LLOYDS BANKING GROUP – BOARD CORPORATE GOVERNANCE EVENT 2020 – TRANSCRIPT
(amended in places to improve readability only)

Monday 9 November 2020 – 12.30pm

LBG PRESENTERS:
Lord Blackwell, Chairman, Chair of the Nomination & Governance Committee
Sara Weller, CBE, Independent Director, Chair of the Responsible Business Committee
Nick Prettejohn, Independent Director, Chairman of Scottish Widows Group, Chair of the Board Risk Committee
Stuart Sinclair, Independent Director, Chair of the Remuneration Committee
Sarah Legg, Independent Director, Chair of the Audit Committee
Douglas Radcliffe, Group Investor Relations Director

In Attendance:
Alan Dickinson, Deputy Chairman, Senior Independent Director
Robin Budenberg, Independent Director, Chair Designate
Kate Cheetham, Group General Counsel, Group Company Secretary
Matt Sinnott, Group People & Property Director
Carla Antunes Da Silva, Group Strategy, Corporate Development & Investor Relations Director

Douglas Radcliffe, Group Investor Relations Director
Good afternoon and welcome to Lloyds Banking Group's Board Corporate Governance Event. Firstly I should apologise for the slight technical delay in starting, but hopefully everything from here will now be smooth. As most of you know, I'm Douglas Radcliffe, the Investor Relations Director for the Group. Before I handover to Lord Blackwell, the Chairman, I would quickly like to run through a couple of logistical points.

Firstly, you should all have received a copy of the presentation materials in advance and have access to the slides on the presentation portal. You will see that there will be a number of short presentations with a brief Q&A session after each one, as well as a final Q&A panel at the end of the event. You can submit questions at any time during the event through the Q&A box on your screen and we will then look to ensure they are raised at the appropriate time.

Secondly, I should mention that this event will be recorded and the replay will be available on our Investor Relations webpage in a couple of days.

I will now hand over to the Chairman for his part of the presentation.

Lord Blackwell, Chairman
Thank you very much Douglas and thank you to everyone for joining. These are important events for us, both to give you the opportunity to talk to senior non-execs who are chairing our various Board Committees and also to give us a chance to hear directly from you, our investors. So thank you for joining.

As you will see from today's Presenters we will go through each of the Committee Chairs in turn. Following me, we will start with Sara Weller who Chairs the Responsible Business Committee, which is our committee that shapes as well as monitors our response to the ESG agenda and our purpose as a business. And then we will go through the other Chairs and have a Q&A at the end. But, we will also try and make sure we allow for questions on the way through.

As well as the presenters, we have listening in to this call a number of the execs who have corporate and governance responsibilities, and also Alan Dickinson, our Senior Independent Director, and Robin Budenburg, who as you will have heard, is taking over as Chairman from me on January 1st next year. Robin will be listening in intently and I know he has been reaching out to many of you. I won't ask him, since he joined the Board only a month ago, to respond to questions today, but I know he will be very interested in any comments you have to make.

So just to move onto the next slide. The agenda we will go through, trying to leave time for questions as we go, but on the next slide, let me just start by pointing out the reality against which we are operating. We are very conscious of the strategic challenges facing the banking industry, Lloyds amongst those, and the fact that, as it says at the bottom on the left there, our share price is currently trading around half book value. That is not where we or any of our investors would want it to be. But it does reflect and recognise the challenges and the questions that investors have about the future of the banking industry and Lloyds' response to that. Those external challenges, I think, you are very familiar with. The macro-environment, clearly at the moment, the short term uncertainty resulting from Covid, which has led to the regulatory constraints on dividends and questions about future distributions. Longer term, clearly the low interest rate environment, which is a difficult environment for the banks to operate in.

We also have the challenge of the technology shift, not only to digital channels, but now to the cloud and moving our legacy systems, as other banks have to do, into that new environment. The competitive dynamics that have been opened up as our technology shifts, not just from new challenges, but by the potential for the big internet players to move into our space.

Changing customer expectations as they get used to digital channels and expect us to behave in the same way and with the same response times and service characteristics as other online organisations. And all this against a background where, not only customers and shareholders, but society in general, is expecting more of us as an organisation, and banks in particular, to play their role in the ESG agenda. But also as banks to be meeting our universal service obligations in terms of access to cash, access to bank branches, access to basic bank accounts, something that we recognise and embrace. But that is all against the background of this shift in external challenges. Internally that creates challenges of managing a tremendous pace of change and building a bank that has got the culture and skills to be the agile and a swift operator that will be needed to succeed in that new environment.

