



LLOYDS
BANKING GROUP

Forestry & agricultural commodities sector statement



Lloyds Banking Group
Forestry & Agricultural Commodities Sector Statement
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Context

At Lloyds Banking Group (the Group), our purpose is Helping Britain Prosper. As the UK's largest financial services provider, 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. Given our unique position at the heart of the UK economy, we embrace our responsibility to help address some of the biggest economic, social and environmental challenges that the UK faces.

We are committed to operating in accordance with the International Bill of Human Rights¹ and take into account a number of other international standards when developing our sector statements, including 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. Furthermore, *clients* must comply with all applicable laws and regulations and we expect them to respect the human rights both of their own workforce and those in their supply chain.

Scope and Approach

These statements apply to the specific *client* entities that have a *direct lending* relationship with the Group including direct loans within Scottish Widows².

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 Environmental, Social and Governance (ESG) related risks.

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.

We regularly review all of our *clients* with whom we have a *direct lending* relationship, and where they appear to be operating below our requirements, we will work with our *clients* to understand how they plan to transition to meet these. Compliance with these statements forms part of our overarching ESG risk assessments and credit decisioning process, including any new or extended *direct lending* relationship with the *client*.

¹ 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

² 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 statements are not sector specific.

Risk Management

As a Group, managing risk effectively is fundamental to our strategy and future success. Our approach to risk plays a key role in the Group's strategy and 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 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 Function and the Business Units, supports decision making.

Addressing the potential impacts of climate change, how our *clients* 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. We consider wider ESG risks beyond climate in our current practices and this continues to evolve. 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 *clients* related to climate change and other ESG issues.

Client Monitoring and Due Diligence

In all sectors *clients* must comply with all applicable laws and regulations. If we become aware that a *client* has breached any applicable international, regional or national laws, we would require the *client* to implement action plans that aim to address and resolve such breaches.

Where appropriate, we have regular meetings / engagements with our *clients* with whom we have a *direct lending* relationship, and regularly review their public filings, press reports and analyst presentations. We ensure that ESG-related risks are considered for all Commercial Banking *clients* with whom we have a *direct lending* relationship, with specific commentary in new and renewal credit applications where total aggregated hard limits exceed £500,000 (excluding automated decisioning processes and digital or telephony applications for smaller counterparties). For project financing activity, the Group is also a signatory to the Equator Principles and ensures they are applied to all relevant transactions.

As part of our control framework and to monitor *client* adherence to our sector statements, we have a number of ESG Risk Management processes in place, which are outlined in the Risk Management section of our sustainability report. These include processes for assessing counterparties and transactions in relation to environmental risks including both climate and nature considerations alongside social and governance considerations. To assess these risks effectively we use our ESG Risk Tool which includes bespoke assessments based on specific business units and in some cases based on sector. Defined escalation routes are in place where our ESG Risk Team complete enhanced due diligence and these assessments form part of the credit decisioning process.

Statement Criteria

Our statements outline a number of criteria for our *clients*, which are grouped into the following categories.

Prohibited	Required	Expected	Encouraged
<p>Mandatory criteria that clients must not be breaching at the organisational or project / transaction level as relevant.</p>	<p>Mandatory criteria that clients must meet at the organisational or project / transaction level as relevant.</p>	<p>Non-mandatory criteria we expect clients to meet or to comply with over time.</p>	<p>Non-mandatory criteria we encourage clients to consider, given industry best practice.</p>
<p>Example: “We will not provide financing to...” “We will not provide direct financing...” “We will not provide project specific finance...”</p>	<p>Example: “We will only provide financing to...”</p>	<p>Example: “We expect clients...”</p>	<p>Example: “We encourage clients...”</p>

Words in *italics* are defined in the Glossary table and clarify the intended scope of certain words in this statement.

The background features a dark green gradient with a large, bright green curved shape at the top and a black curved shape at the bottom, creating a dynamic, organic feel.

Forestry & Agricultural Commodities

Context

Forests serve as important carbon sinks, and the clearance of primary forest cover increases greenhouse gas emissions³. 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 security³. Alongside supporting global biodiversity goals and targets⁴, 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 alive⁵.

Agricultural commodity production is a key driver of *deforestation* and land *conversion* 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 operations* 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.

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 the introduction of this sector statement in July 2024 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.

