

Lloyds Banking Group

External Sector Statements

Introduction

At Lloyds Banking Group, our purpose is Helping Britain Prosper. As the UK's largest financial services provider with more than 27 million customers, we have an important role to play in creating a more sustainable and inclusive future for people and businesses, by shaping finance as a force for good.

Tackling the climate crisis goes hand in hand with delivering our purpose of Helping Britain Prosper. We serve millions of people and businesses across the UK every day and we can make a difference to supporting – and accelerating – the UK's transition to a low carbon future. Supporting the transition to a low carbon economy is core to our Group strategy.

We also 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 transformation of our ways of working, living and doing business. We also support the Taskforce on Climate-Related Financial Disclosures (TCFD) Framework and continue to assess and develop our disclosures against the TCFD recommendations and recommended disclosures, considering relevant TCFD guidance and materials and evolving best practice.

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 on Business and Human Rights, 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.

Specifically, we are a signatory to the UN Global Compact and do not tolerate slavery, trafficking, child labour or forced labour in any part of our business or supply chain. Please refer to our [Reporting Centre](#) for further information.

We expect 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) risk management.

Risk management

As a Group, managing risk effectively is fundamental to our strategy and future success. We are a, 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, and behave and the decisions they make. As part of this framework, risk appetite – the amount and type of risk that Lloyds Banking Group (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. Our sector statements and associated controls will evolve as we continue to focus our ambitions to deliver on our Net Zero Banking Alliance (NZBA) commitments, working with customers, 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. As set out in our Environmental Sustainability Report, transitioning to net zero is a joint effort and will depend on appropriate government policies and incentives being implemented, industry collaboration and significant technological advancements.

Scope and approach

These statements apply to the specific entities and customers that have a direct lending relationship with the Group including direct loans within Scottish Widows.

Sectors covered¹:

- Power
- Coal
- Mining
- Oil & Gas
- Defence
- Manufacturing (incl. Manufacturing of Plastic Goods)
- Automotive sector
- Agriculture
- Forestry and Agricultural Commodities
- Shipping
- Animal Welfare
- Fisheries
- UNESCO World Heritage Sites and 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.

¹ Sector statements are applicable to clients where we can identify client activity by their standard industry classification (SIC) code (excluding automated decisioning for smaller counterparties, currently for new lending of £100,000 or less). Forestry and Agricultural Commodities, Animal Welfare and UNESCO World Heritage Site and Ramsar Wetland statements are not sector specific.

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:

- Implement effective, market-based solutions that take into account 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.

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. We ensure that ESG-related risks are considered for all Commercial Banking customers that bank with us, with specific commentary in new and renewal credit applications where total aggregated hard limits exceed £500,000 (excluding automated decisioning processes for smaller counterparties). The Group is also a signatory to the Equator Principles and ensures their application in all applicable project finance activity.

We expect our customers to:

- Demonstrate that they can comply with applicable greenhouse gas ('GHG') regulations and/or monitor GHG emissions;
- Commit, where they are 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, social and health and safety requirements in all jurisdictions in which they operate;
- Respect and protect human rights, both of their own workforce but also those in their supply chain and comply with all applicable legislation, regulations and directives 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 we become aware that a customer breaches any applicable 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, as appropriate, customer operations in High Conservation Value Forests, UNESCO World Heritage Sites, Ramsar Wetlands, UNESCO Man & Biosphere Sites or IUCN Cat I-IV Sites.

*This excludes Consumer Lending.

Sector Specific Statements

Lloyds Banking Group is a UK focused financial services provider whose strategy is to support 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 Sustainability 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 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), and 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, if those new customers are located in countries that have not ratified or acceded to the Nuclear Non-Proliferation Treaty.

We recognise the need for low-carbon energy generation to meet baseload requirements during the transition away from fossil fuels. As such, we will consider financing nuclear energy projects in the UK, subject to their fulfilling necessary requirements around risks including, but not limited to, waste management, security, and decommissioning. In the UK, nuclear projects are overseen by the Office for Nuclear Regulation (ONR). We will only finance nuclear projects using technologies approved by the ONR and meeting all ONR requirements. We will only finance nuclear projects outside the UK if we are assured that the applicable jurisdictional requirements are as rigorous as those of the ONR, including by referring to the IAEA.

