# Climate Webinar

**Lloyds Banking Group**
22 March 2023

# Building a purpose-driven business; supporting the transition to net zero

## Purpose

**Helping Britain Prosper…**

…by creating a more **sustainable** and **inclusive** future for people and businesses, shaping finance as a force for good

## Climate objectives aligned to strategy

**Grow**
Drive revenue growth and diversification
→ **Capitalise on transition opportunities**

**Focus**
Strengthen cost and capital efficiency
→ **Manage climate risks, supply chain, operations**

**Change**
Maximise potential of people, technology and data
→ **Embed sustainability in all that we do**

## Supporting the transition to net zero

Reduce financed emissions by **>50% by 2030**[1]

**Halve** carbon footprint of Scottish Widows investments **by 2030**[1]

Reduce our supply chain emissions by **50% by 2030**[1]

**Net zero** in our own operations **by 2030**

**Higher, more sustainable returns and capital generation**

1 – On path to net zero by 2050, or sooner.

# Supporting the transition is core to our strategy and purpose

- Focusing on areas where we can make the biggest difference
- Ambitious 2030 and 2050 emission reduction targets
- Green finance and investment targets set by business to drive growth
- Climate embedded in strategy, operations and balanced scorecard
- Partnering and collaborating to shift change
- Clear value link to delivering higher, more sustainable shareholder returns

## Financing and investment targets

**£15bn** sustainable finance in Commercial Banking by 2024

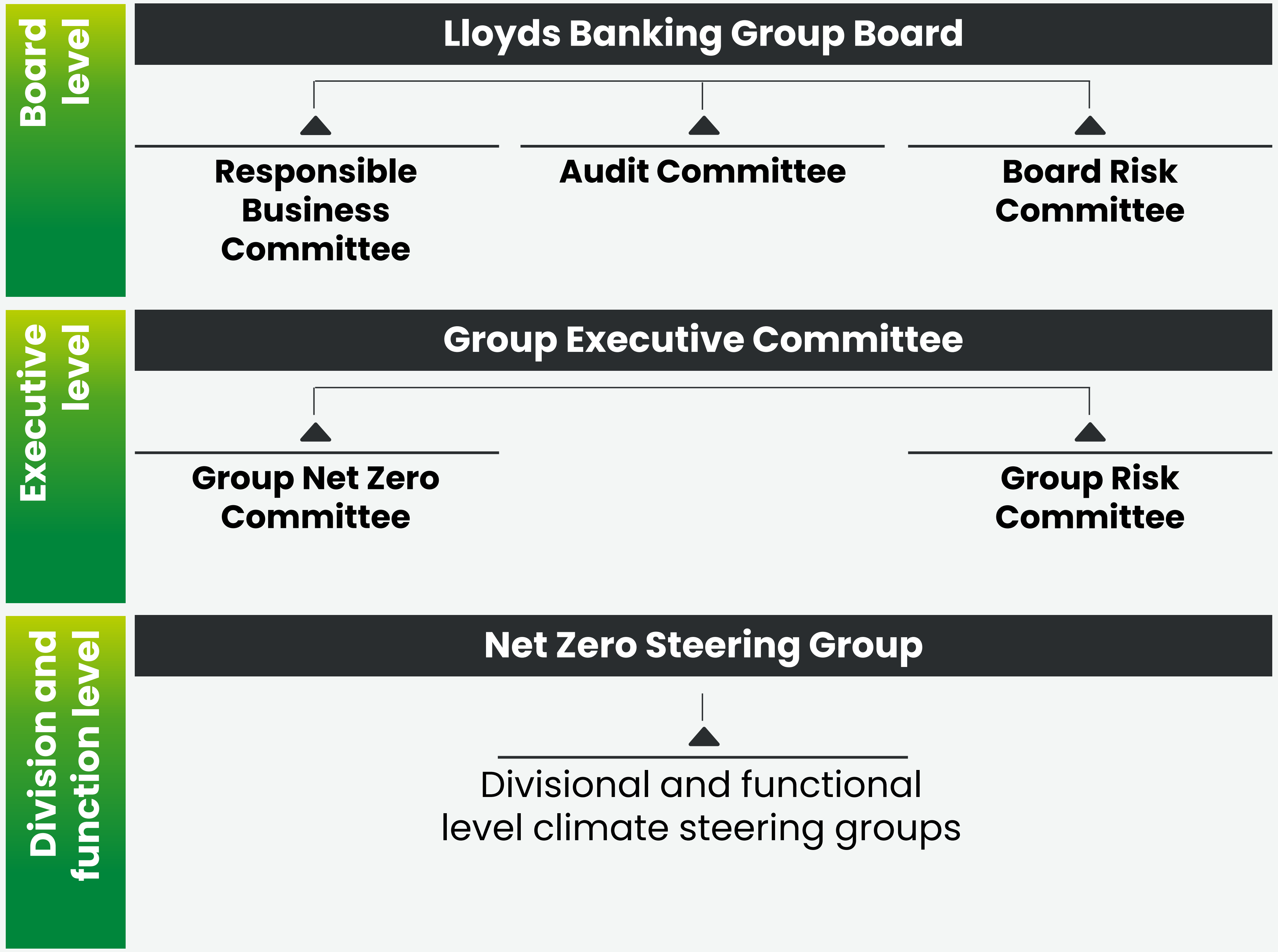
**£10bn** green mortgage lending by 2024

