LLOYDS BANKING GROUP CLIMATE WEBINAR – PRESENTATION TRANSCRIPT
(amended in places to improve readability only)

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LBG
Charlie Nunn, Group Chief Executive
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

Douglas Radcliffe
Good afternoon, we will start the webinar in a few minutes. I would kindly ask everyone to mute their lines. We will start with a short presentation followed by Q&A. Please note that the webinar will be recorded and that the webinar presentation and transcript will be made available on our Group webpage. I will now hand over to Charlie, our Group Chief Executive, to start the webinar.

Charlie Nunn
Good afternoon and welcome to our first climate webinar. Tackling climate change is one of the key challenges facing our generation. It is something that I feel strongly about and I know my leadership team does too. We believe we can make a real difference in helping the UK transition to net zero and at the same time create significant growth opportunities and value for the Group, delivering higher, more sustainable returns.

Building an inclusive and sustainable future for people and business is really integral to how we've laid out our purpose, our strategy and then the specific targets we've laid out.

And as you know, we serve about 26 million customers across the UK. The heart of every sector and every family and individual across the community in the UK, it's about half the adults in the UK, about 20 per cent of businesses. And what was really interesting as I came in was to see what a leader we've been around some of the corporate and SME sectors in the last five or ten years, and that remains true as we look forward to our strategy. We have laid out a Grow, Focus and Change strategy for the Group.

With respect to our climate objectives, our growth is focusing on our financing opportunities around the transition to net zero and we really see opportunities to support our clients and create profitable and valuable roads for our shareholders in this context, we'll give you some examples later.

Obviously around how we continue to focus our balance sheet, our supply chains and our operations is really important, but also managing climate risks, which we know will be in the future more and more of an issue. So, we've been, within our strategy, laying out investments around our capabilities to manage climate risk.

And as we talked about our strategy, how we leverage our people, technology and data and build a proposition for recruiting and retaining the best talent. We know that sustainability and having a clear purpose is essential. Our strategy has our transition to net zero and supporting UK clients in that transition embedded across the elements of our strategy.

And then in terms of the outcomes we've committed to on the right hand side of this chart (slide 2), you can just see we've committed to reducing our finance emissions by greater than 50 per cent by 2030. We'll talk through some of the sector specific commitments that underpin that in a second.

We have committed to halve the carbon footprint of our Scottish Widows investments by 2030. That's obviously a very material commitment as well, given the scale of the assets under administration and management that we have on behalf of our clients in that business.

We've also committed last year to reduce our supply chain emissions by 50 per cent by 2030 and to be net zero in our own operations by 2030. So, a very significant level of commitment.

This is fully aligned with the UK's transition, and then we'll talk about what it's aligned with more broadly. But for us to achieve that, we're going to have to be at the forefront of driving the agenda with the whole of the UK, the government, local authorities, our customers, and making sure that we can enable some of the changes in the UK to happen, that bluntly aren't lined up to change today. So, to deliver those kinds of outcomes we know we're going to have to use our convening power and our position to really support and drive that transition. I'm sure we'll talk about that later, but that's what I and the team are completely committed to and as I said at the start, this is a part of us delivering on our strategy and our more sustainable and high returns.

I'm going to hand over to Becky, our Group Environmental Sustainability Director, to introduce the rest of the team and take us through the presentation, but I'll be here for the Q&A at the end. Becky.

Rebecca Heaton
Thank you very much, Charlie. So, I just want to introduce my colleagues joining me today to give the presentation. First of all, Roselyne Renel, who's our Chief Risk Officer. We have got Scott Barton who's Corporate and Institutional Banking coverage and Andrew Asaam, who's our Homes Director. We're going to be joined by our Chief Sustainability Officer, Janet Pope for the Q&A session, which is going to be moderated by Douglas Radcliffe.

So first of all, I want to start by really reiterating what Charlie has said, that climate change is really core to our purpose and strategy.

We're really focusing on where we can most make an impact such as greening the built environment and the transition of energy within the UK and the motor sector in the UK.

Our scale and reach means that we have a really important role in supporting people both in their day-to-day lives, but also through green financing, and you can see on the slide here (slide 3), we've set some of our financing targets out because we see a real opportunity here as well.

Alongside that, we've set some ambitious emission reduction targets, which I'm going to talk about in a minute.

To achieve these, we really see the need to partner and collaborate across society, with industry players and also with the government.

And finally, we see a clear value link between supporting UK's transition to low carbon and generating long term and sustainable value to our shareholders.

So going on to the next slide (slide 4); a little bit about how we're set up for success. So, we've got clear accountabilities and ownership.

The Board have oversight and responsibility for the Group's sustainability strategy. And below the Board we have several Board Committees, which play really important roles, so we have regular discussions with the Board. There's the: (i) Responsible Business Committee, which is a board level committee; (ii) the Audit Committee, which is involved in target setting and monitoring; and (iii) the Board Risk Committee covering climate risk.

Below this at an executive level we have two key committees. First of all, the Group Risk Committee, which is chaired by William, our CFO, and secondly our Group Net Zero Committee, which is attended by Charlie and William and is chaired by our Chief Sustainability Officer, Janet Pope.

