

Luke Charters MP and Alex Baker MP  
House of Commons  
Westminster  
London  
SW1A 0AA

7th March 2025

Dear Luke and Alex,

Thank you for your letter and your separate open letter regarding the important role financial services plays in supporting the UK defence sector, specifically in relation to the Ukrainian war effort.

It might be helpful if I start by outlining our unequivocal support for any viable business operating in the defence, security, and aerospace sector, including those with a role to play in the support of Ukraine.

The banking sector has also shown its commitment to Ukraine by playing a leading role in sanctioning both the Russian state and related entities, helping to freeze assets and inflict a damaging financial cost.

More widely, defence companies are a vitally important contributor to our national security and banks provide a significant range of support and lending to them. Through lending in this area they have been subjected to significant and often violent disruption from protesters, putting branch staff and customers at risk. We would welcome further public support from the government for banks who lend in this sector in the face of such protest.

We have engaged extensively with our members, as well as defence firms and their representatives on the question of whether ESG rules act as a particular barrier to investment. What this engagement has shown is that lenders are committed to ESG goals, but they do not see a tension between them and supporting the defence sector. Indeed UK Finance recently welcomed the ADS Group's Charter on ESG.

Where challenges exist they relate more to the wider regulatory environment, both in the UK and other jurisdictions, which often requires higher levels of due diligence and risk assessment of companies operating in this sector. The penalties and fines for failures to comply with AML rules, for example, are significant.

We believe there are things that could be done to assist the financial sector in supporting defence firms. Principally we have discussed with defence sector representatives the need for clearer demand signals from larger firms and government in order to reduce the risk of lending to small SMEs who may not have a long track record of trading.

Government procurement has a role to play too in terms of signposting demand. As a first step we welcome the government's announcement of a re-allocation of the National Wealth Fund to defence investments. We also welcome the launch of new measures to boost support for small businesses from the UK's defence sector.

Both these initiatives provide important signalling about the value of defence investment, as will the defence industrial strategy which should include clear priorities for investment and a long term commitment to delivery.

Greater transparency from government and the defence sector about programmes and the use cases for the parts being manufactured will enable the banks to more easily meet their obligations under various domestic and international regulations.

Alongside our excellent dialogue with the Government and the defence sector, led by the Business Secretary, Jonny Reynolds MP and his department, we would welcome the opportunity to meet with you and explore what steps are needed to help facilitate banks being able to provide even more support to the defence sector.

Best wishes,

David Postings  
Chief Executive

Bob Wigley  
Chair