**£8bn** financing for EVs and PHEVs by 2024[1]

**£20-25bn** Scottish Widows discretionary investment in climate-aware strategies by 2025

1 – Electric Vehicle (EV) and Plug-in Hybrid Electric Vehicle (PHEV).

# Clear oversight and ownership of sustainability strategy and management of climate risks




Board oversight across 3 committees with shared membership:

- **Responsible Business Committee** – net zero strategy
- **Audit Committee** – climate reporting
- **Board Risk Committee** - climate risks

At executive level Group Executive Committee supported by:

- **Group Net Zero Committee** – direction of sustainability strategy, incl. targets
- **Group Risk Committee** – oversight of climate risk management

Climate targets embedded in business strategy with clear accountability for delivery across the organisation

Remuneration structures include climate performance measures to drive continued progress

# Continued progress towards our climate ambitions

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## Breakdown of Group's emissions
($MtCo_2e$)


| | |
|---|---|
| Bank financed emissions (2020) | 23.2 |
| Scottish Widows financed emissions (2020) | 10.3 |
| Supply chain emissions (2021/2022) | 0.7 |
| Own operation emissions (2019/2020) | 0.1 |

## Examples of progress in 2022

### Bank financed emissions

New NZBA[1] 2030 sector targets set

Committed to no direct finance of new oil & gas developments

### SW financed emissions

Scottish Widows climate action plan published

Enhanced exclusion policy (tobacco and lower threshold for thermal coal/tar sands)

### Supply chain and own emissions

New supply chain net zero target developed

Launched Emerald Standard for suppliers

Own emissions down c.36% vs. 2018/19 baseline

### Other progress

>£13bn green and sustainable financing

c.£12bn investments in climate aware strategies

Environmental sustainability report issued, including our enhanced TCFD[2] disclosures

First Group climate transition plan published

1 – Net-Zero Banking Alliance. 2 – Task Force on Climate-related Financial Disclosures.

# Sector based approach to transition our banking portfolio

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- Limited exposure to high fossil fuel sectors (coal, oil & gas)
- Emissions profile differs from wider UK economy; higher emissions proportionally in homes and agri
- Focus on sectors that are most material to the Group and/or hard-to-abate (housing, motor, agriculture)
- Supporting clients to transition is our priority; reserve the right to change or exit relationships if no progress
- 7 sector based targets published to date
- Collaboration between government, industry and society essential

| Sector | Target for 2030[1] |
|---|---|
| UK residential mortgages | **41%** reduction in emissions intensity |
| Retail motor | **>50%** reduction in emissions intensity |
| Automotive OEM[2] | **47%** reduction in emissions intensity |
| Transport - aviation | **31%** reduction in emissions intensity |
| Thermal coal | Exit UK thermal coal power by **2023**; Exit from all entities operating thermal coal facilities by **2030** |
| Oil & gas | **50%** reduction of absolute emissions |
| Power generation | **81%** reduction in emissions intensity |

**Pathways chosen for our sector targets are science-aligned, using 1.5 degree scenarios, the only exception being the Aviation target which uses a "well below 2 degrees" scenario**

1 – Baseline years – 2020: UK residential mortgages, Automotive OEM, Power generation; 2019: Transport-aviation, Oil & gas; 2018: Retail motor. 2 - Automotive Original Equipment Manufacturer.