Scope

Our approach covers *clients* using 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

³ Forests, desertification and biodiversity - United Nations Sustainable Development

⁴ Kunming-Montreal Global Biodiversity Framework

⁵ IPCC Climate Change 2023 Synthesis Report

⁶ Classifying drivers of global forest loss | Science

Overarching Restrictions

Company Level Criteria

Prohibited

We will not provide financing to clients whose direct operations include⁷ any of the following:

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

Expected

We expect 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)⁸ of indigenous peoples where production processes are occurring on lands that indigenous peoples customarily own, occupy or otherwise use

Additional Agricultural Commodity Restrictions

Additional requirements relating to credible certification schemes or membership bodies for palm oil, soy, timber, pulp and 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 using in their commercial activities.

⁷ This is effective upon publication of this statement (July 2024) 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.

⁸ Consultation and free, prior and informed consent (FPIC) | OHCHR

Palm Oil

This sub-section outlines additional requirements and expectations for *clients* using 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 world⁹. 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 oil¹⁰. 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.

Company Level Criteria

Required

We will only provide:

- *Financing to clients* operating in, or directly sourcing from, *High Deforestation Risk Countries* 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, if they are a member of – or in the process of becoming a member of – the Roundtable on Sustainable Palm Oil (RSPO)¹¹

Expected

We expect:

- *Clients* operating in, or directly sourcing from, *High Deforestation Risk Countries*, to adopt No Deforestation, No Peat, No Exploitation (NDPE)¹² policies
- *Clients* that manufacture and/or sell 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*
 - 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* using 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 peoples.¹³

Company Level Criteria

Required

We will only provide:

- *Financing to clients* operating in, or directly sourcing from, *High Deforestation Risk Countries* whose *direct operations* involve soy production (e.g. soybean growing), processing (e.g. soybean crushing), or trading, if they are a member of – or in the process of becoming a member of – the Roundtable on Responsible Soy (RTRS)¹⁴ or another credible initiative¹⁵

Expected

We expect:

- *Clients* that manufacture and/or sell 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*
 - Disclose their current sourcing practices and plans to increase sourcing of sustainably produced soy

⁹ <https://www.wwf.org.uk/updates/8-things-know-about-palm-oil>

¹⁰ https://www.researchgate.net/figure/Oil-palm-production-efficiency-compared-to-other-major-oil-crops_fig3_318828933

¹¹ <https://rspo.org/>

¹² <https://www.ndpe-irf.net/>

¹³ <https://www.worldwildlife.org/industries/soy>

¹⁴ <https://responsiblesoy.org/?lang=en>

¹⁵ In the event that an in-scope client is a member of, or in the process of becoming a member of, an alternative certification scheme to RTRS, we will assess this on a case-by-case basis.

Cattle Products (Beef and Leather)

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

Cattle ranching is the biggest driver of global *deforestation*¹⁶. This sector includes beef and leather production. It is estimated that more than 60% of *deforestation* in South America is associated with the cattle industry¹⁷ and cattle ranching in Brazil historically accounts for nearly a quarter of global annual tropical *deforestation*¹⁸. Approximately 80% of *deforestation* throughout the Amazon stems from this industry¹⁹, either directly or indirectly.

Company Level Criteria

Required

We will only provide:

- *Financing to clients* operating in, or directly sourcing from, *High Deforestation Risk Countries* whose *direct operations* involve the production of cattle products (e.g. cattle ranching), processing (e.g. slaughtering or meatpacking), or trading, if they are a member of - or in the process of becoming a member of - the Global Roundtable for Sustainable Beef (GRSB)²⁰ or another credible initiative

Expected

We expect:

- *Clients* that manufacture and/or sell beef and leather products to:
 - Conduct due diligence on their supply chain and ensure traceability for cattle products sourced from *High Deforestation Risk Countries*
 - 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* using timber and/or pulp and paper in their commercial activities.

The global demand for forest-derived products continues to grow²¹. 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 product²².

Company Level Criteria

Required

We will only provide:

- *Financing to clients* operating in, or sourcing directly from, *High Deforestation Risk Countries*, 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, if they comply with applicable industry standards. These include, but are not limited to, the Forest Stewardship Council (FSC)²³ certification and Programme for the Endorsement of Forest Certification (PEFC)²⁴

Expected

We expect:

- *Clients* that manufacture and/or sell timber and/or pulp and paper products, or who are using pulp and paper through packaging materials to:
 - Have a purchasing policy that ensures suppliers provide FSC/PEFC certified products wherever possible

¹⁶ <https://www.worldwildlife.org/magazine/issues/summer-2018/articles/what-are-the-biggest-drivers-of-tropical-deforestation-pdf> (iop.org)

¹⁷ Here's how tracing cattle in Brazil can reduce deforestation | World Economic Forum (weforum.org)