We 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 financing transactions involving solid and gaseous biomass for heat and electricity generation in order to assess the sustainable use of biomass. We expect that any biomass product will be

certified as meeting the applicable UK Government standards. We will also assess any asset level project financing of new build biomass in line with the standards of the Sustainable Biomass Program, where these apply.

In addition, the Group recognises that the renewable energy sector has associated human rights risks attached to it through the manufacture and origination of components and raw materials that are sourced from regions where the use of forced labour, slavery and child labour in the supply chain has been identified by the United Nations². This includes source materials such as polysilicon used in solar panels, cobalt used in lithium-ion batteries, and copper used for wind and solar power projects.

1 Finance large dams that exceed 15m in height or exceed 5m in height and 3 million cubic metres in reservoir volume.

2 <https://www.thebritishacademy.ac.uk/documents/4198/Just-transitions-energy-freedom.pdf>

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; and
- 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 diversified mining entities that have a revenue greater than 5%⁴ derived from thermal coal mining
- Finance entities that do not have a commitment to phase-out all remaining thermal coal mining by 2030.
- Provide financing (including general corporate purpose financing and project financing) for new or expanded thermal coal mining development⁵. Any new general corporate purpose financing will require us to be satisfied that the proceeds will not be used for new or expanded thermal coal mining development;
- Provide 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 Utilities¹

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 and we no longer provide direct lending to clients that operate UK coal-fired power stations.

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.

Lloyds Banking Group will not:

- Finance entities that have a revenue greater than 20% derived from thermal coal generation by the end of 2023;⁴
- Finance entities that have more than 15 GW of coal power generation capacity;
- Finance entities that do not have a commitment to phase-out all remaining thermal coal generation by 2030;
- Finance new entities that have plans to increase thermal coal power production capacity;
- Provide financing (including general corporate purpose financing and project financing) for new or expanded coal-fired power plant development⁵. Any new general corporate purpose financing will require us to be satisfied that the proceeds will not be used for new or expanded coal-fired power plant development; and
- Support project finance or direct investment in coal power operations of energy utilities outside the UK, 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 confirm 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; and
- 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 GHG regulations and/or monitor GHG emissions;

- That they publish certain environmental data e.g. atmospheric emissions of sulphur dioxide, nitrogen oxide, carbon dioxide, and water consumption;
- A publicly disclosed safety track record (work fatalities and 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 If fluctuations in the price of thermal coal or coal-fired power generation cause existing clients to exceed the identified revenue thresholds, we may continue to provide general purpose finance facilities if the underlying level of thermal coal mining or coal-fired power generation has remained constant or declined and there is a plan to comply with the identified revenue thresholds in the future.

5 If an existing client is requested by a national government to conduct new or expand thermal coal mining or coal-fired power development to address energy security needs, we may continue to provide general purpose finance facilities if the client demonstrates significant investment in renewable energy and commits to the transition and phase out of thermal coal mining or coal-fired power plant development and operation by 2030.

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 MTR 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 the mining of conflict minerals, being minerals mined in conditions of armed conflict and/or human rights abuses, and which are sold or traded by armed groups.

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 seek assurances from customers that they comply with the requirements of the Kimberley Process Certification Scheme for mining and trading of rough diamonds.

We review, as appropriate, customer operations in High Conservation Value Forests, UNESCO World Heritage Sites, Ramsar Wetlands, UNESCO Man & Biosphere Sites or IUCN Cat I-IV Sites.

Oil & Gas

As part of our commitment to supporting the transition to a more sustainable, low-carbon economy, we will work with our existing clients to support them to establish credible and impactful transition plans. We have developed an assessment methodology and assessed existing oil and gas clients' planned activity by the end of 2023 and will monitor progress on an on-going basis. Details of the credible transition plan assessment approach is described in our 2023 Sustainability Report.

