



# COAL 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 coal 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.

## 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 Coal sector

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

|             |   |
|-------------|---|
| Coal mining | <ul style="list-style-type: none"><li>• Exploration</li><li>• Coal mine construction</li><li>• Coal mine operation</li></ul>                            |
| Coal power  | <ul style="list-style-type: none"><li>• Thermal coal power generation</li></ul>   |
| Other       | <ul style="list-style-type: none"><li>• Provision of services or supply of equipment to coal-fired power stations and / or thermal coal mines</li></ul> |

Lloyds Banking Group will not:

- finance new<sup>1</sup> coal-fired power stations or thermal coal mines;
- provide general purpose banking or funding to new customers if the majority of their revenue comes from operating coal-fired power stations and/or thermal coal mines;
- finance (whether for new or existing customer) any coal mine using the mountain-top-removal technique.

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.

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.

We actively encourage these customers to reduce their reliance on revenue from these sources, and to 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 GHG regulations and/or monitor greenhouse gas (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 coal mines.

<sup>1</sup>New 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.