And we're doing this to really ensure that these climate targets are embedded in our business strategy with clear accountability across the whole of the organisation. We also have remuneration structures in place around climate performance, so climate performance measures form 10 per cent of the Group Balanced Scorecard and climate performance is also part of our long term incentive.

So, moving forward a little bit to our actual ambitions (slide 5), and the first thing of course is obviously to understand your baseline with any of this, and on the left hand side you can see our financed emissions and other emissions. The financed emissions at 23.2 million tonnes are about 25 times our operational and supply chain emissions. So, they're a really strong focus for us.

To try and put that number into some sort of context, 23 million tonnes is about 7 per cent of the whole of the UK emissions. They aren't all occurred in the UK within those 23 million tonnes, but just to put a bit of context around it.

So, what we've done in 2022 is we've set some targets for financed emissions through the NZBA, the Net-Zero Banking Alliance process. We've also supplied £13 billion in green and sustainable finance and we took a leadership position in oil and gas as we announced we would not directly finance new oil and gas developments.

Within Scottish Widows, we've made progress against our climate action plan with £12 billion investment in climate aware strategies.

And then finally, our own operations, which are really important. We're asking and working with our clients and customers to help them decarbonise. It's really important that we do the same with our own operations. So, we've added to our net zero operational target by 2030 a new supply chain target, which is that we will reduce the carbon emissions in our supply chains by 50 per cent by 2030. And we've also set up an industry-leading Emerald Standard for our suppliers, so we're working across the industry with our suppliers on different metrics that they can use to help them assess their performance against this.

On the next slide (slide 6), we're going to talk about targets. So, these are the Net-Zero Banking Alliance targets which we've set. We've set seven targets so far and these are in our material sectors, so those are sectors which are material either in terms of carbon emissions or in terms of our balance sheet.

They're all 1.5 degree targets, so they're all aligned with a 1.5 degree world, except for aviation, which is well below 2 degrees. Why we didn't set a 1.5 one for aviation is that we felt there was some significant short-term issues with meeting that. And overall when we set these targets, we really set them responsibly. So, we spent a long time debating and working out what the correct stretch was for us that is achievable, but also ambitious, and that's what you can see reflected in these targets.

Again, the numbers on their own don't really make a lot of sense, so just to talk a little bit about context and put a picture around perhaps what that 41 per cent reduction in emissions intensity might mean for UK housing. We have 24 per cent of UK housing mortgages emissions and in the UK housing emissions account for 22 per cent, so we have a really heavy skew there. And if you look at UK agriculture, it's even more skewed where we have 27 per cent of the emissions compared to UK agriculture emissions of 11 per cent. So, those two are quite strong sectors for us. We haven't set an agriculture sector target yet, but we will be planning on doing so.

So, to achieve these with the right amount of stretch, we think it's going to involve a lot of collaboration within the industry, and Scott's going to be talking about some of that later. And also working with the government as well, we are very much reliant on government policy to fill the gap and help deliver on some of these targets, particularly around housing and agriculture.

Finally, I'd like to talk a bit about our climate transition plan (slide 7). So, we were one of the first UK banks to publish a climate transition plan. This really sets out a road map of our ambitions and our interim activities out to 2030.

We really expect to reiterate the plan quite regularly, it's an evolving practice in terms of what makes the transition plan and we're working closely with the Transition Plan Taskforce to sort of help steer what we think a good transition plan should include.

We have also got a really busy year this year, so our key next steps are setting NZBA targets for agriculture and commercial real estate. We are going to expand our work on nature, so we've already carried out a materiality assessment and have several partnerships in that place that we're also going to expand on. We're also looking at developing credible transition plans for the oil and gas sector and finally, we're working towards SBTi, so the Science Based Target initiative sign up, with the view to future verification.

So, that was a rather quick go through of our current activity. I'm now going to pass over to Roselyne Renel, our Chief Risk Officer, who's going to talk about how we're integrating climate risk into our approach.

Roselyne Renel
Thanks Becky. So, as you can see on the on the slide here (slide 8), our climate risk framework is embedded into our BAU and incorporates the double materiality approach. What we mean by that is we look at the inbound financial risk from climate factors. For example, if a client will have to transition its business model to reduce emission levels and the likely impact that will have on its financials and on the credit quality, and what that would mean for our portfolio. And at the same time, we look at our own practices as well as clients' business practices to understand any adverse impact on the planet and society, including any reputational risk implications. And I'm sure Scott and Andrew will address how they look at this through the client lens. So, if we just move to the next slide.

This slide (9) here outlines how we embed climate risk management and as we've done this, we've been very focused on the integration of the climate risk lens in our credit policies, processes and credit decisions. And in the corporate investment bank and mid-corporate space we now have implemented case management, meaning deal level assessment. So, in addition to the financial risk from climate considerations, we are looking at the assessment of the client's emissions profile and transition plans in light of our own net zero commitments.

We also review the client’s business model and practices against our own external statements and any reputational risk associated with such client engagement. For the consumer portfolios, we are looking at how we can embed climate risk factors in the credit strategies, origination and account management, for example EPC rating or flood scores in properties or homes, as I'm sure Andrew will touch on.

However, we have to also say that while we are managing the climate risk as I've just mentioned, we are also looking at the opportunities to support our clients with their transition. And to that end, we've enhanced our risk frameworks to include things such as energy transition or transition technology frameworks to support our transition finance capabilities. For example, this would include battery infrastructure, solar panels, EV transition, housing retrofit and I'm sure my business colleagues are going to address these opportunities.