# Group climate transition plan now published; a roadmap of activity out to 2030 towards our net zero ambitions

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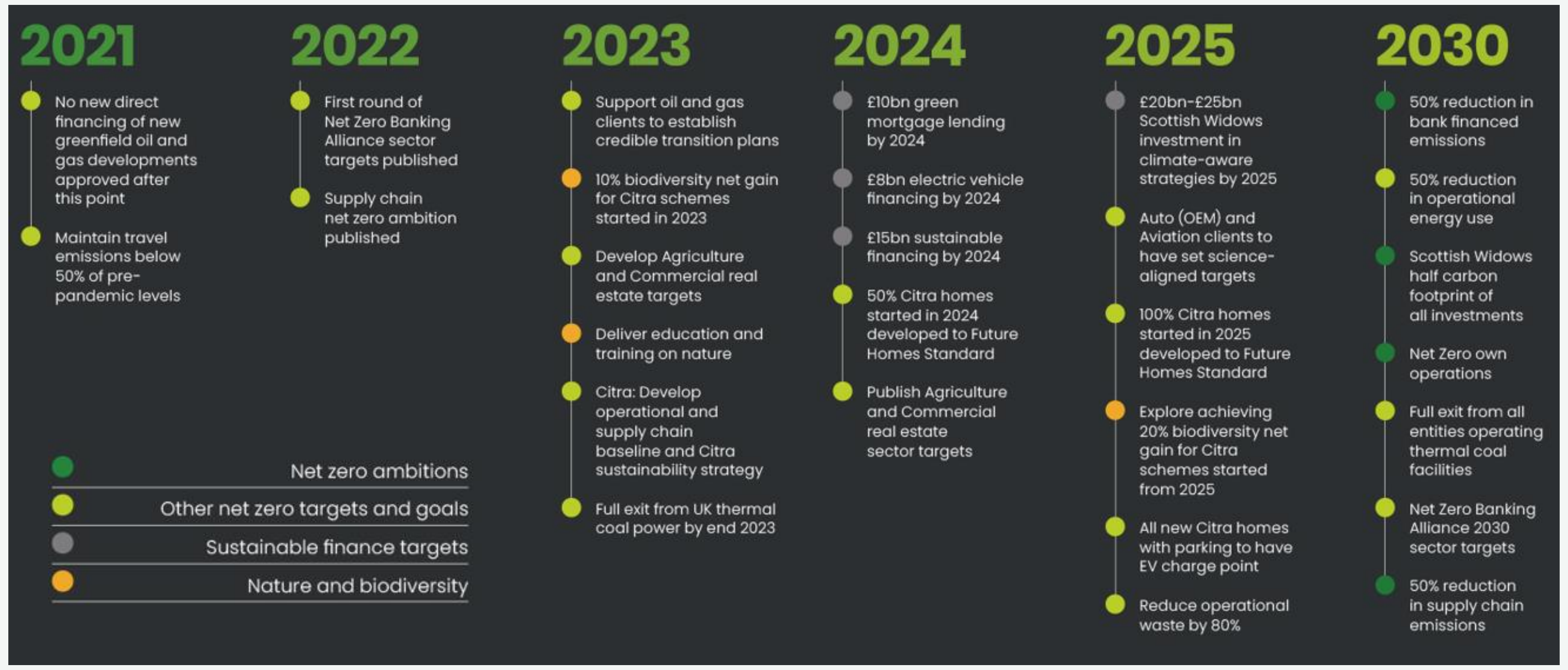
## One of the first UK banks to publish a climate transition plan




### Included in the plan

Sector target pathways

Progress against our targets

Strategies to achieve targets

### Further developments

Expect to iterate plan regularly

Developing best practice will inform plan updates

Participating in Transition Plan Taskforce Sandbox

### Our key next steps

Set agriculture and commercial real estate targets by end 2023

Expand our work on nature

Work towards SBTi[1] sign up and future verification

1 – Science Based Targets initiative.