So, as a Board we have been very focused on our response to make sure that we are building a bank that will deliver shareholder value, and will be able to sustain a strong competitive position in the future. These are not issues that have come upon us all of a sudden, we have been thinking about these for a number of years and developing our strategy to transform the bank to the bank of the future, the core of which is about defending and developing the value of our customer relationships, which are the core on which we build our profitability. We have a number of advantages at Lloyds, we believe, from our unique multi-brand proposition, but also the integration that we are increasingly achieving of the financial services offerings from Scottish Widows, in terms of Insurance, Pensions, and Savings, making us a single stop shop of financial services for our customers. We start with a leading cost efficiency which we are determined to maintain. We have, in pursuing the tech migration, the advantage of being the UK's largest digital bank in terms of number of digital customers, which means we have the scale to invest and provide leading edge solutions. We start, of course, with a huge customer franchise and the data that we have from that, which will enable us to personalise our propositions and add that value to the customer relationships.

And we are also concerned about ensuring that we continue to grow in the markets that we have opportunities to do so, notably of course, as I have said, in Insurance and Wealth and Pensions. The opportunity to grow assets under management there is tremendous, meeting a need that customers have. But there are also opportunities in Payments and Cards to grow further within our franchise.

So we have a response, which we believe meets the challenges that we face, But we are also concerned to make sure that as we do that we meet the societal requirements on us, integrating our social and business purpose in the way that Sara will talk about in a minute to make sure that this is not an add-on but integral to the way we run and think about our business and the way we operate. And all of that helps ensure that we maintain our position as the employer of choice, that we can track the talent and the new skills that we need to succeed, with a culture and skills development suited to that environment. And a motivating purpose of helping Britain prosper, which has never been more relevant. For the next year or two it may be more helping Britain recover its prosperity. But it's a purpose that has been deeply ingrained and helps drive the way the organisation operates. All of that achieving the sustainable competitive advantage and shareholder value that we hope will deliver shareholder returns in the years to come and the governance around that, which we will now talk about.

Onto the next slide. Many of the Board's areas of focus during the last year relate to the agenda going forward into 2021 and we continue to update our strategic review. We are absolutely determined not to have any loss of momentum due to Covid or the leadership changes, and we will continue to provide updates. We are focusing on what support we can give to customers to help them through their recovery from Covid, the growth areas I mentioned, ESG, climate risk, clearly a key issue that is centre stage for us, and again Sara will talk a bit more about that. And the migration of our core banking systems into the new technologies will be an absolutely core focus for the Board, along with the culture and skills transformation that goes along with that. And we have to manage the leadership transition, both in Chairman and as we appoint a new CEO. So those are key areas for the Board going forward.

If I can just move onto the next slide. You saw in the video [at the start of the event] we have done a tremendous amount to try and be part of the solution to the Covid financial crisis. We are very conscious that in the last financial crisis banks were seen as part of the problem. This time, we are absolutely determined that we are seen as part of the solution in the way we support our customers and our colleagues and our communities. One of the things, for example, that has been incredibly powerful is the proactive calls we have made to vulnerable customers, we have made something like 600,000 calls to customers just to check up how they are doing, whether they are surviving, whether they need support. It is hugely appreciated by customers, alongside the very practical help from our lending to businesses and the repayment holidays. And we are going to continue to focus on working with our customers and with the Government to help Britain recover. We also, like many organisations, are realising that the changes we have had in our own organisation to respond to the Covid situation have led to some changes in the way we operate which have been beneficial reducing bureaucracy, empowering colleagues to take decisions. We have had a high rate of digital adoption. All those are things, which as we build a more environmentally sustainable way of working, we can continue to build on and embed in our business in the way we go forward.

I should touch on the leadership succession. As you know, I come up to my nine years next year and so at the end of 2019 we announced that I would, of course, be standing down by that time and initiated a search for a new Chairman, led by Alan Dickinson, the Senior Independent Director. And I was delighted that in July we were able to announce that Robin Budenberg would be joining the Board to succeed me. He joined the Board on October 1st and after a period of hand-over he will take over as Chairman from me on January 1st. In July, we were also then able to make the announcement that António would be retiring in the middle of next year and initiated, when Robin joined the Board, the search for his successor, who will of course transition into working with the Board and Robin, to continue to develop the strategy I set out on the previous slide. Meanwhile though, António will be completely focused, with the Executive team, on delivering the current plans. We are working through the next stage of the strategy in terms of the plans and priorities for next year at the moment. We are determined to make sure that carries forward without any loss of momentum, while of course allowing for the fact that the new CEO, when he joins, will no doubt have their own thoughts. They want to add to that strategy and priorities.