And if we can move to the next page (10) which talks a bit about the climate risk modelling and as we all know, climate risk modelling is in its infancy across the industry. And as with our peers, we continue to invest and develop our understanding. We have built at Lloyds a ‘Centre of Excellence’ to support this activity, which also builds from the insights gained from the recent CBES, Bank of England climate stress testing, and other internal assessments that we continue to enhance from a climate lens perspective including, for example, our own ICAAP process.

We use these capabilities to allow us to use the insights for physical risk assessment, for further sensitivity analysis and potential impact on property valuation or affordability of higher insurance premiums, for example. But all of which remains very much work in progress, data collection, gaining insights to help us progress on this topic.

And with that, I'm going to hand over to Scott and he will talk about the commercial side and the CIB side of the business.

Scott Barton
Thank you, Ros. Good afternoon, everyone. I'm just going to focus on three areas and they're on the right hand side of the slide (slide 11). One is the coverage of our clients, our approach there. Secondly, some examples of proposition development promise. And then lastly, just a little bit on the net zero transition and technologies that Ros referred to.

If I go first to the coverage of clients, we are very focused around our clients’ transition journeys, in particular credible transition plans, and the shape and size of the challenges and the opportunities vary significantly depending on the sector as Becky has alluded to. We set up a dedicated ESG Financing and Advisory team about two and a half years ago. It works very closely with our sector teams and expertise there, along with Risk and Group sustainability. And the client feedback, both the internal surveys that we do and external, have been extremely positive in terms of this partnership approach with our clients.

In terms of ESG financing, it's been material last couple of years, we've done over 100 deals in the last 18 months alone. Most of the focus is on the E of ESG and of the £8 billion that we detail on the slide there, £5 billion of that has come from sustainability linked loans across a variety of sectors, including auto manufacturing, real estate and housing, consumer and technology.

Secondly, if I move to proposition development, we've got a couple of examples here on the slide around the built environment, which is clearly a big asset class for us. The Housebuilding Sustainability Finance Framework, something we set up about a year and a half ago, is designed very much to help house builders of all different sizes access finance to build more sustainable homes in the country. It's in three tiers within the framework, very much designed to match the size and scale of the house builder.

We're also a founding member of something called NextGen which is an industry initiative to benchmark sustainability performance of the top 25 house builders in the country.

Another proposition that we've given, about two years ago now, is something called the Green Building Tool. It's a really neat digital app on your phone. It allows a building owner or tenant to evaluate and understand the return on investment if they invest in energy efficient modifications to the building. It also gives an indication of improved EPC. It's been extremely popular with literally hundreds of thousands of downloads over the last couple of years.

I touched on sustainability linked loans, the other area that we've developed is something called commercial green mortgages. That's both for new and existing properties and it's trying to differentiate here from a pricing perspective in terms of green and brown.

And then lastly, just to touch on net zero transition. We have made material support to mature renewables such as offshore wind and solar, but also increasingly around the transition technologies such as battery storage, carbon capture, hydrogen as well, and that's both on the debt financing and associated side, but also in terms of advising our clients on how they raise the debt in the first place.

On offshore wind, just as an example, we did our first deal back in 2009 in a very nascent market. Since 2018 we've supported 12 of the 14 offshore wind projects in the UK that have reached financial close. The biggest of those we've referenced is called Dogger, which is both the A, B and C tranches as well. From a transition technologies perspective, we have a Net Zero Impact Framework. We use the IEA's technology readiness scale, that's a scale of 1 to 11, 11 being the most mature, and we operate at the moment in terms of financing at the 9 to 11 end, but we are very closely watching technology development to make sure we can support our clients. And then lastly, just picking up on one of Becky's points around partnership with other stakeholders across the industry, I'll give you a couple of examples that are particularly for our SME clients. One is the Soil Association where we've got a three-year partnership. That's about offering a sustainability service to the UK's largest farming customers and it's about their transition journey from understanding of sourcing data, scenarios, pathways and also ultimately to execution of transition plans. And then the last thing I'd mention is a pilot that we've got with EON, again focused on the smaller end of our client base and this is a discounted energy audit that we provide and then discounting into any resultant energy conservation measures.

So, I'll stop there and hand over to Andrew.

Andrew Asaam
Thanks, Scott, and so for homes (slide 12), as Becky said, we've targeted a 41 per cent reduction in our financed carbon emissions by 2030 and we've also got a £10 billion green mortgage lending target to achieve by 2024. We're doing this in 3 principal ways. So, on the right hand side you can see the approach that we've set out.

The first one is to build awareness and create incentives for our customers and clients, and we do that through a number of different tools. On our websites we've got green mortgage hubs that offer an essential source of information for customers looking to understand what they can do to retrofit. We've also got personalised action plans that set out what a customer can do for their individual property that will improve the EPC rating. We run virtual events with the Energy Saving Trust that again will give customers insights to what they can do, and this is underpinned by green mortgage lending which offers incentives for customers if they've got higher EPC rated properties and that's linked to the £10 billion of lending.