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 participate in 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, development 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 Arctic¹ (*including the Arctic National Wildlife Refuge*) region or Antarctic territories², 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 Arctic¹ (*including the Arctic National Wildlife Refuge*) region and Antarctic² territories (where such lending / financing attributes value to an Arctic¹ or Antarctic² 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 hydraulic fracturing ("fracking") for oil & gas ;
- 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); and
- Project specific finance involving the exploration, development or production of oil and gas in ultra deep water³

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.

3 Ultra deep water defined as wells >1500m

Lloyds Banking Group will not generally support businesses involved only in oil and gas 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.

Defence Sector

We recognise that there are inherent ethical, environmental and social risks associated with the manufacture, trading and supply of weapons and defence equipment and protection services. We also recognise that there may be significant environmental risks associated with the defence and aerospace industries.

We recognise the rights of countries to defend themselves and protect their national security, as well as the importance of international peacekeeping efforts. The Group also acknowledges that the defence and security sector presents specific risks related to the impact of certain weapons and equipment, and their potential end use.

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 and defence sector equipment and facilities.

Lloyds Banking Group will not support businesses:

- Which engage in the production, trade, and storage of weapons prohibited by international conventions ratified by the UK Government (including Cluster Munitions, Anti-Personnel Landmines, Biological and Toxin Weapons, Chemical Weapons, ammunition containing depleted uranium and permanent Blinding Laser Weapons);
- Involved in the manufacture, sale, trade, 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 in the manufacture and/or supply of 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 customer 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 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 expect clients to have an anti-corruption policy in place as a minimum requirement for these transactions and that the necessary export licences or associated regulatory controls have been met.

We review our customers' compliance with UK Government and applicable non-UK jurisdictional import and export licensing requirements; 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 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 ask customers to confirm 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 exports¹. 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; and
- Managing the environmental sustainability and social risks such as modern slavery of their supply chains.

A number of manufacturing sectors are highly regulated (e.g. Chemicals) and as part of our ongoing risk assessment we monitor for adverse media in relation to compliance with applicable environmental licences, approvals and requirements for our corporate and institutional bank clients. Lloyds Banking Group will not support business where we become aware of persistent material regulatory breaches.

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 the end of 2042².

We recognise the manufacturing sector includes a range of activities and it is highly unlikely that a single client will be involved in all of them. As such, there are a number of sustainability challenges within the manufacturing sector in the medium to long-term associated with the transition to lower impact operating models that may impact some clients. There are also a number of potential human rights and social risks that can arise in some manufacturing activities, including³:

- Child labour, both in final manufacturing and in the supply chain;
- Workplace conditions, and health and safety standards, in final manufacturing and in the supply chain;
- Product stewardship - consumer health and safety, product safety and labelling, and responsible marketing;
- Supply chain and ethical sourcing of materials; and
- The impact of manufacturing processes which can affect the health and livelihood of employees and communities.

We will continue to support the sector as it transitions through 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 upskilling 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 [UK in a Changing Europe: Manufacturing after Brexit \(2022\)](#)

² [Plastic waste](#), House of Commons Library May 2021 Briefing Paper

³ [UNEP Finance Initiative - Human Rights Guidance Tool for the Financial Sector](#)

Automotive sector

The Automotive sector is a very important sector to both the UK economy and to 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 2021 Transport accounted for 26%¹ of the UK's GHG emissions, making it the highest emitting sector; therefore, it will play a significant role in supporting the UK Government to achieve net zero by 2050. The sector is also undergoing a substantial transition with the government requiring 80% of new cars and 70% of new vans sold in Great Britain to be zero emission by 2030, increasing to 100% by 2035.

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 lower environmental burden; and achieve CO₂ reduction targets. We acknowledge that these developments will be supported by Government and Local Council Policy and the roll out of infrastructure to support these.

We acknowledge the human rights related risks that have been identified in the supply chain of vehicle manufacturing concerning health and safety of employees, and specifically the risks related to the manufacturing of components for electric vehicles related to child labour and health and safety in the cobalt mining sector supporting this sector.

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.

Lloyds Banking Group will not support:

- New automotive manufacturing clients within Corporate and Institutional Banking (CIB) , without a GHG emissions reduction target aligned to a credible 1.5 degree scenario
- New road passenger transport clients within CIB², without a GHG emissions reduction target aligned to a credible 1.5 degree scenario; or
- Other road passenger transport clients within CIB² whose primary focus is not low emissions vehicles or other transport decarbonisation solutions.