I won't dwell on the next slide, on our governance structure. Just to point out that we have the normal range of committees, I spoke about the role of the Responsible Business Committee and the slide sets out how the non execs are split across those committees and who chairs them.

On the following slide, board diversity as well as key skills is critical. We have a range of skills that we try and ensure we cover within our execs and our non execs as well. And in all Board appointments we are looking not only to those technical skills but also what they bring in terms of diversity of thought. The diversity by gender and ethnicity is clearly important. We are on target to meet the Hampton-Alexander ambition of 33 per cent, one third female representation, in 2020. We have four women members on the Board out of a total of twelve at the moment. On ethnicity we made the appointment of Sarah Legg with a Eurasian background this year, but we are keen to continue developing our ethnicity at Board level as in the Executive level. But of course diversity is also to do with diversity of thought, diversity of ways of thinking - deductive, inductive, intuitive, rational- all of those aspects are part of what we look for as we ensure we have a Board with the diversity of different thought patterns.

So that is all I wanted to say by way of introduction. Just to give you the way the Board is approaching this. But if I can open up, Douglas, for any questions that people want to raise at this stage. We will, of course, have questions on each of the specific areas of the Board as we go forward, but I am very happy to deal with any general questions now.

Douglas Radcliffe
Excellent, thank you, Norman. As Norman says we have a couple of minutes to take a couple of questions. The first question that has come through is actually on Board diversity and expertise. The question is what action is the Board taking to improve diversity of the Board and ensure it has appropriate expertise for the current operating environment, particularly around climate change and technology?

Lord Blackwell
Douglas, I will start with the question on Board diversity. We are very conscious of, as I said in my introduction, the need to have a Board that has a very diverse range of experiences and skills. We have, as I said, a matrix that looks at what each Board Member brings in terms of their background and their experiences. But we have set out a specific target that we want to move towards 40 per cent female representation on the Board, which is our target for the Executive population. And we have met the 33 per cent ambition we set out this year, but we will continue in new appointments. Obviously, we want people to bring the right skills and the right experience, but we will continue to look to expand female diversity. But ethnic diversity is also important and as I said we don't rest on where we are now, we want to continue to expand that.

So how do we do that? Well, in every new Board non-executive appointment we ask the headhunters to ensure they bring us a long list and we whittle that down to a short-list that has a good representation of the diversity that we want to see on the Board and we give every opportunity that we can to ensure that all other things being equal we pick those candidates and take forward those candidates who will add to our diversity. It isn't just of course as I said about ethnic and gender diversity, it is about diversity of backgrounds, diversity of ways of thinking, diversity of experience. But gender diversity and ethnic diversity are key parts of that and we are determined to meet our targets on that.

Douglas Radcliffe
Thank you Norman. There is one other question I would like to take now and we can take any other questions later. It is a question that has come through on the line. Do you think that issues that have occurred over the past decade such as PPI and HBOS Reading stem from a failing in governance and what has been done to address that?

Lord Blackwell
I think that you have to say governance must have been part of that. Clearly, there were very different ways of thinking about responsibilities of organisations in earlier decades. There was more of an emphasis on making money out of customers perhaps, rather than making money by doing the right thing for customers. So it starts with the values, the purpose, the organisation, the ethics of the organisation and over the last decade and certainly during the time I have been on the Board and been Chairman we have been very clear about our responsibilities to ensure that we operate in a way that puts customer interests at the heart of what we do. That we are here to serve customers, to deliver what is right for our customers. That is the way to have built a sustainable franchise for the long-term interests of shareholders and also to earn the respect and credibility within society at large that we are a responsible organisation and have the licence to operate. So it starts with the values, and to the extent that things went on previously that weren't in accordance with those values, it was partly maybe because those values weren't as clearly set out on the top of all banks, including Lloyds and HBOS, and partly maybe because initially the governance therefore didn't pick up practices that nowadays we would see as unacceptable and want to change.