In itself we know that's not going to be sufficient and we've got partnerships that we have started, the most notable one is with Octopus that allows customers to remove some of the friction that we know is in the journey for retrofitting. So, the customer can, from our website, connect with Octopus and they will then do a survey and help with a fitting of a heat pump which makes the whole journey from a customer searching for what they can do to retrofitting their property much more seamless. They can also within that benefit from the government grant that's in place, and we're also looking to extend those partnerships and look at other opportunities such as solar panels.

We know that we can't solve this by ourselves and finance isn't the first point of contact for customers to look to retrofit, so there are a number of areas that we're looking at developing. For example, conversations with regulators and the government around ways to incentivise customers to retrofit and also is there more that can be done to make customers aware of EPC. So, really building on the awareness and the incentives to help our customers.

So, there's a range of things that we're doing in homes to bring our customers on that retrofit journey and capture some of the opportunities that we think are there. Thank you.

Douglas Radcliffe
Thank you, Andrew. That concludes the formal presentation element. We very deliberately left a fair amount of time for Q&A.

For the Q&A itself, we are just going to take a very normal approach. If you would like to ask a question, please raise your hand via the Teams function. Once I have specified who the next question is going to be from, if you could please unmute your line and ask the question, stating both your name and your company.

So, the first question is from James Invine.

Question – James Invine, SG Corporate and Investment Banking
Great, thanks Douglas, and thanks everyone for the presentation, it was really interesting. I've got a couple please. The first is when you talk about incorporating this into the credit decisioning. Is that just kind of a stop-go decision or does it actually feed into loan sizing and loan pricing?

And then the second question is, do you have a kind of internal transfer within the Group? So, if one business is running ahead on carbon and doing better than you might have expected, is it able to sell the carbon that it's not using to another business? Thanks.

Roselyne Renel
I'm going to let Scott answer the question since it's got pricing, and then throw back to me on the credit if there's anything you want me to add.

Scott Barton
Right so on pricing, we have a number of schemes, and I'll give you an example in terms of the sustainable development program we have for house builders, where there will be discounts and particularly more in nascent markets that we're looking to develop.

In the early stages of the offshore wind market there were certain discounts which allowed us, one, to be more competitive, but from an incentivisation perspective for the client as well. They are relatively modest and as the technologies or the markets mature, I can tell you, for example, at the moment in the offshore wind market there is so much liquidity that there's certainly no need for any incentive in that respect. So, it's typically at the start of a technology or development of a market that we would see it, and I'm talking here from the Commercial Banking perspective. When we come to risk assessments, and I'll pass over to Ros shortly, we go through the same criteria, the same analysis, the same work through, that we would do for green or brown in terms of activity. The important thing though, there is a major section on the transition plan and where the client is heading, and that is absolutely because that will have an impact in terms of business model, in terms of credit worthiness and that actually gets factored into how we assess the credit.

Roselyne Renel
If I can just add to what Scott just said. As I mentioned before, we do assess each deal or each case for the higher risk segments from a climate risk perspective. Clearly it would be quite difficult to assess every single transaction the Bank did on a daily basis. But we do look at these higher risk sectors; we look at the transition plan; we also talk to the clients, to the counterparty, to understand how they have factored in their own frameworks the managing of their own emissions. And we've also looked at developing our data and MI to support those assessments, but these are at individual case level for all of our sensitive sectors.

Charlie Nunn
I can take the second one. So, James, it's a great question, we spent a bit of time as an executive team looking at some of the companies that have created an internal carbon pricing market. We decided it wouldn't add value for us at this stage, because you can see exactly what progress we're making by business and by portfolio and we've got all the data to track it and therefore we can make that trade-offs if you like through the Net Zero Committee that we're all sitting around the table looking at. And interestingly, I don't think I need incentives to drive this. Where we see just real commercial growth opportunity, if I can be just a CEO for a second alongside what our broader purpose is, we see that we are differentiated. You heard some of the capabilities we have; customers are choosing us because we have advice capabilities in Scott's world where we've got propositions that are starting to emerge. We would probably want to talk about the built environment more later, that doesn't need incentives to create the teams who want to go after it. And in a number of areas, you'll know because you're experts on this, the ambition we've set is way ahead of the UK economy.

And in those areas where we need to then lean into government policy, engaging with the industry more broadly, financing technologies that still have a green premium but don't yet serve the purpose of the UK, we thought creating incentives at this stage wasn't that helpful.

Just one other build on this is that we also had a debate around biodiversity and nature, which is behind obviously carbon emissions, but we know we're going to have to build that into our framework as well. So again, there isn't really a single metric yet. I know there's a discussion with the UK government around having one, but we think we'll treat that in the same way. We're going to be clear around our biodiversity targets, we'll track that by division and business and then we'll track it through this single Net Zero Committee. So, we had a really good debate, if that makes sense, James. It's a great question. There're some organisations that have done this, more complex global ones, that have put this in place. We felt that wouldn't help us at this stage.

James Invine
Ok, lovely. Thanks to all of you.

Douglas Radcliffe
Excellent, thank you. The next question comes from Yi Qian. Yi, if you could possibly unmute yourself and ask the question, that would be brilliant. Thank you.

Question – Yi Qian, Atlanticomnium
Thank you very much for the presentation, I have a quick question. I'm just wondering for the interim targets, so basically for the moment, it seems like it's only on balance sheet exposure. It doesn't really cover undrawn commitment. So, I'm just wondering is there any targets or timeline to incorporate this as well, or is it too early to say?