# Good progress on embedding climate risk into our overall risk management approach

Consistent framework and clear responsibilities in place to embed climate risk

Climate considered a principal risk within our Enterprise Risk Management Framework (ERMF)

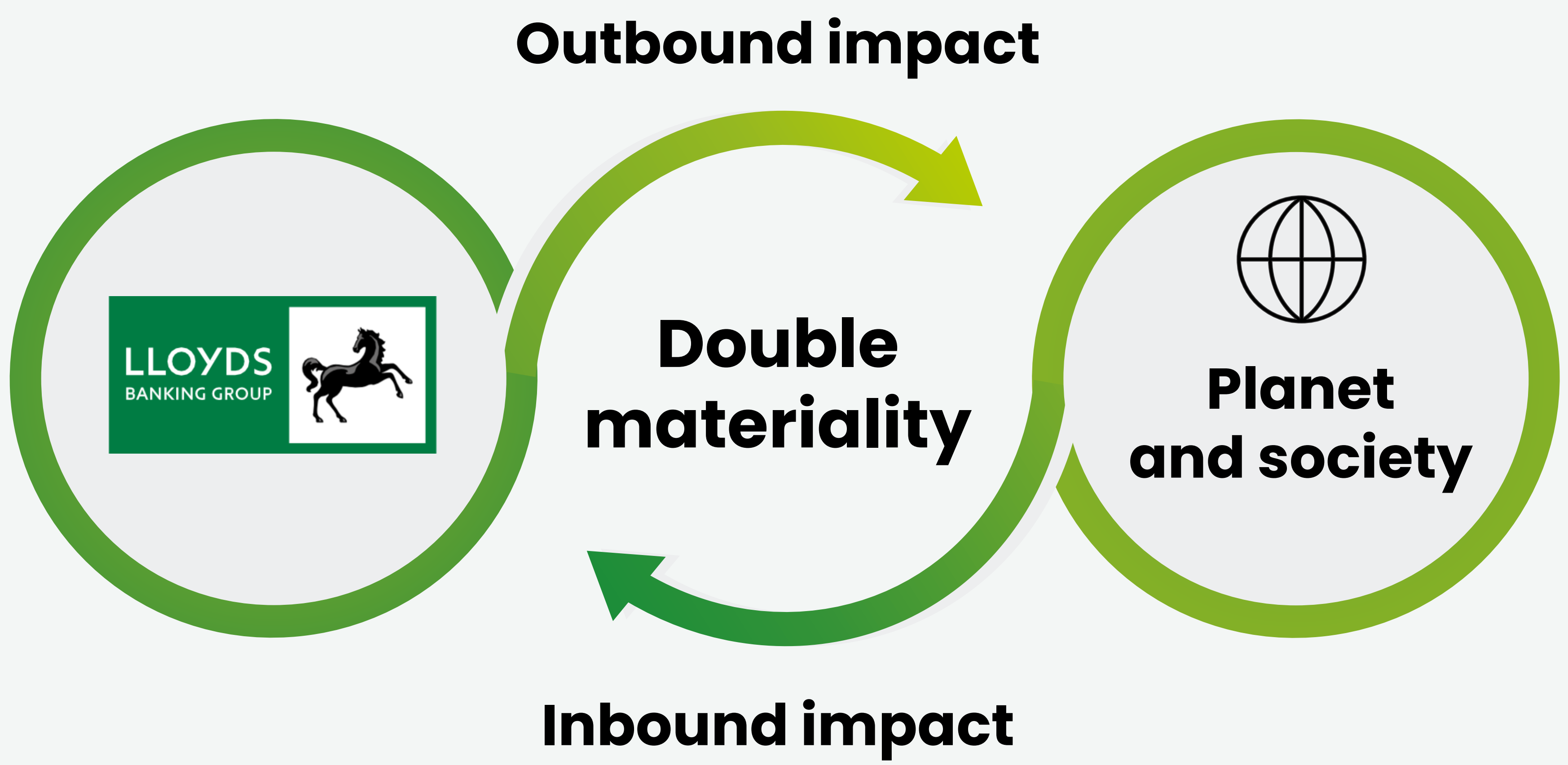
Group climate risk policy provides an overarching framework for managing climate risks

Given not an isolated risk also integrating consideration of climate risks through our ERMF