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 the Group, our colleague sustainable cars salary sacrifice scheme only supplies low emission vehicles in line with our sustainability ambitions.

¹ [2021 UK greenhouse gas emissions, final figures](#), BEIS 7 February 2023

² Includes clients in the Corporate and Institutional Bank that design, manufacture, maintain, own or operate buses, taxis and rental vehicles.

Agriculture

The agriculture sector contributes significantly to the UK economy and accounts for c.60% of the raw materials for the UK's food production and manages the environment of c.70% of the UK's land area¹. It is also an increasing key provider of renewable energy for the UK from biomass, wind and solar based on agricultural 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.

Modern day slavery and labour exploitation is a growing concern in the agriculture industry². The International Labour Organisation places agriculture, alongside forestry and fishing, as the sector with the fourth highest proportion of victims of forced labour worldwide³. According to the UK's Anti-Slavery Commissioner, evidence "suggests that workers migrating over longer distances are at greater risk of exploitation, particularly in the form of recruitment fees, bogus recruitment and debt bondage"²

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 CO₂ release, methane release (predominantly through intensive livestock operations), and nitrous oxide releases from fertilisers; and
- Agricultural practices are affected by climatic issues such as temperature and water availability, which can affect productivity.

We recognise the sustainability risks associated with the sector and that the sector may change significantly 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.

Human rights risks associated with the sector may include:

- Exploitation of non-English speaking workers in finalising the terms of contract and employment;
- Unsafe, unsecure or unhygienic accommodation associated with farm labour; and
- Ill treatment of the workforce by farm managers, including racism, discrimination or mistreatment on grounds of nationality.

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

¹ [Department for Environment Food & Rural Affairs 'United Kingdom Food Security Report 2021: Theme 2: UK Food Supply Sources.](#)

² [Independent Anti-Slavery Commissioner 24 January 2022](#)

³ [International Labour Organisation. \(2022\). Global Estimates of Modern Slavery: Forced Labour and Forced Marriage. Figure 8.](#)

Forestry and Agricultural Commodities

Forests serve as important carbon sinks, and the clearance of primary forest cover increases greenhouse gas emissions¹. As well as being home to over 80% of the world's terrestrial biodiversity, forests provide livelihoods to millions of people in rural communities and play a critical role in supporting essential systems for the functioning of the planet, such as clean water and air, natural cooling, and food security². Alongside supporting global biodiversity goals and targets³, scientific research has concluded that protecting and restoring forests offers one of the most promising solutions to keeping the Paris climate target of 1.5°C alive⁴.

Agricultural commodity production is a key driver of deforestation and land conversion⁵ globally. It is estimated that more than a quarter of global forest loss is due to deforestation through permanent land use change for the production of agricultural commodities, such as soy, palm oil and beef⁶.

All actors in agricultural commodity supply chains have an important role to play in improving sustainable production and sourcing practices. Lloyds Banking Group recognises that the UK is a significant consumer of commodities with links to deforestation and conversion. Clients and suppliers in our value chain may have affiliates, direct operations⁷ and/or supply chains that contribute to deforestation and conversion.

We also recognise the human rights concerns often associated with deforestation and conversion. The rights of indigenous peoples and local communities can be especially vulnerable to impacts in agricultural commodity supply chains, such as the rights to property, culture, self-governance, food security and livelihoods.

Our approach covers clients⁸ involved with any of the following agricultural commodities, including any products derived from them, in their commercial activities:

- palm oil;
- soy;
- timber, pulp and paper;
- cattle products (beef and/or leather);
- cocoa;
- coffee;
- rubber.

