



OIL & GAS 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 oil and gas 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 Oil & Gas sector

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

Our support for customers that require upstream financing focuses primarily on the UK's North Sea fields rather than on emerging markets in other parts of the world. However, some of our customers' have global reserves and operations. Within the UK Continental Shelf, we are the lead bank on a number of Reserve Based Lending structures. In these instances, we 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 and production (upstream)
- transportation and midstream processing, for example liquefaction of natural gas and storage (midstream)
- processing and refining (downstream)

Lloyds Banking Group will not support the following:

- project specific finance involving oil or gas exploration and production operations in the *Arctic¹ region or Antarctic territories²*.
- reserve Based Lending or Borrowing Base Financing for Oil & Gas companies with oil or gas exploration or production operations in Arctic¹ 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 or production of oil from oil sands.
- project specific finance exclusively dedicated to the transport or storage of oil from oil sands.
- coal liquefaction.

¹The 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](#)

Lloyds Banking Group will not generally support businesses involved only in exploration, as we regard this as an equity risk.

We have regular meetings 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.

We look for alignment with recognised international standards, including the United Nations Global Compact Framework, Global Gas Flaring Reduction Partnership (GGFR), and endorsement of the World Bank's "Zero Routine Flaring by 2030" initiative.

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