Rebecca Heaton
Yes, we are definitely looking at that.

Charlie Nunn
Let me have a go at it, so we track it and we monitor it carefully and you'll have seen some other organisations, I think Barclays does, for example, disclose that. When there are events like there were last year around oil and gas and Ukraine, you see changes in undrawn lines and so we track it all, we have a very clear view of it. We haven't disclosed it externally because it wasn't part of the practices we've had, and actually the industry in general doesn't do that. But whether or not we disclose going forward, I can see it as a big part of what we need to do.

The confidence you should have is we do track it very explicitly and we are driving the overall outcomes in line for both the undrawn and drawn commitment, and it's really only an issue in one or two high carbon intensive industries, to be honest.

Yi Qian
Ok, thank you.

Douglas Radcliffe
Thank you. The next question is from Justin. Please unmute your line.

Question – Justin Bisseker, Schroder Investment Management
Hi, thanks very much for the presentation. Good to see you again. Something a bit different, climate change, very important. Just a couple of quick questions. So, first thing, just forgive my ignorance, but the Green Living Reward, is that like a government subsidy and do you expect that to step up quite materially? And linked to that, your target is 41 per cent reduction in financed emissions for UK residential mortgages by 2030, that feels like a very, very ambitious target. I'd just be interested if you could talk through how feasible that really is? And I kind of note that Barclays have actually put in a reduction target as a convergence, sorry, it's not a target, I think it's called a convergence point in their speak for residential mortgages. Because they feel that their ability to control this is actually quite limited, they don't feel that they should be turning down people that want to borrow just because they live in, you know, properties that were built 200 years ago or 100 years ago or whatever. So, I'm just wondering what the Group's attitude is to that? And then just lastly, kind of linked to the previous question actually, you talked about commitments. Can you just talk more generally about capital markets activities and including those in financed emission calculations and disclosures? I know PCAF is working on this, but I was expecting a response here from PCAF by the autumn and we still haven't got it. So, when do you think there will be an industry solution and will Lloyds just adopt that industry solution or do something different? Thank you.

Andrew Asaam
I'll take the first two or three of those. So, the Green Living Reward is our own reward for mortgage customers, who are looking to undertake improvements to their property, so for example heat pumps, solar panels or insulation. So that's a bespoke LBG proposition, it can be combined with the government heat pump grant, so that's part of the proposition with Octopus. So, you can get the two things together that make a heat pump comparable to a gas boiler. The 41 per cent reduction we think it is a stretching but a credible plan. It aligns with the government's carbon budget, but it does rely on external activity for us to meet that target. So, for example, an ongoing grid decarbonisation, effective take up of the heat pump grants, and so on so forth, as well as activities that we need to do ourselves, so for example, the green mortgages.

I think the Barclays question is one around just transition, which is exactly where we are as well. I think most institutions are able to achieve their targets by cutting lending, but that isn't the approach that we're going to take.

Rebecca Heaton
It's not been the approach for any of our targets really, we set them looking at our purpose of Helping Britain Prosper and how we can really bring everyone on that journey. Just a really brief comment on PCAF, we're waiting with you. Will we adopt it or not? We generally adopt what PCAF do, but until we see it, I can't really comment.

Charlie Nunn
Can I add more thing on homes because it's so material, Justin I'm glad you went into it. So, on the just transition, I jumped over it, but you know our purpose of Helping Britain Prosper, we added a mission statement, which is creating a more sustainable and inclusive future for people and businesses across the UK. The reason we think inclusive and sustainable have to be in the same sentence is for exactly the reason you just said, and especially when we get into SMEs, agriculture, housing, transport, you have to have that lens for all those transitions. I think it's maybe a slightly different discussion when you talk about large international corporates, but you know, given who we are, you can imagine that's been right at the heart of our debate. So, thank you for raising it the way you did.

It's also why, I don't think we've said this explicitly, the only one of our targets so far that doesn't meet SBTi is around homes. And there are some other banks in the UK that are committed to the homes transition at an SBTi level and we were uncomfortable with that because the UK housing stock is so different from the global housing stock and we thought that would push us, you know, if we were going to commit that, we wouldn't be able to keep our inclusive principal at the centre of what we're talking about. And then the final thing just, you know us really well Justin, but you know, we can see a path for new build houses, we are the biggest affordable social housing financier and we're doing great deals to help the retrofit and building sustainability into that housing sector, which is as you know, 3 million to 4 million homes in the UK. I can see a pathway for that. And there is a portion of the housing stock which we are identifying and proactively going after where we think the retrofit business case works. But as Andrew said, and he's really the expert here, there's a large chunk of the 24 million houses in the UK where the retrofit business case doesn't work today, and the incentives from the government and or us as financial institutions doesn't make the business case work. So, when Andrew teed out what we're doing in partnerships and then with government and policy engagement to really deliver that 41 per cent, we need the government to deliver on its own transition plan as well.

So, you know, my commitment to you is we're going to lean into that heavily, we'll be clear as we go on the journey. We've still got a few years, but we felt, balance everything I've just said; 41 per cent was stretching; in line with the government's framework and commitments; and didn't breach our inclusive principles. But we know we need more than the tools we've got available today if we're going to help British consumers and families on that journey. And I can go to any other detail you want, but you can imagine you highlighted one of the most important areas for us given that we've got £310 billion worth of mortgages and then through Scott's businesses a very significant commitment out through house builders, social housing, and then we've got some other areas of exposure as well.

