LBG External Sector Statements

Introduction

Our purpose to help Britain prosper, 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 colleagues to meet some bold commitments.

Aligned to this, our sustainability strategy outlines our commitment to support 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 is 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. Our sector statements will evolve as we continue to focus our ambitions to deliver on our Net Zero Banking Alliance (NZBA) commitments, working with customers,

Published February 2022, with updates to the Coal and Oil and Gas statements in October 2022 as shown in the text.

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

Scope and approach

These statements apply to the Group's customers that have a direct lending relationship with LBG including direct loans within Scottish Widows.

Sectors covered:

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

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 ESG and climate-related risk.

Furthermore, either directly or through third-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 to behave more sustainably and responsibly. Our Responsible Investment Team exercises governance, oversight and monitoring of Managers on their stewardship activities and outcomes through regular quarterly meetings and reporting. Additionally, on our priority themes, Climate Change and Carbon and Board Diversity, the team also engages directly on our most material holdings and through relevant collective engagement opportunities.

We regularly review all of our customers that we have a direct lending relationship with, and 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 to meet these parameters, 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:

*This excludes personal loans and retail mortgages.

- 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 applicable project finance activity.

We have regular meetings / engagements with our customers (where appropriate) that we have a direct lending relationship with, and regularly review their public filings, press reports and analyst presentations. Within Commercial Banking, credit policy requires sustainability risks to be considered for all new and renewal credit applications, and specifically commented on for our larger counterparties and for all new business in excess of £500,000.

We expect our existing customers to:

- Demonstrate that they can comply with applicable greenhouse gas ('GHG') regulations and/or monitor GHG emissions;
- Commit, where high emitters of GHG, to science-based targets to reduce their GHG emissions;
- 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 endeavour to procure action plans that 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

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 as the country transitions to a sustainable, low carbon future.

In line with TCFD recommendations, we have identified our exposure to priority sectors which are considered to be at increased risk from the impacts of climate change. The following sector statements should be considered in the context of the specific sectors' contribution to our financed emissions. Our exposure to these sectors, as well as additional information related to our financed emissions, can be located in the Lloyds Banking Group Environmental, Social and Governance Report and the Lloyds Banking Group Climate Report. *Note: the data in this document does not include any data for the Insurance legal entities.*

Power

Our approach covers all customers involved in the following activities:

- Thermal power generation, including gas and oil power 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 dams[1] 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 and/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 applicable UK Government standards.

Coal

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

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

Thermal Coal Mining[1,2,3]

We recognise the urgent need for the global transition away from thermal coal to renewable energy sources. As such, we will not finance any new or expanded thermal coal mining. Additionally, we plan a full exit from all entities that operate thermal coal facilities by 2030.

Lloyds Banking Group will not:

- Finance any diversified mining entities, that have a revenue greater than 5% derived from thermal coal mining by the end of 2022;

- Provide any financing (including general corporate purpose financing and project financing) for new or expanded thermal coal mining development;
- We will not provide any finance to new entities that have plans to increase thermal coal mining capacity.

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; however, we will not directly finance retrofit activities that prolong the life of existing thermal coal facilities), in line with our phase-out timelines and plan a full exit from all diversified mining companies that operate thermal coal facilities by 2030.

Energy Utilities[1]

To further support the transition away from thermal coal to renewable energy, we will not finance any new or expanded thermal coal power plant development. Additionally, we plan a full exit from all energy entities that generate energy from thermal coal by the end of 2030.

We are members of 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.

Update to our position on coal 20 October 2022: To ensure enough electricity supply for the UK this winter, the UK Government has asked a small number of our power generation clients to keep their UK coal-fired power stations available until March 2023. We have already exited all direct financing of coal fired power stations and had expected to have no clients who operate UK coal-fired power stations by the end of 2022. This will now be delayed as our clients respond to the UK government's request. We remain committed to a full exit before the Government's 2024 target. While this delay is unexpected, we recognise that this is a short-term, precautionary measure to guarantee the UK's power supply and we remain committed to reducing the carbon emissions we finance to net zero by 2050 or sooner.

Lloyds Banking Group will not:

- Finance any entities that have a revenue greater than 25% derived from thermal coal generation by the end of 2022 and 20% by the end of 2023;
- Provide any financing (including general corporate purpose financing and project financing) for new or expanded coal-fired power plant development;
- Provide any finance to new entities that have plans to increase thermal coal power production capacity;
- Support project finance or direct investment in coal power operations of energy utilities elsewhere in the world, unless the finance is used to decommission the coal power generation or convert to renewable power generation;

We may provide finance to entities towards reducing their thermal coal portfolio (including decommissioning plants or retrofitting of existing facilities to help them transition away from thermal coal; however, we will not directly finance retrofit activities that prolong the life of existing thermal coal facilities) and plan a full exit from all diversified energy entities that generate energy from thermal coal by the end of 2030.

