainable farming practice.

Environmental risks associated with the sector include:

- Soil degradation caused by intensive farming practices & extreme weather events;
- Peatland degradation where peatlands may be drained for agricultural purposes. Drainage also increases the risk of fire and flooding;
- Food production can be water intensive. Depending on the source of water, impacts can include changes to hydrological conditions, salinisation of soils, eutrophication (excessive nutrients leading to algal blooms) and changes to water availability in adjacent areas;
- Pesticides, which can lead to improved yield, however also impacting water and land contamination, and increasing pesticide resistant strains of pests and diseases;
- Agriculture contributes to GHG increases through CO₂ release, methane release (predominately through intensive livestock operations), and nitrous oxide releases from fertilizer; and
- Agriculture practices are affected by climatic issues such as temperature and water availability, which can affect productivity.

Whilst we recognise the inherent sustainability risks associated with the sector and that the sector may significantly change going forward, we are committed to supporting customers in the sector as it transitions to a lower carbon environment through the development of new innovative products and/or supporting them to transition in line with NFU's target to render British farming carbon neutral by 2040.

Reference should also be made to the Forestry (including Palm Oil) and Fisheries statements.

Animal Welfare

We recognise that there are inherent ethical and social risks associated with animal welfare and that as a financial services provider we can be connected to potential adverse impacts on animal welfare, and that animal welfare could potentially be adversely impacted in several of the sectors in which Lloyds Banking Group is active.

Lloyds Banking Group expects its customers to adhere to all laws and regulations related to animal welfare, including (but not limited to) the [UK Animal Welfare Act 2006](#) and to seek to comply with voluntary standards related to animal welfare.

Lloyds Banking Group will not support any businesses engaged in the following:-

1. Wildlife and endangered species
 - Trade in wildlife or wildlife products regulated under CITES¹ (focus on endangered categories); and
 - Trade involving endangered species² for commercial purposes.
 1. Convention on International Trade in Endangered Species of Wild Fauna and Flora (www.cites.org).
 2. As defined by the IUCN Red List of Threatened Species or as defined in any national legislation.
2. Animal testing and biotechnology
 - Commercial, non-healthcare related animal testing (including but not limited to cosmetics testing);
 - The use of endangered species or great apes (gorillas, orang-utans, bonobos, chimpanzees) for testing or experimental purposes;
 - Healthcare related animal testing that is non-compliant with EU, US or equivalent legislation; and
 - Genetic modification and cloning of animals (or humans) for commercial purposes.
3. Fur (excludes leather and wool)
 - New customers involved in fur activities (including capturing or keeping animals for fur, manufacturing, trading or selling fur products); and
 - Provide new or increased facilities with existing customers involved in fur activities.

4. Animals and Entertainment

- Support of any type of animal fights for entertainment;
- The use of cetaceans (whales and dolphins) for entertainment; and
- Entertainment events with animals where the Five Animal Freedoms are not respected.

Fisheries

Lloyds Banking Group supports fisheries to obtain or use the Marine Stewardship Council certificate for wild-caught fish and seafood, and the Aquaculture Stewardship Council certificate for farmed fish and seafood (aquaculture) or equivalent standards.

Given the potential environmental impact, Lloyds Banking Group will not support:

- Damaging fishing methods – including but not limited to the use of explosives and/or poison related to the catching of fish or shellfish, use of driftnets in excess of 2.5km or use of driftnets intended for the capture of species such as tuna, oceanic sea bream, marlin, sailfishes, saries, dolphin fishes, sharks, swordfish and cephalopods; and
- Direct involvement in shark-finning or trading in shark fin, commercial whaling, illegal, unreported or unregulated (IUU) fishing activities or trade in IUU products.

UNESCO World Heritage Sites (incl. Ramsar Wetlands)

Due to the importance of the UNESCO World Heritage sites and the Ramsar Wetlands, Lloyds Banking Group will not support projects which could result in:

- A World Heritage Site being placed on the “In Danger” list, unless the World Heritage Committee specifically agrees in advance to that project; and
- The special characteristics of a Ramsar Wetland being threatened.