Justin Bisseker
Ok.

Scott Barton
Can I add Justin just one thing on the capital market side. Ahead of PCAF and any industry standards, our approach is pretty conservative versus the market. So, of the £8 billion that we talked about in terms of sustainable and green financing last year £1.25 billion of that was from debt capital markets. SSE was a bond that we did, £300 million, we were one of three book runners and we include £100 million in that, so we're pretty conservative around how we cater for that compared to our peer group.

Justin Bisseker
Ok, many thanks to the answers. Can I just ask a quick supplementary as well because I don't know how many of you guys saw the ECB's report into its own climate stress test but it's quite interesting because it had a table in it that kind of compared a whole bunch of banks, I think is like about 20 European banks, calculated financed emissions for the same counterparty. I think it was across all scopes and there was a massive difference in calculation. So, you know, we all talk about this almost like these emissions numbers and targets are hard facts and of course they're not. There's a huge amount of estimation that kind of goes into it. How far are we away from a situation where the ECB could put out a report like that and find that everybody's calculations are actually consistent with each other and is there any work being done at an industry level to kind of make sure that we do end up at that, you know, at some point at that in that area, you know, with like a commonly accepted sustainability accounting standard, if you like? Thank you.

Rebecca Heaton
Yeah, I think that's why we're focusing on intensity because the intensity doesn't move around a lot. We absolutely accept the numbers underneath really do move around a great deal, so absolutely acknowledge that. In terms of do we think there would be some sort of standardised thing? I hope so, I think there's a lot of different data solutions being provided by different people. I think we are beginning to see a bit more alignment, we're certainly seeing alignment in the reporting, and I think that will drive alignment in how some of these things are reported and, you know, the quality of data going forward as well.

Charlie Nunn
So, Justin, we have a lot of discussions in the industry and then with the government and then with some supranational bodies, obviously the NZBA, SMI and other initiatives around exactly this topic. And my personal view, if others would agree around the table, is it won't be anytime soon that we have a single number and if we do, it'll have a basis on calculation that may be relevant to an economy, but not necessarily to a global standard. So, getting a real alignment around this, I think, which I know makes your jobs really difficult, is one of the toughest parts of this. And increasingly on the larger corporates, which is where you started, not the small corporate or households or with individuals, that's where we think having alignment around the principles of the credible transition plans and using those to really inform the transition is just fundamental because we only achieve this transition if we take industries today that are meaningful emitters and help them on the transition. I think most people who look at this in detail understand that. And most large emitters don't have even themselves the full understanding of their emissions yet, because the definitions of scope one, scope two, scope three is continuously evolving as we go through time, so even the organisations themselves have different numbers that change every year. So, our view is you're probably not going to get a simple reconcilable standard number, certainly not when you're looking internationally like you are. And the subtlety then comes into really understanding the organisations' own strategy, their own transition plans and the credibility of them, and then holding them and us to account. And I know that doesn't make your job easy, but I think that's the pragmatic answer for us to get this thing going at much greater momentum and velocity.

Justin Bisseker
Ok, super. Thank you very much.

Douglas Radcliffe
Thank you, Charlie, and before I move to the next question, there are actually a couple of questions that were submitted in advance. The first one was you've mentioned that success requires collaboration with other stakeholders, how are you working with government and regulators to accelerate the climate transition? And perhaps that's one for both Charlie and Rebecca.

Rebecca Heaton
I was thinking the Prime Minister's Business Council might be a good example of that, which you're heavily involved with, Charlie, if you want to.

Charlie Nunn
Yeah, so I mean, the answer is there's a number of supranational bodies in financial services GFANZ, NZBA, the King Charles' SMI initiative, and they're all very helpful bodies that are setting standards and trying to agree different ways of the industry supporting different sectors with the transition embedded in all those. There's a number of government initiatives, some of them are embedded in those, and we're also engaging with those. The third link, before I go to the Prime Minister Business Council, is we obviously have good relationships with each of the departments in the government given who we are, given that we finance 15 per cent to 30 per cent of everything in the UK, and so we have a very open and transparent dialogue with the government and then other ministers on both sides of the government today, and into the future, to really engage them around housing and the built environment, the energy transition, agriculture and then transport, which are the four biggies that we're talking about for this society.

The Prime Minister's Business Council was a good example of where we've been given an opportunity to partner with some other CEOs and then try and start to engage with the local authorities and mayors, largely in the north of England. There have been around two or three initiatives and the spirit of that was whilst we're waiting for broader policy changes, let's just get on the ground where we can unblock some of the issues, like planning and some of the funding around key initiatives, affordable housing transitions and retrofit, hydrogen buses. Without getting into technologies, we believe hydrogen has a role in transport in large vehicles, buses and lorries.

We work with the local authorities and mayors to try and bring public and private finance together with a bunch of other CEOs to drive those transitions. And that's a playbook that we think can scale significantly across the country, so we're doing it at supranational level, government initiative level, individual departments within the government and then trying to mobilise our own engagement with other CEOs, and at the local and authority level. And our view is you know if we're going to get this going, we're going to have to pull all of those levers.