Douglas Radcliffe
Excellent, thank you Norman. We do have some further questions, but given the time I think we will now need to move onto the next Presentation. We can cover some of the outstanding questions in the final Q&A panel.

I would now like to, if the technology is going to work, introduce Sara Weller, Chair of the Responsible Business Committee.

Sara Weller
Thank you very much Douglas. Good afternoon everybody. I should start with an apology. The technical problems that Douglas referred to were in fact mine, you can see I have got non-standard background, which I hope you don't find too distracting. No matter how many tests you do they don't always work.

So what I would like to do is just skip you through, I know you have had these slides, but just talk you through a little bit of the context of our approach to responsible business. If there is anything in detail you want to pick up we can pick them up in Q&As.

So let's just start at the beginning, next slide. The journey that we have been on with responsible business, the helping Britain prosper purpose for the organisation has been there for nearly a decade now. But actually the helping Britain prosper plan itself started in 2014 and we have been evolving it with every three year Group strategic review period. We have been bringing the responsible business agenda closer to the core of the business and embedding it more firmly. And as we think about going forward from 2020 into the next round of focus for our strategy, then I think we can almost say we have completed the journey of embedding responsible business firmly into the core of the operation. You will be familiar with the seven basic areas on the right-hand side which form the current basis of our 2017-20 plan and we have made lots of really good progress in all of those areas which as I say we can delve into in more detail if you would like to at any point.

But if you move on, then what we will go onto next in 2021 is obviously the beginning of what would normally be our next round of strategic focus. Given the very unusual circumstances that we find ourselves in, both inside the organisation and very much in the outside world, then I think our approach to 2021 is really to focus on some of the really key important components of the plan and think about what the UK economy and society are going to need over the year ahead and make sure we are really focused on those things. So, of course helping Britain recover, as Norman said. But also changes in the mix of society, the nature of the employment that is available, individuals and businesses who have a lot to do to recover from the Coronavirus year that we have had and hopefully with the news today of a vaccine, which looks more promising, hopefully we won't have this being drawn out for too much longer. But I think for individuals and businesses there is a lot of recovery to do and as Norman said, Lloyds is very much intentioned to be a responsible business operating as very much part of the solution to this recovery.

So that is our focus for 2021 and we will talk more about that as we get into the early part of the New Year, I think. But then I would like to just draw out two or three really key areas for us that I think it would be worth us delving into in a little bit more detail.

So if we could just move on, we will start with talking about race equality. Lloyds has been a forerunner in equality, diversity and inclusion over the last few years. It was the first major FTSE100 Company to announce a 40 per cent target for senior women. And indeed it has now become the first major FTSE100 Company to announce a target for black minorities in senior positions. And we have announced a target of 3 per cent. We are currently at below 1 per cent. So it is a significant step forward. We know 3 per cent is about where the proportion of black minority in the working population is. So that feels like a sufficiently stretching target and is certainly a long way from where we are today. There are a lot of things, as there were with our gender diversity work, which has taken us substantially forward over the last five or six years. There are a lot of component parts to the Race Action plan and I don't intend to go through them in detail. But we have got a short video which gives you some flavour of how this issue was received inside the business when António announced the Race Action plan. I would just like to show you, it is about three and a half minutes, this short video which gives you a flavour of how people are feeling about it inside Lloyds.

[Race Action plan video]

Lovely thank you. So I hope that gives you a flavour of the strength of feeling inside the organisation and I don't imagine Lloyds is different from any other organisations in that regard. But I think what we have demonstrated in our work on gender equality that we have an ability to identify the issue and make sure we have a clear target and aspiration of what we would like to be like and then put together a plan that will help us navigate from where we are today to where we want to be. I am sure that many of those things in that video will be implemented in the next 12-24 months and will make a significant difference. We will obviously report that as we go along.

So if we then move on from equality and diversity to one of the other really key focuses of the responsible business agenda which is the one of environmental sustainability. And here we can honestly say that the business has made enormous progress in the last four or five years to come to this agenda and be recognised now externally as one of the leading financial services organisations in this area from a position where we were well back in the pack. If I go back four or five years when we first started to make these shifts, there are some really strong moves that have been made. We are delivering a great deal of our internal own sort of inside the glasshouse objectives. So our internal targets for 2030 have already been met and are in the process of being revisited, obviously to stretch them a bit further.

