



FORESTRY (incl. PALM OIL) SECTOR STATEMENT

The UK is committed to the vision of a sustainable, low carbon economy, and has placed clean growth at the heart of its industrial strategy. This will require a radical reinvention of our ways of working, living and doing business.

We have a unique position within the UK economy and a purpose of Helping Britain Prosper. The successful transition to a more sustainable, low carbon economy that is resilient to climate change impacts is, therefore, of strategic importance to us.

We support the aims of the 2015 Paris Agreement on Climate Change, UK Government's Clean Growth Strategy and the United Nations' Sustainable Development Goals.

We are committed to supporting the UK successfully to engage with the opportunities and challenges created by climate change and the need to transition to a low carbon economy.

At Lloyds Banking Group, doing business responsibly involves managing risk effectively, making the right decisions and doing the right things for our customers, shareholders and our colleagues.

We expect our corporate 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) risk management.

A sustainable and responsible approach is integral to how we operate. We have committed to use scarce natural resources more sustainably, manage our environmental impacts, and support our customers by helping them transition to a low carbon economy. We are committed to help responsible and sustainable UK businesses invest in the technologies, assets, and solutions which will enable them to mitigate risks and capitalise on opportunities.

In 2016, Lloyds Bank launched £1bn of green funding for commercial real estate. The fund is helping customers to reduce the CO2 emissions by improving the energy efficiency of 5 million square feet of real estate between 2018 and 2020.

Through our Clean Growth Finance scheme, we are aiming to deliver the most inclusive UK green funding in the market by offering an additional £2bn of discounted lending to businesses willing to invest in reducing carbon and greenhouse gas emissions, waste or improving energy and water efficiency.

Scope and approach

This sector statement applies to the Group's lending activities. It reflects the approach we take to risk assessment with our customers

Where our Insurance business lends any shareholder assets to borrowers, this sector statement 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 are considering investing in new issues of such bonds, we have advised them of this sector statement and asked them to reflect it in their decision.

This sector statement does 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).

We periodically review all of our lending customers in the forestry (incl. Palm Oil) sector. Where they appear to be operating outside of our risk parameters, we work with them to understand how they plan to our requirements. If this does not happen, we will stop lending to them at the earliest opportunity.

Requirements

In all sectors which experience heightened exposure to ESG 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's labour, environment and anti-corruption standards.
- assess the long-term impact of their activities across the entire supply chain, considering indigenous people and local communities specifically.

Lloyds Banking Group is a signatory to the Equator Principles and ensures their application in all project finance activity.

The Forestry and Palm Oil sector

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 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; and
- upstream palm oil production units.

Lloyds Banking Group will not support businesses directly involved in illegal logging, the purchase of illegally harvested timber or companies that use illegal and/or uncontrolled use of fire for land clearance.

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 Roundtable on Sustainable Palm Oil (RSPO) membership/certification.

We have regular meeting with our customers and regularly review their public filings, press reports and analyst presentations. Internal meetings and our environmental risk screening processes support these reviews.

We review customers' 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 and we look for alignment with recognised international standards, including the United Nations Global Compact Framework.

We also look for appropriate compliance with environmental and health and safety requirements in all jurisdictions.