Metallurgical Coal Mining[1, 3]

Lloyds Banking Group will not:

- Directly finance 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 revenue is derived from operating metallurgical coal mines; and
- Finance any coal mine using mountain top mining (MTM) techniques. These include mountain-top-removal (MTR), contour and steep slope mining techniques.

Supporting our clients' transition

As part of supporting our clients' transition, we will be working with our clients to verify their net zero transition plans to reduce their reliance on revenue from thermal coal. This may include, but is not limited to, progress against committed diversification strategies to:

- Eliminate thermal coal mining or coal power generation from UK operations by 2024 in line with UK Government commitments;
- Reduce thermal coal mining or coal power generation from international operations in line with Paris Agreement aligned emissions reduction targets.

Lloyds Banking Group may continue to work with existing customers who supply equipment or services to these sectors. As conditions of continuing to work with these customers, we will encourage them to reduce their reliance on revenue from these sources, in support of the transition to a low-carbon economy. We will also require them to demonstrate:

- That they comply with applicable greenhouse gas ('GHG') regulations and/or monitor GHG emissions;
- That they publish environmental data e.g. atmospheric emissions of sulphur dioxide, nitrogen oxide, carbon dioxide, water consumption;
- A publicly disclosed safety track record (work fatalities and all injury frequency rates).

1 Statements included here are only applicable to our corporate and institutional clients (clients with a turnover >£100m) and exclude any clients within our SME portfolio that would form part of the supply chain to the Energy and Coal Mining entities.

2 Statements on thermal coal mining exclude commodities trading activities.

3 Thermal coal is coal used by power plants and industrial steam boilers to produce steam, electricity or both. Metallurgical coal is used to create coke, which serves as an input for the production of steel.

4 We are in the process of developing our transition strategy for the supply chain supporting the thermal coal sector and will publish an updated approach in due course.

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;
- Support (new or existing) customers undertaking deep-sea mining;
- Support new or existing customers in Extraction and / or Marketing of rough diamonds not certified by the Kimberley Process Certification Scheme; and
- Support new or existing customers in mining of conflict minerals.

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

As part of our commitment to supporting the transition to a sustainable, low-carbon economy, we will work with our existing clients to support them to establish credible and impactful transition plans. We are developing an assessment methodology and an engagement strategy for these plans and will require existing clients to have their plans in place by the end of 2023.

We 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.

Our support for customers that require upstream financing focuses primarily on the North Sea fields. 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 predominantly 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 upstream oil or gas exploration, development and production in the *Arctic*[1] *(including the Arctic National Wildlife Refuge) region or Antarctic territories*[2], as well as midstream and downstream operations related to Arctic or Antarctic oil and gas;
- 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, production, refining, storage or transportation of oil from oil sands;
- Financing to companies involved in the exploration or development of oil sands, outside of fields already approved for development as of 2021;
- Coal liquefaction;
- Project specific finance involving Onshore oil & gas shale fracking; and
- Updated on 20 October 2022: 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).

1 The 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 the Global Gas Flaring Reduction Partnership (GGFR) and endorsement of the World Bank's "Zero Routine Flaring by 2030" initiative. We conduct enhanced due diligence for all oil and gas transactions.

Forestry

Forestry plays an important role in meeting global demand for raw timber, pulp and paper manufacture, palm oil and rubber. Forestry and reforestation also play a critical role in the fight against climate change, with trees and hedges acting as natural and effective carbon sinks which also have the potential to greatly benefit the environment around them. 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. 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.

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;
- 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 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). Where forestry activity is occurring on indigenous lands, we expect clients to apply governance policies that respect the right to Free, Prior and Informed Consent (FPIC) of indigenous peoples. We expect our clients to take steps to assess biodiversity impacts and avoid net biodiversity loss.

To support reforestation efforts, Lloyds Banking Group will:

- Plant 10m new trees over the next decade (between 2020 and 2030) in partnership with the Woodland Trust;
- Support the Agriculture sector to decarbonise in line with the National Farmers Union's 2040 ambition, by subsidising schemes run by the Woodland Trust and bringing the average cost of a tree down from £3 to £0.75p;
- Plant 10 new areas of woodland throughout the UK over the next 10 years (between 2020 and 2030).

Defence Sector

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

- Which 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)

Manufacturing accounts for nearly half of UK exports[1]. 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. We expect our manufacturing clients to take the following issues into consideration:

- Adapting to changing consumer trends globally;
- 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 initiatives like the "Circular Economy";
- Reducing and refining materials usage;
- Managing the sustainability and risks of their supply chain; and
- Ensuring 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 UK government has recognised the waste issue associated with plastics and has therefore committed to a target of eliminating avoidable plastic waste by end of 2042[2].