But actually most importantly now we are starting to move our focus on moving our leverage outside of Lloyds into the ecosystem that we inhabit across the UK, of our suppliers and the organisations that we support with finance. The target of 50 per cent reduction in the emissions that we finance is a very stretching one and one which is now getting planned through into really detailed activity inside the business, but I think it does set a new agenda for Lloyds in this context and would put us in a position of significant leadership when we build the plan to deliver that.

One of the key parts of that plan is the sector statements. You will be very familiar with the approach that many organisations take to define exactly what it is they want to do sector by sector. And we can pick that one up on the next slide, if we could.

So we have sector statements as you would expect us to. We are constantly evaluating them, revisiting them and tightening them as the environment around us continues to evolve. For example, the sector statement on coal has recently brought the target for new businesses down from 50 per cent of their activity coming from coal to 30 per cent, and these sector statements are constantly under review. So we would expect these to move and we would obviously update you as they do. And probably in the early part of next year we will have some further updates to bring back.

So if we then move onto the last core bit which I really want to talk about, which is on the next chart, it is all about societal impact. Lloyds has very much had, from even before the helping Britain prosper plan, a long history of supporting its charitable Foundations. In many ways the helping Britain prosper plan back in 2014 was very much a communities and charity based plan, focused on our Foundations which we continue to support. And also on colleague volunteering which is a very key part of what we do now. But I think what we have managed to do is move this societal part of our responsible business agenda very firmly into the heart of our operation and to think much more actively about the role that things like helping people save, helping people get housing and promoting diversity and inclusion both within the business and externally, how those things actually play a much wider role. I personally sit on the Board of the Foundation for England and Wales, which is the largest of our Foundations. And there is a very close link between the work they do for the less advantaged in society and our broader responsible business position.

I would also pick out just a couple of other things. We have done a considerable amount of work in digital skills, we have a goal to reach of 1.8 million people by the end of 2020 to help with digital skills. We know there are about 10 million or 11 million people in the UK who don't have basic digital skills so that is a big agenda, an ongoing one. And then the other thing, mental health. Mental health is something we have all become very familiar with, I think, as an issue before the crisis, but brought into real focus by Coronavirus times. And we have done a significant amount of work with Mental Health UK, for example, to set up our money and mental health support line, because we do know that mental health and money issues go hand in hand. One creates the other, in both directions. And we have been very active with Mental Health UK in promoting their ability to support people through these times.

So that is really the three things I really wanted to bring out, race, sustainability and the community programmes which are very substantially important to us. So if we just want to go onto the last slide, I am just going to summarise and pull things together and as I say, very happy to dig into more detail if we need to.

But I think the thing to recognise is that this agenda for Lloyds has been a rapidly developing one over the last decade. We have moved a very long way from having a programme which was, sat alongside our core business to one that is increasingly integrated right at the heart of what we do. And our job for the next year or so is very clearly to support the UK as it helps to recover and think about what role Lloyds plays in both the economic and the societal recovery of the UK. And then at the same time to not lose sight of the very long-term but increasingly important challenges of sustainability and to take the really good work we have done so far and step it up so we can become more of an influencer and a leader within the system that, as I say, we play a part of very clearly.

So, those are the key things on our agenda and it will, as Norman said, to some extent evolve as we get a new senior leadership team. But equally, I think, the platform that we are standing on are very long-rooted and the context of sustainability, societal recovery and equality will continue to be very important to us no matter how we shift the plan in the years ahead.

So that is all I wanted to say, thank you very much and as I say, I am very happy to take any questions that you have got.

Douglas Radcliffe
Excellent. Thank you very much indeed Sara. So given the time, I think there are a couple of questions that have come through the line. So the first one is in the context of financial strain on stakeholders. As a responsible business, and given some historical failures pointed out by regulators on supporting mortgage customers, how is the Board ensuring this risk is monitored and managed at a Board Committee level?

Sara Weller
Thank you Douglas. Yes, well two or three levels, I think, of oversight on this issue. It has been a matter that the Board has given a lot of consideration to, as you can imagine, in Board sessions. But equally it is a very strong focus in the Risk Committee in particular where we pick up not only the lending risk but also very much the customer and conduct risk. And then below that a number of us led by Alan Dickinson, when he was Risk Chairman, also participating in smaller sub-groups which particularly worked with the management teams to explore the approaches they were taking to look, give a hard look at the results of those approaches and to provide challenge and support in trying to improve our performance. Vulnerable customers, that we are particularly lending heavily to over the last twelve months, will be a very, very key focus for us going forward and as I say, although there are committees that look at it very closely, it is also something the Board has been spending a considerable amount of its own time on too.

