



DEFENCE 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 defence 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 Defence sector

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

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 equipment and facilities.

Lloyds Banking Group will not support businesses:

- who engage in any activities prohibited by international conventions ratified by the UK Government (including Cluster Munitions, Anti-Personnel Landmines, Biological and Toxin Weapons, Chemical Weapons and permanent Blinding Laser Weapons);
- involved in the manufacture, sale, trade, servicing or stockpiling of nuclear weapons other than when these activities are undertaken in connection with the national nuclear weapons programmes of UK, US or France;
- involved with 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 group company is involved in such activities the whole group will be prohibited from doing business with us; and

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.

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 detailed 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 review our customers' compliance with UK Government and relevant non-UK jurisdictional import and export licensing 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 robust due diligence on all customers who may be involved in the following activities:

- the manufacture, trade, 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 the 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 their accounts with us.