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 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 the training and upskilling of colleagues in understanding the sustainability landscape, through training and accreditation provided by the Cambridge Institute of Sustainability Leadership (CISL).

1 Inside the black box of manufacturing: Conceptualising and counting manufacturing in the economy, University of Cambridge Institute for Manufacturing, 2019

2 Plastic waste, House of Commons Library May 2021 Briefing Paper

Automotive sector

The Automotive sector is a very important sector to the UK economy and Lloyds Banking Group's Helping Britain Prosper plan as it is the UK's largest manufacturing export sector through both direct manufacturing and the supply chain. Additionally, in 2020 Transport accounted for 30%[1] of the UK's greenhouse gas emissions, making it the highest emitting sector; therefore, will play a significant role in supporting the UK Government to achieve net zero by 2050.

The sector is undergoing a substantial overhaul driven by external regulation following the announcement in 2020 by the UK Government of the ban on new sale of petrol and diesel cars from 2030 and hybrids from 2035; and the wide-ranging Transport Decarbonisation plan published in 2021.

As a consequence, 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 such as Electric and Hydrogen Fuel Cell and related infrastructure;
- 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 CO_2 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:

- Partnering with auto manufacturers to provide a full suite of financial services products including consumer vehicle finance, vehicle leasing and vehicle stock lending;
- Financing and / or leasing of vehicles;
- Intermediary distribution of retail consumer vehicle finance and commercial stocking via Motor Dealerships;
- Road transportation and logistics service providers and;
- Lending and financial services to auto manufacturers including their captive finance arms and supporting suppliers to the auto sector.

More specifically, we work with corporate clients and customers to raise awareness of the opportunity to move to low emission transportation and assist them with making the transition. We recognise that electric fleet transition is crucial to creating a strong second-hand market for EVs, which is fundamental for wider consumer take up.

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.

1 2020 UK greenhouse gas emissions, provisional figures, BEIS 25 March 2021

Agriculture

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 practices.

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 CO_2 release, methane release (predominantly through intensive livestock operations), and nitrous oxide releases from fertilizers; 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 net zero, through the development of new innovative products and propositions.

Reference should also be made to the Forestry, Agricultural Commodities and Fisheries statements.

Agricultural Commodities

Soya

Soya is a significantly produced commodity globally that is consumed across the food chain in animal feed and directly. It is recognized that soybean production may cause deforestation, biodiversity loss and displacement of small farmers and indigenous people. Lloyds Banking Group supports the commitment of the UK Roundtable on Sustainable Soya, to soya that is legal and cultivated in a way that protects against conversion of forests and valuable native vegetation.

Lloyds Banking Group will not support businesses directly that are:

- Not a member of - or in the process of becoming a member of - the Roundtable on Responsible Soy (RTRS).

Lloyds Banking Group expects clients to:

- In relation to soya production, demonstrate compliance to all local, national and international laws and regulations;
- Ensure production is not in High Conservation Value Areas;
- Ensure production does not cause degradation to the land and biodiversity of the area/region with zero deforestation achieved by 2030 at the latest;
- Have a purchasing policy that considers sustainability of the soya production process;
- Apply governance policies that respect the right to Free, Prior and Informed Consent (FPIC) of indigenous peoples.

Palm Oil

Palm oil is a very important global commodity, being the most widely used vegetable oil in a wide range of consumer products. Whilst the crop is the most efficient of all vegetable oils to produce, its production can be a major driver of deforestation and biodiversity loss. Lloyds Banking Group supports the UK government's commitment to ensuring 100% of palm oil sourced is from sustainable sources.

Lloyds Banking Group will not support businesses directly that are:

- Not a member of - or in the process of becoming a member of - the Round Table for Sustainable Palm Oil (RSPO).

Lloyds Banking Group expects clients to:

- In relation to palm oil production, demonstrate compliance to all local, national and international laws and regulations;
- Ensure production is not in High Conservation Value Areas;
- Ensure production does not cause degradation to the land and biodiversity of the area/region with zero deforestation achieved by 2030 at the latest;
- Have a purchasing policy that considers sustainability of the palm oil production process;
- Apply governance policies that respect the right to Free, Prior and Informed Consent (FPIC) of indigenous peoples;
- Adopt No Deforestation, No Peat, No Exploitation (NDPE) policies.

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 CITES[1] (focus on endangered categories); and

- Trade involving endangered species[2] 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 UK, 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, dolphin fishes, sharks, swordfish and cephalopods; deep Sea bottom trawling >600m; 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.

The above sector statements represent our policy positions under normal business conditions and their application may be affected in case of extenuating circumstances, such as a significant change in government policy.