Focused on most material climate risks facing the Group, particularly credit risk

As our understanding of impacts of climate risks has evolved, we have adopted a **'Double Materiality'** approach

- **Inbound:** consideration of impacts of climate change or transition to net zero on the Group and our associated activities
- **Outbound:** consideration of adverse direct impact on people and environment as a result of the Group or its practices



# Increasing integration of climate considerations into credit processes

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- Good progress in embedding ESG and climate risk considerations into credit processes
- Will continue to evolve and differ in approach by division/business
- Priority areas of focus: ESG credit risk frameworks and policies; portfolio management; and case management

**Embedding climate and ESG into credit risk management and decision making by**

- Business unit specific ESG risk policies
- Case management (financial risk) for individually managed exposures in higher risk sectors
- Case management reviews of material reputation risk
- Integration of ESG risk factors into credit strategy for portfolio managed exposures (Consumer, SME)
- Data, MI and tooling capabilities
- Defining an ESG taxonomy beyond physical and transition risks
- Alignment with Group sustainability strategy, targets and sector statements

**Tapping into climate opportunities**

- Development of Transition Technologies risk framework and assessment of Credible Transition Plans
- Supporting Transition finance related product and credit enablers (e.g. solar panels)
- Supporting the transition for Mortgages (Retrofit) and Automotive (EV transition)

# Evolving scenario analysis capabilities to assist in managing climate risks

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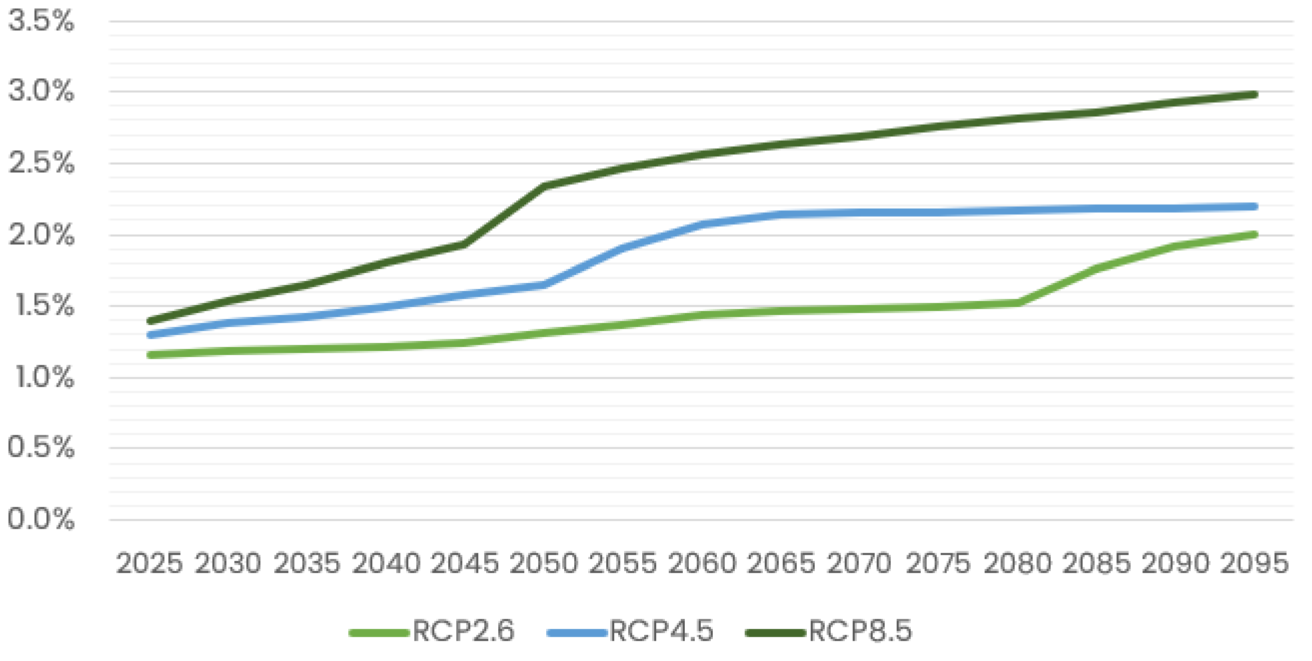
## Current activity