Lloyds Banking Group will not support businesses whose direct operations include⁹ any of the following:

- Deforestation or clearance within High Conservation Value Forests, UNESCO World Heritage Sites, International Union for the Conservation of Nature IUCN (I – IV) Protected Sites, Ramsar Sites, Man & Biosphere Sites and High Conservation Value Areas;
- Removing or harming peatlands;
- Illegal and/or uncontrolled use of fire for the purpose of land clearance;

¹ [Forests, desertification and biodiversity - United Nations Sustainable Development](#)

² [Forests, desertification and biodiversity - United Nations Sustainable Development](#)

³ [Kunming-Montreal Global Biodiversity Framework](#)

⁴ [IPCC Climate Change 2023 Synthesis Report](#)

⁵ In line with the [Accountability Framework initiative \(AFI\) definition](#), 'deforestation' refers to the loss of nature forest as a result of conversion to agriculture or other non-forest land use; conversion to a plantation; or severe or sustained degradation. 'Conversion' refers to the change of a natural ecosystem to another land use or profound change in the natural ecosystem's species composition structure, or function.

⁶ [Classifying drivers of global forest loss | Science](#)

⁷ 'Direct operations' is used to refer to all activities and sites over which the business has operational or financial control.

⁸ In the Forestry and Agricultural Commodities sector statement, including sub-sections on specific commodities, 'clients' refers to our corporate clients (those with a turnover >£100m).

⁹ This is effective upon publication of this statement and does not include prior involvement in the listed activities where the client has since taken action to cease, remediate, prevent or mitigate as appropriate.

- Illegal logging or the purchase of illegally harvested timber;
- Human rights abuses such as the use of forced labour, labour exploitation, child labour and land grabbing practices.

Lloyds Banking Group expects clients to:

- Aim for zero deforestation and conversion by 2030 at the latest, for both direct operations and supply chains.
- Consider the human rights related risks across their operations and supply chains, respect the rights of indigenous communities, and manage the health and safety and labour conditions of their workforce, as set out by the United Nations Guiding Principles on Business and Human Rights.
- Apply governance policies that respect the right to Free, Prior and Informed Consent (FPIC)¹⁰ of indigenous peoples where production processes are occurring on lands that indigenous peoples customarily own, occupy or otherwise use.

Additional requirements relating to credible certification schemes or membership bodies for palm oil, soy, timber, pulp & paper, and cattle products (beef and leather) are set out in the agricultural commodity sub-sections below. Where businesses are identified as non-compliant with the requirements outlined, Lloyds Banking Group will require the client to have in place a plan to obtain relevant memberships and certifications within two years for each commodity they are involved with.

We acknowledge that legacy issues may arise from client relationships entered into before the implementation of the Forestry and Agricultural Commodities statement. Financing agreements that pre-date this sector statement will therefore be reviewed accordingly upon their renewal or as they are due for review.

This statement will evolve over time as our understanding of deforestation-related risks deepens. Lloyds Banking Group reserves the right to call for additional requirements on a case-by-case basis or decline its involvement even if the requirements set out in this statement are met.

Palm Oil

This sub-section outlines additional requirements and expectations for clients involved with palm oil in their commercial activities.

Palm oil is a very important global commodity, being the most widely used vegetable oil in many consumer products; it is also used in animal feed and as a biofuel in many parts of the world¹¹. Palm oil is the most efficient of all vegetable oils to produce, with crops able to produce more oil per land area than any other equivalent vegetable oil¹². However, palm oil production can also damage forests and endanger communities and wildlife; its production has been associated with deforestation, biodiversity loss and human rights abuses.

Lloyds Banking Group will not support businesses operating in, or directly sourcing from, High Deforestation Risk Countries¹³ whose direct operations involve palm oil production (e.g. palm oil plantations), processing (e.g. palm oil mills or palm kernel crushing plants), or trading, unless they are a member of – or in the process of becoming a member of – the Roundtable on Sustainable Palm Oil (RSPO)¹⁴.

¹⁰ [Consultation and free, prior and informed consent \(FPIC\) | OHCHR](#)

¹¹ <https://www.wwf.org.uk/updates/8-things-know-about-palm-oil>

¹² https://www.researchgate.net/figure/Oil-palm-production-efficiency-compared-to-other-major-oil-crops_fig3_318828933

¹³ High Deforestation Risk Countries have been selected on the basis of Forest 500's producer country list:

https://forest500.org/sites/default/files/forest_500_country_selection_methodology_2022.pdf

¹⁴ <https://rspo.org/>

Lloyds Banking Group expects businesses operating in, or directly sourcing from, High Deforestation Risk Countries, to adopt No Deforestation, No Peat, No Exploitation (NDPE)¹⁵ policies.