Rebecca Heaton
We obviously fed into the Skidmore review, and we feel, we've been following up on that. We've been to various roundtables and we sit on various groups associated with that. We're also watching DEFRA very closely because of our large agricultural book, and in terms of what incentives there'll be for the sorts of things that we need our farmers to do as well, in terms of carbon and nature targets.

Douglas Radcliffe
Ok, thank you. Another question was how are you thinking about external target verification? What are your plans regarding SBTi sign up and target verification?

Rebecca Heaton
Right, so we set all our targets using agreed methodologies and protocols and all of them are 1.5 except aviation, as I said. We would absolutely like to seek verification but SBTi have a slightly different pathway for the housing, partly because they have global pathways. And so we're in conversation with them to see whether our UK Committee on Climate Change pathway is appropriate and whether that could be verified through them. We're talking very closely with them, we sit on their technical advisory group, it's something we are absolutely willing to work towards this year.

Douglas Radcliffe
Excellent. Ok, going back to the lines, Karoline Herms, I believe you have a question if you'd like to unmute your line.

Question – Karoline Herms, Legal & General Investment Management
Thank you very much and thank you for your time today. I have what I hope is a very quick clarification question around your client engagement strategy. And I think I've read that in the coming years, Lloyds will expect clients to set targets which are either in line with the IEA Net Zero 2050 or validated by SBTi. So, my question around that is definition of coming years, as well as is there a particular proportion of your clients that you target, or is this just all of them? And what would you do if they don't get there?

Rebecca Heaton
So, we're working on sector specific credible transition plans for each sector, and I think the detail will come out of there and what we think different clients can do. So, we're very much starting off by working with our clients. So, this isn't about excluding at all, it's about having ratcheted performance in terms of how they can work with us, so we can meet our targets. And I don't know whether to move over to Scott but if I may the client bit is a very live topic between us at the moment.

Scott Barton
Sure, so I think it's as I said in my previous comments, it really is sector by sector and there are different stages of advancement, different challenges. If we take one closest to us at the moment, which is oil and gas, a relatively small number of clients, but you know relatively large in terms of contribution around emissions. We will absolutely work with them, we're in the process of formulating our assessment methodology for credible transition plans as been mentioned before, we're absolutely trying to follow the TPT gold standard, which is due out, I think, in about the spring, summer time, which again is, you know, enforced and supported by industry as well. And we will sit down on a case-by-case basis with each of our clients using the methodology we've developed in line with TPT and have that very open conversation. If we take oil and gas just as a timeline they need to be in place and we need to be satisfied by the end of this year, in terms of how we're doing that. To your tough point at the end there, if we can't reach a situation where we are satisfied that it is a credible transition plan according to our criteria methodology, then you know that's a tougher conversation in terms of winding down that relationship.

Janet Pope
Can I just chip something in there, so at the end of the market that Scott's looking after, those clients are already thinking about their transitional plans and publishing in their report and accounts what they're doing. They're under a lot of pressure to make progress and we work with them to make that progress. The nature of the support and the dialogue is very different in other parts of the market, so as Scott mentioned, we've got this green business calculator, so for very small and medium sized enterprises, they're kind of struggling to think about cost of living let alone thinking about how they're going to reduce their water consumption and cut their carbon emission. So, the nature of the dialogue then is around how might we support them, what advice and guidance can we give them to help them get off a space, and the same with the farmers that we bank, so the nature of the dialogue varies across the different sectors, but we're trying to make sure that we're supporting all of our customers so that they can get moving. As Charlie said, you know we could spend a long time trying to get to perfection but actually the most important thing is to generate some momentum. But thank you for the question.

Karoline Herms
Thank you.

Douglas Radcliffe
Thank you, I believe there's another question on the line from Kimon Demetriades.

Question – Kimon Demetriades, Allianz Global Investors
Thank you so much. I'm just maybe picking up on the on the previous points, I think it's really helpful to kind of get clarity on the client assessments and I think as investors obviously we know the challenge on kind of assessing transition plans. So, I guess my question is, given that you're not the only bank looking at this and obviously a number of your peers also have similar client engagement approaches, do you think there might be opportunity where maybe Lloyds has a slightly different view in terms of transition plan for clients? It may be that peers have taken, you know a more negative view and therefore there's some, you know, business opportunity for yourself to pick up clients or some competitive advantage there in terms of how you actually assess transition plans and how this aligns with your targets. Thank you.

Charlie Nunn
Let me have a go at this because, it was great Karoline said it was going to be quick question, but it's one of the most important questions, which is why you're going to get five of us having a go at it, and Kimon your following up is the right question. The first thing and I'm the outsider here, right, so let me just tell you what I saw when I came in. The first thing that's interesting is Lloyds Banking Group has not been serving or has exited from a set of clients that didn't meet their standards without a formal CTP program in place. And I can say that because I know what other banks are choosing to do so it's probably part of the reason we have a very clean oil and gas portfolio, or a set of oil and gas clients with very significant commitments and investments to their own transitions, is because there's already been an exclusion mindset around this for a while in the Group. And the second reason we haven't given you as clean an answer as you'd like Kimon and Karoline, is because this is exactly our concern. What I see at the moment is people jumping to announce CTPs, credible transition plans, as some kind of a mechanism for showing that they're doing the right thing, but I'm seeing that there's no standards around it, there's no ability for us to explain as banks individually how we're applying them.