- **Centre of excellence** established to further develop scenario analysis capabilities
- **Hybrid approach:** 3rd party solutions and developing in-house capabilities
- Prioritised business areas **most exposed** to climate risk
- Insights used to support measurement of **Expected Credit Loss** and **ICAAP**[1]

## Consumer example - UK mortgage portfolio

- Expanding our understanding of physical hazards to mortgage portfolio under different climate scenarios
- Current focus on flooding, coastal erosion and subsidence
- Key insights to date include:
  - Flooding is the most material risk
  - Tipping points can occur where flood defences are no longer adequate
  - Exposure to coastal erosion is low
- Results inform further areas of modelling activity

**% of the Group's UK mortgage portfolio[2] with Defended Combined Flood Score >80 by RCP[3] and year**




Next steps

- Combine hazard scores into a physical risk rating; translating into affordability and valuation impacts
- Generate an integrated view of potential physical and transition risk impacts across scenarios
- Use developments to inform lending criteria for retail mortgages affordability decisioning

1 – Internal Capital Adequacy Assessment Process. 2 - Balance weighted proportion of the Group's UK mortgage portfolio. 3 – Representative Concentration Pathways (RCP) of IPCC (Intergovernmental Panel on Climate Change) describe different climate futures. We considered 3 of these, ranging from RCP2.6 (least emissions and lowest global warming and physical risks as a result) to RCP8.5 (greatest emissions, global warming and resultant physical risks).

# Focus: Supporting businesses to transition

## Committed to help our clients navigate and finance their transition

Target **£15bn** sustainable finance to Corporate & Institutional Banking clients by **2024**

According to our Net Zero Monitor **93%** of SMEs say sustainability challenges are important to them

### Dedicated sustainability team supporting clients

>£8bn of **green & sustainable financing** in 2022

25+ person team with **deep expertise** in sustainable financing, ESG consultancy, climate strategy, policy and law

70% of clients rating us **above average or best in class** for our sustainability engagement in 2022

### Product and proposition development

Launched **Housebuilding Sustainability Finance Framework** with key partners

300m $ft^2$ of client buildings assessed through our **Green Buildings Tool**

Broadened **product and service capability**; SLLs, Sustainable Development Loans, Green Commercial Mortgages

### Supporting clients beyond net zero transition (just transition and nature)

Consistently a **leading bank in UK Renewables**, supporting 12 of the 14 offshore wind farms since 2018 including Dogger Bank

**New partnerships** with Eon and Soil Association supporting our SME and Agriculture clients respectively

Establishment of a **Net Zero impact framework**, focusing on transition technologies to accelerate energy transition

# Focus: Greening homes

## Growth opportunity in supporting the transition of Britain's housing stock

Target **41%** reduction in financed emission intensity of UK residential mortgages by **2030**

Target **£10bn** of green mortgage lending by **2024**

**Build awareness & incentivise customers to act more sustainably**

>£3.5bn of **green mortgage lending** in 2022

>18k registrations for **Green Living Reward** – sixfold increase vs initial launch in 2020

Functionality to **capture EPCs** built into our mortgage journey

**Partner to support the transition of UK homes**

Launched heat pump partnership with **Octopus Energy**

>25k action plans created on our **Home Energy Saving Tool**, developed with Energy Savings Trust

**Engage externally to facilitate environment supportive of transition**

Developed key **policy asks** (e.g. leverage stamp duty to incentivise energy improvement works)

Working **together with industry** (e.g. NextGeneration Executive Committee)

# Q&A

# Thank you

**Today's participants:**

**Charlie Nunn**, Group Chief Executive

**Dr. Rebecca Heaton**, Group Environmental Sustainability Director

**Roselyne Renel**, Chief Credit Officer

**Scott Barton**, Managing Director, Corporate & Institutional Coverage

**Andrew Asaam**, Homes Director, Consumer Lending

**Janet Pope**, Chief of Staff and Chief Sustainability Officer

**Douglas Radcliffe,** Group Investor Relations Director

For more information please find our 2022 Environmental and Social Sustainability Reports on our Group webpage at www.lloydsbankinggroup.com/investors/esg-information or contact us on investor.relations@lloydsbanking.com

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