Lloyds Banking Group also expects businesses involved in the manufacturing and/or retail of ingredients and products containing palm oil) to:

- have a purchasing policy that ensures suppliers provide RSPO certified palm oil and palm oil-based products wherever possible;
- conduct due diligence on their supply chain and ensure traceability for palm oil or palm oil-based products sourced from High Deforestation Risk Countries; and
- disclose their current sourcing practices and plans to increase sourcing of sustainably produced palm oil.

Soy

This sub-section outlines additional requirements and expectations for clients involved with soy in their commercial activities.

Soy is a widely produced commodity globally that is consumed across the food chain. It is predominantly crushed into meal for use as animal feed, but also into oil used for cooking and biodiesel, or processed directly into human food products, such as tofu. Increased cropland for soy production – particularly in South America and the Amazon rainforest – has been linked to widespread deforestation and environmental degradation, as well as the displacement of small farmers and indigenous peoples¹⁶.

Lloyds Banking Group will not support businesses operating in, or directly sourcing from, High Deforestation Risk Countries¹⁷ whose direct operations involve soy production (e.g. soybean growing), processing (e.g. soybean crushing), or trading, unless they are a member of – or in the process of becoming a member of – the Roundtable on Responsible Soy (RTRS)¹⁸ or another credible initiative.

Lloyds Banking Group expects businesses involved in the manufacturing and/or retail of ingredients or products containing soy to:

- have a purchasing policy that ensures suppliers provide RTRS certified soy and soy-based products wherever possible;
- conduct due diligence on their supply chain and ensure traceability for soy or soy-based products sourced from High Deforestation Risk Countries; and
- disclose their current sourcing practices and plans to increase sourcing of sustainably produced soy.

Cattle Products (Beef and Leather)

This sub-section outlines additional requirements and expectations for clients involved with cattle products (beef and/or leather) in their commercial activities.

Cattle ranching for both beef and leather is the biggest driver of global deforestation, including in tropical forests¹⁹. It is estimated that more than 60% of deforestation in South America is associated with the cattle industry²⁰ and cattle ranching in Brazil historically accounts for nearly a quarter of global annual tropical

¹⁵ <https://www.ndpe-irf.net/>

¹⁶ <https://www.worldwildlife.org/industries/soy>

¹⁷ High Deforestation Risk Countries have been selected on the basis of Forest 500's producer country list: https://forest500.org/sites/default/files/forest_500_country_selection_methodology_2022.pdf

¹⁸ <https://responsiblesoy.org/?lang=en>

¹⁹ <https://www.sciencedirect.com/science/article/pii/S0959378018314365>

²⁰ [pdf \(iop.org\)](https://www.iop.org/pdf)

deforestation²¹. Approximately 80% of deforestation throughout the Amazon stems from this industry²², either directly or indirectly.

Lloyds Banking Group will not support businesses operating in, or directly sourcing from, High Deforestation Risk Countries²³ whose direct operations involve the production of cattle products (e.g. cattle ranching), processing (e.g. slaughtering or meatpacking), or trading, unless they are a member of - or in the process of becoming a member of - the Global Roundtable for Sustainable Beef (GRSB)²⁴ or another credible initiative.

Lloyds Banking Group expects businesses involved in the manufacturing and/or retail of beef and leather products to:

- conduct due diligence on their supply chain and ensure traceability for cattle products sourced from High Deforestation Risk Countries; and
- disclose their current sourcing practices and plans to increase sourcing of sustainably produced cattle products.

Timber, Pulp and Paper

This sub-section outlines additional requirements and expectations for clients involved with timber and/or pulp and paper in their commercial activities.

The global demand for forest-derived products continues to grow²⁵. Timber refers to wood and solid wood products (including timber for construction and fuelwood for bioenergy), as well as wood used in finished products (e.g. furniture). Wood pulp is a fibre extracted from wood and is mainly used to produce pulp and paper-based packaging materials.

