



Manufacturing sector statement



Lloyds Banking Group
Manufacturing Sector Statement
February 2025

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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).

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

Mandatory criteria that clients must not be breaching at the organisational or project / transaction level as relevant.

Example:

“We will not provide financing to...”
“We will not provide direct financing...”
“We will not provide project specific finance...”

Required

Mandatory criteria that clients must meet at the organisational or project / transaction level as relevant.

Example:

“We will only provide financing to...”

Expected

Non-mandatory criteria we expect clients to meet or to comply with over time.

Example:

“We expect clients...”

Encouraged

Non-mandatory criteria we encourage clients to consider, given industry best practice.

Example:

“We encourage clients...”

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 large, flowing, organic shapes in a lighter green and black. The word "Manufacturing" is centered in a bold, white, sans-serif font.

Manufacturing

Context

Manufacturing accounts for nearly half of UK exports³. 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.

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 continue to provide *direct lending* to *clients* where we become aware of persistent material regulatory breaches.

Whilst plastics are an important material in our economy, they can be damaging for 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 2042⁴.

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, including⁵:

- 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
- 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 by sharing knowledge and best practice and providing *financing* to *clients* in the sector.

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).

Scope

Our approach covers the following activities:

- Manufacturing of goods from raw materials, including the processing or assembling of goods from secondary or processed raw materials

Company Level Criteria

Expected

We expect our *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
- Environmental sustainability and social risks such as potential modern slavery of their supply chains

³ UK in a Changing Europe: Manufacturing after Brexit (2022)

⁴ Plastic waste, House of Commons Library May 2021 Briefing Paper

⁵ UNEP Finance Initiative - Human Rights Guidance Tool for the Financial Sector

Glossary

Terms	Definition
Client(s)	Client(s) refers to businesses and does not include individuals.
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.

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.