And as you know, the UK government does have an initiative at the moment in which they are at least trying to agree a set of criteria, and we are waiting on that before we give you the full, because we are largely a UK centred organisation, even though a lot of our clients are international clients. We want to make sure we're aligned with that, which is partly the reason we didn't jump last year to announcing our CTP approach, if that makes sense, because why would we get ahead of a standard that does come out. For what it's worth, a little bit like the good question from Justin around calculating emissions of clients or organisations, how different banks interpret the criteria, I think, still has an opportunity to be different even if they're using the same criteria and so you know, I think that will be a feature of the market for a while, to be honest. And we'll have to work out the best way of disclosing how we are interpreting it.

I don't think it's a basis for competition for us if that makes sense, you said, is it going be a basis on which we compete. We're just going to be really clear on what our principles and standards are and as they become clearer we'll share them, again like we did with you last year around not financing new greenfield oil and gas developments. And we will then execute in that context and what we'll compete on is in a lot of these places, it is the expertise and the capabilities that we bring to provide advice.

We're often in the UK context, the lead around syndicating debt and financing because we have the best expertise to think about how you think about this differently. And then obviously our actual financing capabilities in pricing, I think that's going to be where we continue to compete, not whether we're prepared to bend our CTP principles differently from other people. But I think it's a great question because there isn't a clear standard today. Even at a country level, let alone global level and whatever standards are being developed today, will still have flexibility for interpretation. That is just the nature of this piece. So, I think the best, the most important, thing is we continue to compete on our strengths and then are transparent where we're comfortable around what decisions we're making and why.

Kimon Demetriades
Thank you, very helpful.

Douglas Radcliffe
Thanks. There is one more question from Sabahat Salahuddin.

Question – Sabahat Salahuddin, BlackRock Investment Management
Hi, it's Sabahat here from BlackRock from the Stewardship team. Good to see you and thank you for the presentation. I don't want to take more time, but maybe just quickly a good note to end on would be to think about you know your main priorities for the year ahead. You know clearly there's been a lot of fantastic work and momentum going, but just you know the main areas that we should watch out for that you're looking at?

Rebecca Heaton
So, from a climate perspective, it is setting some more targets under the Net-Zero Banking Alliance, particularly our agriculture target. So alongside that we can't really set an agriculture carbon target without looking at nature. It would be very wrong of us to have a sort of climate change tunnel vision, and we absolutely see trade-offs between nature and climate change. So, expect to see a bit more from us on what we're doing on nature as well as the agriculture and commercial real estate targets that we're planning to set. Also, the credible transition plan for oil and gas, which we talked about as well, and SBTi probably some of the key things from a climate perspective that we're working on.

Charlie Nunn
Yeah, then just more broadly, delivering on this year's 2023 outcomes, we've got some, as Scott said, again as an outsider, relatively new outsider, we take a very narrow definition of financing, bluntly, and we don't participate in some of the green bond markets and government bond markets, which is what blows out other people's numbers. So, our targets are pretty stretching in the current environment. I'm looking at Scott because I gave him something that would push him. So, you know, we need to continue to deliver those things. And then critically, you all know this very well, we are leaning into some sectors which have got very difficult transitions. So, the built environment, transport, on the EV side and the OEM side. The charging infrastructure which we didn't talk about and the technology that underpins that, there's a lot to do in that context. And then agriculture, I think are the three hardest transition sectors, which collectively drive a very significant portion of emissions in the UK. So, you should see us continuing to push the agenda with the policyholders, innovate around propositions and try and work through the different ways we participate in the UK to start to try and prove whether we can get momentum going in those sectors. We're not going to massively move the needle in 2023 in those sectors, but we have to start building the momentum and clarity in the pathways for customers, the customer propositions. So, we've really focused on that, because if we don't get the momentum going in 2023, 2024 and 2025, then 2030 and 2050 become, you know, unattainable, bluntly, in in the targets we need. So I've got pretty high expectations on the teams and those areas and even if some of the stuff Andrew talked about, the built environment, will feel small to start with, until we build tracks, until we learn what works, until we start to get the business cases to work differently, we're not going to be able to start solving a few million of the housing stock which is what we need to get to as a society by 2030. So, those are the key things.

Should I try to sum up and end? We are just right on time. Sabahat, thank you for the question. So, just from all of all of us, thank you very, very much for joining today. It felt like it was just a teaser where we started to get conversation going. Hopefully the key messages were really clear. From my perspective we've committed to this transition. It provides growth opportunity and actually shareholder return. It's fundamental to us managing our own risks and our clients' risks. We think it's core to our purpose in the UK, which remains really important, and bluntly we don't have a talent proposition without it for our own capabilities. So, there's lots of reasons we could talk about wanting to do this, but from sitting in my seat, in my role, that's why we're committed to it.

We don't have all the answers. Hopefully what you're hearing is we are aspirational and we are going to play a role which is much broader than just being a finance partner to our customers. That's critical, but we know we need to play a broader role. And if you have any other questions, or you want to engage us as a team, you know how to get us because there's nothing we're more passionate about. So, thank you very, very much for joining us today.

END

FORWARD LOOKING STATEMENTS

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