Douglas Radcliffe
Thank you Sara. So the second question which has come in, is what training is the Board receiving on issues like climate change? And are you able to provide any details of how you are trying to change the organisation's culture to align with your climate targets?

Sara Weller
Yes of course. Well you are right, I mean sustainability and climate change are for many people and certainly, I mean, I was an executive leader ten years ago and climate change was, I remember, showing an inconvenient truth to my leadership team back

in those days. It was an emerging issue, but not one that we really had had much experience of. So when we started to build the sustainability strategy inside Responsible Business Committee, we took an extensive session facilitated with the Cambridge Sustainability Leadership group to bring us up to scale, I guess, really on understanding not just how it applied to financial services, but the much broader issues. So we have been given very specific input from external organisations. I think it is also fair to say that many of the non-execs sit on the boards of other organisations who are very involved in this agenda. I sit on the council of Cambridge University, who are very focused on it, and I also sat on the Board of a water company, who had been a Dow Jones Sustainability index gold for the last ten years. And Simon Henry was on the Board at Shell. So there are many, many ways in which people in other environments are also bringing their expertise to the party.

So I think the most important thing I would say is that we are making sure that as this moves we embed that training and we share our expertise from other areas. And in terms bidding it into the organisation then I think there are two things I would just draw attention to. One of which is obviously the internal, the whole way we run our organisation. As I say we have exceeded our targets that we have set for 2030 inside the organisation around waste and around water usage and energy sourcing and stuff. And actually those targets will then be stretched further, but we have obviously seen people very willingly adopt those.

But also it is about making sure that the external targets we set also continue to move and that we are clear about the opportunity, not just the threat. So embedding, and Nick may talk about this in his Risk Session, the importance of climate change thinking into our views of how we assess risk is important because clearly we want to be working with and financing companies who are looking ahead and looking themselves to cope with and benefit from the changes that will come back through climate change. So we do it inside the organisation, we do it through things like the risk metrics and then we do it by bringing in expertise from outside.

Douglas Radcliffe
Thank you Sara. There are actually a number of other questions, but given the time now I think we will move onto Nick but then what we will try and do is cover some of those additional questions later on in the Q&A summary at the end. So thank you Sara.

So the next presenter is Nick Prettejohn, Nick is Chair of the Board Risk Committee. So over to you Nick.

Nick Prettejohn
Thank you very much Douglas. If I could have the first slide please. We have continued to focus on the most important issues facing the Group and our customers during 2020. And obviously since Q2 in particular Covid has been central to our Risk Committee agenda. A number of issues, operational business continuity issues, customer treatment issues as well as funding, liquidity and credit questions. But we have also made sure that we continue to focus on other very important issues facing the group and society. And increased focus during the year on climate risk, management of our conduct risks that Sara just referred to, particularly with customers who are in financial difficulty. Our operational resilience, which is one of the most important non-financial risks that the Group faces, responding to incidents and preserving our key services to customers. Data risk, which is a big area for us, many dimensions to it. Data governance, privacy, data ethics, compliance with the principles of the Basle Committee for banking supervision. And then looking ahead to 2021, on the right-hand side of the chart, we are going to be continuing our cycle of deep dives into particular issues. Housing and credit card risk, obviously because of the macro-economic outlook. We will also be doing a deep dive into commercial real estate for the same reason, but also thinking about the longer-term structural changes to that sector, in terms of changes to rent models and to particular risks associated with locations such as city centres. And we will be spending probably even more time than usual on the issues coming out of our stress testing of our earnings and our capital position both because of Covid, but also because of EU exit.

The credit impact of Covid, I don't intend to go through the detail on this slide. Suffice to say that 82 per cent of customers are now repaying their first payment holidays. Early arrears are indeed low and the cohort of extensions across products is unsurprisingly of lower credit quality. And the Risk Committee has kept a very careful look at this over the course of the last six months and other retail credit data, looking for any patterns and trends. And actually you can see from what we have been saying that it has been hard to glean a great deal while we are in this period where Government support is probably distorting the underlying direction of travel. And in the absence of such patterns we have remained very cautious in our approach.

And then on corporate credit, we have spent a great deal of time identifying and thinking about the sectors most exposed to Covid. We have done extensive work to evaluate those sectors. They are a small percentage of our Group lending. They are typically areas where we have already been, pre-Covid, exercising a considerable restraint in our lending policy. And we have spent time on individual cases where that is appropriate. All of this forms a bottom up context for judging our multiple economic scenarios and our view of impairments.

