



SECTOR STATEMENTS

Doing business responsibly in Lloyds Banking Group involves managing risk effectively. We must make the right decisions and do the right things for our shareholders and our colleagues. We expect our corporate customers to comply with applicable international conventions, sanctions and embargoes, legislation, and licensing requirements. We also expect them to show a clear commitment to robust Ethical, Social and Environmental Risk (ESE Risk) management, including Health & Safety, environmental and social impact, and evidence of a good, track record for transparency in the way they manage these and other risks.

Scope

The following sector statements apply to the Group's lending activities and reflect the approach we take to risk assessment with our customers. We periodically review all customers in these sectors and where those customers appear to operate outside our risk parameters, we work with them to understand how they plan to meet our requirements. If this cannot be achieved, we will stop lending to them at the earliest opportunity.

We have clear positions about lending in all sectors, particularly those which feature heightened risk. They include:

- Defence
- Forestry
- Mining
- Oil & Gas
- Power

Requirements

In all sectors which may have heightened ESE risk, 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 Framework's labour, environment and anti-corruption standards
- assess the long-term impact of their activities across the entire supply chain and give specific consideration to impacts that affect indigenous people and local communities

The Group is a signatory to the Equator Principles. We support their application in all project finance activity.

The defence sector

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

Our approach covers all customers that manufacture, sell, trade, store or maintain weapons (or specific finished components of weapons) and to those who service military equipment and facilities. 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.

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

- the manufacture, trading, storage or servicing of weapons and military equipment
- trading in weapons banned by international convention
- the manufacture, trading, storage or servicing of Nuclear weapons or Depleted Uranium ammunition (or components)
- 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 accounts with us.

We will not engage in any activities prohibited by international conventions supported by the UK Government (e.g. the Oslo Convention on Cluster Munitions or the Ottawa Treaty on Anti-Personnel Landmines). We will not support businesses involved with these weapons. This approach applies to our own investment assets and those managed on behalf of customers whose fund investment policies we define. More information on Scottish Widows' Responsible Investment approach is available [here](#).

We will not do business with customers involved with any equipment that could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment.

As a result of our UK focused business strategy, UK export licensing requirements guide many of our decisions to support customer transactions.

However, we recognise that some customers may supply goods and services from countries not subject to the same stringent licensing requirements.

Consequently, we undertake detailed due diligence for those transactions. This assesses the relevant country using the following parameters:

- transparency International Corruption Perception index
- human rights violations
- child labour or forced labour
- on-going conflict
- drug production and drug trafficking

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.

For details of our compliance monitoring activity for this sector, see the table below.

The forestry sector

Forestry plays an important role in supplying 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, impact on biodiversity and negatively affect local livelihoods. The Group is a signatory to 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.

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

For details of our compliance monitoring activity for this sector, see the table below.

The mining sector

Companies in the mining sector play an important role and contribute significantly to UK and global economic growth. The extraction and processing of minerals and metals underpins job creation, tax receipts and royalties. It also indirectly supports community development. However, some activities undertaken in the sector have the potential to make a negative impact on the environment and local communities. Consequently, the sector is highly regulated.

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

- exploration
- mine construction
- minerals extraction and mine operation
- processing of minerals
- mine closure and rehabilitation

We will not support customers involved in either the extraction of asbestos or operations involving mountain top removal.

For details of our compliance monitoring activity for this sector, see the table below.

The oil and gas sector

Companies in the oil and gas sector play an important role, and contribute significantly to UK and global economic growth.. The sector underpins job creation, tax receipts and royalties. It also indirectly supports community development. However, some activities undertaken in the sector have the potential to make a negative impact on the environment and local communities. Consequently, the sector is highly regulated.

Our support for customers involving upstream financing focuses primarily on the UK North Sea rather than on emerging markets in other parts of the world. However, some of our customers' reserves and operations are outside the UK North Sea. In 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 (a fee-paid role) on behalf of a syndicate of lenders. To support

us, 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)
- processing and refining (downstream)

We do not generally support customers involved in exploration only, because we regard this as an equity risk.

For details of our compliance monitoring activity for this sector, see the table below.

The power sector

Companies in the power sector play an important role, and contribute significantly to UK and global economic growth. The sector underpins job creation, tax receipts and royalties. It also indirectly supports community development. However, some activities undertaken in the sector have the potential to make a negative impact on the environment and local communities. Consequently, the sector is highly regulated.

Our approach covers all customers involved in the following activities:

- thermal power generation, including coal, gas and oil stations
- distribution and transmission
- renewables, including onshore and offshore wind, tidal, solar, hydro and biomass
- nuclear

For details of our compliance monitoring activity for this sector, see the table below.

Compliance Monitoring	
<p>We monitor our customers regularly. We review their, public filings, press reports and analyst presentations. Bank meetings and our internal environmental risk screening support these reviews. The typical scope of our monitoring reviews is summarised below.</p>	
All Sectors	<ul style="list-style-type: none"> • We review their compliance with our Anti-Money Laundering & Counter Terrorism and Sanctions & Related Prohibitions Policies • 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 • We consider if there has been any breach of relevant international, regional and national laws • We look for alignment with recognised international standards, including the United Nations Global Compact Framework • We look for appropriate compliance with environmental and health and safety requirements in all jurisdictions
<p>In addition to the points above, the following sector-specific monitoring also applies:</p>	
Defence Sector	<ul style="list-style-type: none"> • We review their compliance with UK Government and relevant non-UK jurisdictional import and export licensing • We look for a robust and transparent approach to anti-bribery and corruption practices • We consider any activities with countries on our restricted appetite list
Forestry Sector	<ul style="list-style-type: none"> • We review their compliance with relevant industry standards including but not limited to Forest Stewardship Council (FSC) certification, Programme for the Endorsement of Forest Certification (PEFC) and Roundtable on Sustainable Palm Oil membership/certification
Mining Sector	<ul style="list-style-type: none"> • We review their appropriate compliance with the requirements of the Kimberley Process Certification Scheme for mining and trading of rough diamonds • We look for appropriate alignment with recognised international frameworks for the mining, processing, sale and peaceful application of uranium and adherence to the uranium product stewardship principles established by the World Nuclear Association or the Australian Uranium Association
Power Sector	<ul style="list-style-type: none"> • We look for membership of the International Atomic Energy Agency (for nuclear operators) • We consider any breaches of relevant Greenhouse Gas emission regulations