



POWER 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 power sector. Where they appear to be operating outside of our risk parameters, we work with them to understand how they plan to meet our requirements. If this does not happen, we will stop lending to them at the earliest opportunity.

See Lloyds Banking Group's Coal Sector statement for our approach to Coal Power.

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 Power sector

Companies in the power sector 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 impact environment and local communities negatively. As a consequence, the sector is highly regulated.

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
- 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 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.
- 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. Large dams exceed 15m in height or exceed 5m in height and 3million cubic metres in reservoir volume.

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

We expect our existing customers to demonstrate that they can comply with applicable GHG regulations and/or monitor greenhouse gas (GHG) emissions.

We actively encourage these customers to reduce their reliance on revenue from fossil fuel sources, 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.

We review customers' compliance with our Anti-Money Laundering & Counter Terrorism and Sanctions & Related Prohibitions policies.

We review customers' 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.