¹⁸ <https://www.worldwildlife.org/places/amazon>

¹⁹ <https://grsbeef.org/>

²⁰ RiskierBusiness July2020_V7_0.pdf (wwf.org.uk)

²¹ <https://uk.fsc.org/impact/forests-and-climate-change>

²² Home | Forest Stewardship Council (fsc.org)

²³ Home | Forest Stewardship Council (fsc.org)

²⁴ <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*
- Disclose their current sourcing practices and plans to increase sourcing of sustainably produced timber and/or pulp and paper

Glossary

Terms	Definition
Client(s)	In the Forestry and Agricultural Commodities sector statement, including sub-sections on specific commodities, 'client(s)' refers to businesses with an annual turnover of > £100m and does not include individuals.
Conversion	In line with the Accountability Framework initiative (AFi) definition , '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.
Deforestation	In line with the Accountability Framework initiative (AFi) definition , 'deforestation' refers to the loss of natural forest as a result of 1. conversion to agriculture or other non-forest land use; 2. conversion to a plantation; or 3. severe or sustained degradation.
Direct operations	Direct operations is used to refer to all activities and sites over which the business has operational or financial control.
Finance, financing or direct lending	Finance, financing or direct lending refers to all primary lending activity by the Group including direct loans from Scottish Widows. Passenger or light commercial vehicle leasing activity is not included.
High Conservation Value (HCV) Areas	<p>Areas identified as containing High Conservation Values. These are biological, ecological, social or cultural values considered to be of outstanding significance or critical importance that require special protection to ensure their continued maintenance and/or enhancement.</p> <p>The six High Conservation Values are:</p> <ul style="list-style-type: none"> I. Species diversity II. Landscape-level ecosystems and mosaics III. Ecosystems and habitats IV. Ecosystem services V. Community needs VI. Cultural values <p>Source: HCV Resource Network</p>
High Deforestation Risk Countries	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
International Union for Conservation of Nature IUCN (I – IV) Protected Sites	<p>The International Union for Conservation of Nature has developed a system of categorising protected areas according to the underlying management objectives. These categories are formally recognised by many national governments and international bodies, including the United Nations, and have become an important global standard for the planning, establishment and management of protected areas.</p> <p>The categories are as follows:</p> <ul style="list-style-type: none"> Ia. Strict Nature Reserve Ib. Wilderness Area II. National Park III. Natural Monument or Feature IV. Habitat/Species Management Area <p>Source: IUCN Protected Area Management Categories definition Biodiversity A-Z</p>
Man & Biosphere Sites	Man & Biosphere sites refer to a set of UNESCO biosphere reserves designated under the Man and Biosphere Programme (MAB) .
Ramsar Wetlands	Ramsar Wetlands refers to wetlands that are registered on the List of Wetlands of International Importance, also known as the Ramsar List. Source: Ramsar List .
Ramsar Convention	The Ramsar Convention refers to the Convention on Wetlands, which is the intergovernmental treaty that provides the framework for the conservation and wise use of wetlands and their resources. Source: Ramsar .
World Heritage Sites	World Heritage Sites are places designated by the United Nations Educational, Scientific and Cultural Organisation (UNESCO) as areas of cultural or physical significance under the World Heritage Convention. Source: UNESCO WHC .

Disclaimer

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. These statements are intended to provide non-exhaustive, indicative and general information only, and there can be no guarantee as to the accuracy, currency or completeness of the information contained in these statements.

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 some of which may be beyond our control, including, but not limited to, local laws and regulations, government policy, the overall regulatory environment, and/or client behaviour. These statements may be varied and/or replaced at any time without notice or giving reason, and no assurance or representation is given that these sector statements will meet any present or future expectations or requirements. We accept no obligation or duty to update these statements.

These sector statements may contain forward-looking statements, including as to our intentions and objectives, which are based on current expectations and projections about future events. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Lloyds Banking Group's ability to control or predict. Forward looking statements are not guarantees of future actions.

These sector statements do not form part of any offering documents and are not binding (contractually or otherwise). These sector statements are for Lloyds Banking Group's use only and Lloyds Banking Group accepts no duty of care, responsibility or liability in relation to these statements or their application or interpretation, including as to their accuracy, completeness or sufficiency, or any outcomes arising from the same. No representations or warranties, express or implied, are made as to the fairness, accuracy, completeness or correctness of the information contain with these statements. We do not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort (including negligence) or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using these statements or arising from any omission from them. Third parties should seek their own independent advice before making any decisions based on the information provided in these statements. Lloyds Banking Group is under no obligation and does not give any undertaking to provide any additional information in relation to these sector statements or their application, or to update these sector statements to correct any inaccuracies or errors.