Moving to the next slide, there has been no material change to the cyber threat during Covid-19. In effect phishing attacks have been rebranded with Covid connotations using the same attack techniques. We have taken a number of actions in terms of staff awareness, heightened monitoring of particular risks and our offshore suppliers and increased customer communications. We have a sub-group of the Board Risk Committee, a specialist sub-group, to think about these risks and they have concentrated not only on Covid risks specifically, but also on non-Covid risks, whether those are ransomware, distributed denial of service attacks and the issues coming out of a move to a cloud based technology strategy. As well as the risks that have come from working from home for the vast majority of colleagues.

Finally, we have been thinking very hard about making sure that we have sufficient and the right sort of investment in this area. That latter point about the right sort of investment is particularly important given that we face an ever changing landscape.

If I could go to the final slide. We have spent a lot of time at the Board Risk Committee this year on climate change risk. Incorporating climate risk into every aspect of our risk management framework. We have allocated senior management responsibility for this to the Group CRO. Sara has mentioned the dedicated training across the business to senior management. We have instituted climate risk as a new primary risk in our risk management framework, which means also that we are insisting on consideration of the implications of climate change for all of the other risks within our framework. And we will be putting in new risk appetite metrics in our annual risk appetite refresh.

We have been supported in all of this work by some external partners to accelerate our modelling of climate risk, the development of scenarios around transition risk and physical risk, and therefore financial risk. And we have also been developing and piloting internal tools for our relationship managers in our Commercial business.

And climate risk, it is worth saying in reference to one of the questions that came through, is now a mandatory consideration for all credit applications that are greater than £500,000 which involves thinking about climate risk, but also supporting our clients through any transition risk that is identified.

I will stop there and take any questions.

Douglas Radcliffe
Excellent, thank you very much. There are a couple of questions that have just come in. The first one is very much quite topical. How have the recent pandemic and the Government support measures impacted the way you look at risk appetite?

Nick Prettejohn
[Inaudible start] …as I was suggesting to measure risk, because we have been staring really closely at all of the data to try and see whether there are patterns emerging. And the Government level of support has made that very difficult. And obviously it is against a backdrop of an economy which has been working on quantitative easing for a period of time pre-Covid. So it has been difficult and I think it remains difficult and that is why we have been cautious in our approach. We are also in the unusual position of being expected to lend money rather than preserving and rebuilding our balance sheets.

Douglas Radcliffe
Excellent, thank you Nick. One other question that we have received is, how are you ensuring climate change is embedded in lending decisions?

Nick Prettejohn
Well, as I said what we have done is we have made it mandatory for all credit applications that are greater than £500,000. And we are working on an ESG rating tool for our relationship managers within the corporate business, which, as well as looking at the risk posed potentially by that credit, is also taking a forward view of client transition plans and their credibility. So it is being embedded at a very practical level, as indeed it is within the portfolio of our Scottish Widows Business as well.

Douglas Radcliffe
Excellent, okay, thank you Nick. I think we should now probably move onto our next presenter. So thank you very much indeed. And with that I would like to introduce Stuart Sinclair, Chair of the Remuneration Committee.

Stuart Sinclair
Good afternoon everyone, I am Stuart Sinclair. I have had a chance to meet a fair number of you before and I think the best news of the day is that we will have a chance to meet again soon because along with my colleagues in Remuneration I will be coming

round to consult with you, albeit virtually, as we talk about the implementation of the new REM policy which was approved at our AGM back in May. Before we move to the first of the three slides I have today, I just want to take a minute to remind us of where we were a year or so ago and how we got to where we are today.

There was a pretty strong theme emerging from investors and other stakeholders indeed over the last year as regards our policy. Number one, it was perceived to be complex, in fact even people who do remuneration for a living found it to be a bit of a black box. Secondly, insufficient alignment between shareholder experience and management experience. And what people are really getting at there, I think, was that there were periods where total shareholder return was modest and yet the operation of cohorts of LTIPs was paying managers a fairly consistent 50, 60, 70 per cent year in year out and that was deemed to be evidence of the policy having some design flaws.

Third, there is a strong question about whether variable was truly variable and whether or not in fact total comp was managed within a corridor such that management never really experienced the terrible year even though results might have been disappointing.