Unless harvested from sustainably managed forests, the timber trade can contribute to forest degradation and can be the first stage of forest conversion to other land use. Where timber has been harvested from responsibly managed forests, timber products act as a carbon store, locking away carbon for the duration of that product's life, and the life of any recycled wood products made from the original product²⁶.

Lloyds Banking Group will not support businesses operating in, or sourcing directly from, High Deforestation Risk Countries²⁷, whose direct operations involve timber production (e.g. logging, including the management of forest plantations), processing (e.g. timber milling), or the trade of timber, pulp and paper products, unless they comply with applicable industry standards. These include, but are not limited to, the Forest Stewardship Council (FSC)²⁸ certification and Programme for the Endorsement of Forest Certification (PEFC)²⁹.

Lloyds Banking Group expects businesses who are involved in the manufacturing and/or retail of timber and/or pulp and paper products, or who are exposed to pulp and paper through packaging materials, to

- have a purchasing policy that ensures suppliers provide FSC/PEFC certified products wherever possible;

²¹ [Here's how tracing cattle in Brazil can reduce deforestation | World Economic Forum \(weforum.org\)](https://www.weforum.org)

²² <https://www.worldwildlife.org/places/amazon>

²³ High Deforestation Risk Countries have been selected on the basis of Forest 500's producer country list:

https://forest500.org/sites/default/files/forest_500_country_selection_methodology_2022.pdf

²⁴ <https://grsbeef.org/>

²⁵ [RiskierBusiness July2020 V7 0.pdf \(wwf.org.uk\)](https://www.wwf.org.uk)

²⁶ <https://uk.fsc.org/impact/forests-and-climate-change>

²⁷ High Deforestation Risk Countries have been selected on the basis of Forest 500's producer country list:

https://forest500.org/sites/default/files/forest_500_country_selection_methodology_2022.pdf

²⁸ [Home | Forest Stewardship Council \(fsc.org\)](https://www.fsc.org)

²⁹ <https://www.pefc.co.uk/>

- conduct due diligence on their supply chain and ensure traceability for forest-derived products sourced from High Deforestation Risk Countries; and
- disclose their current sourcing practices and plans to increase sourcing of sustainably produced timber and/or pulp and paper.

Shipping

Our approach covers the operation and maintenance of ships used in the transport of goods and/or passengers, including marine leisure.

Our exposure to this sector is limited. We currently do not expect this to change materially, though we recognise the importance of decarbonising the marine economy and we will consider financing viable net zero transition projects in this sector and companies with transition plans that include net-zero decarbonisation projects or initiatives.

We will encourage our clients to observe responsible shipping practices including:

- Assessment and disclosure of GHG emissions and the emissions intensity of their fleet;
- Commitment to reduce GHG emissions in line with industry standards; and
- Recycling of ships in accordance with Responsible Shipping Recycling Standards, or equivalent practices which address environmental and social considerations.

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.

The 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 CITES¹ (focus on endangered categories); and
 - Trade involving endangered species² 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 and social impacts, 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 and 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 wetland designated under the Ramsar Convention on Wetlands of International Importance being threatened.

These sector statements are intended to set out, at a high level, how Lloyds Banking Group approaches and manages selected sustainability-related issues across certain sectors. The statements are intended to provide non-exhaustive, indicative and general information only.

These statements represent our policy positions under normal business conditions as at the date of publication and their application may be affected by a wide range of circumstances beyond our control, including, but not limited to, changes in government policy, the overall regulatory environment, and/or customer behaviour. The statements may vary and/or be replaced from time to time and without notice and no assurance or representation is given that such sector statements will meet any present or future expectations or requirements. We accept no obligation or duty to update these statements.

These sector statements do not form part of any offering documents and are not binding (contractually or otherwise). They are for Lloyds Banking Group’s use only and Lloyds Banking Group shall owe no liability or obligation to third parties in relation to them. Specifically, we do not accept any duty of care or liability in relation to the interpretation and application of the statements.

Lloyds Banking Group plc is registered in Scotland no. 95000. Registered office: The Mound, Edinburgh EH1 1YZ