And finally, the theme, as we would all expect is, pay is just too high. So what did we do? Well we took all those points on the chin and set out to design something new during our policy year which was this year.

So let's go to the first slide. As you would expect given what I have just said, down the left are the aims for the new policy and across on the right is, if you like, the proof points of how we have achieved what we set out to do. Let me go down the left side first of all. Simpler reward package. I think we have made some good progress here. First of all, we have now one single assessment for short-term and long-term awards. There will be a pre-grant test for the long-term savings award which I will talk about in a second. And that will be the test for short and long-term. Secondly, we are in the process of simplifying the balanced scorecard itself. This is not complete. We will be discussing it with you when we come round to see you in the coming weeks. But it has been the subject of criticism and quite frankly I would have to accept that what we tried to do over previous years was reflect the scope and the heterogeneity of a very large Group and at the same time add in measures which were worthy measures such as data integrity, training hours and so on. But the end result was just too complicated and it was very difficult for you, investors in particular, to unpick what the results were and what the impact was on compensation. So that work is underway, simplification of the balance score card will be happening.

And then finally I would point out pension simplification. We now have moved to alignment of top pensions with the wider workforce, in our case that is at the 15 per cent level. And I would also remind people that when we were doing that work we took the opportunity actually to enhance the pension scheme available to a large number, I think around 35,000 colleagues during that process. So that is, simplification is not complete, but we are definitely moving down that track.

If we go to the second green bar. Clear alignment to purpose. We anchor to our purpose and our thinking about pay policy in helping Britain prosper and Sara has spoken about that and has spoken about the fact that we are refreshing that thinking at the moment. Obviously Covid requires lots of companies like us to step back and ask themselves what can we really achieve? What is our role in helping Britain get back on its feet in the next year or two? When that work is complete, I know that we will have something very important, which I would call line of sight. In other words, pay will be linked to helping Britain prosper outcomes and they in turn will be linked to the new helping Britain prosper plan. It has been a characteristic of our work in the past, but it has got to be said, previously helping Britain prosper was merely one of 15 components of our scorecard and I would imagine we will be up weighting that in coming months as our discussion evolves. That is quite important and I think it will distinguish us from other companies, many of whom frankly are going to struggle, in my personal opinion, to get beyond the mere assertion that they have a worthy purpose. We will actually be able to prove through defining the outcomes we are wanting to achieve, evidencing progress on each of those outcomes and even testing through our first, second and third lines of defence that we are achieving the things that we set out to do. So I think we are going to be in good shape on that.

Then finally on the left, rewarding and driving the right behaviours. We actually started our policy redesign not by as it were tinkering with the mechanical elements of pay, but by standing back to say look, in the next few years what sort of outcomes and behaviours do we wish to reward? And what we will be doing in our new remuneration policy, is making very explicit judgements in the Remuneration Committee, for example, risk judgements, conduct judgements, which will override occasionally a purely quantitative result. And we will be documenting those discussions. The disclosure which I have in mind will be more fulsome and so that you will be able to understand what was the thought process going on inside the Committee when we adjusted the mechanical score of A, to an actual score of B. We have spent quite a bit of time with the FCA and indeed the PRA on this. They are both as you know very involved in pay these days, partly because they see it as proxy for the culture of the company. And they have said they think we are probably moving in a good direction there. So again previously this was a bit of a black box to readers of the DRR in the annual report. I think it will be more transparent in future.

Over on the right, the proof points I think are pretty self explanatory but I will draw your attention to the second one. Because of the changes we have been making, there would be a 30 per cent reduction in the expected maximum opportunity in the CEO role, which is a pretty big delta. Also we will be announcing the first of grants of the long-term savings award in March. Obviously RemCo will have to take into account very carefully the situation that prevails in the economy at large and in the bank at large when we are thinking about that award moment.

There is another point which is worth pointing out, third from the bottom, lower and less volatile reward outcomes. I think most of the Committee members have felt for a while that if you are running a large mature company in the heavily regulated industry it seems odd to have spiky, erratic rewards from one year to the next. You should be observing rewards in a narrower amplitude, year on year. If there are spiky or idiosyncratic rewards, it is probably symptomatic of your design not really being reflective of the industry you are operating in. So we are going to, through the long-term savings plan, expect a narrower amplitude of reward year on year.

Final point, mechanical point right at the bottom, is of course there is a three year underpin test at the end of the third year, which deals with return on total equity, maintaining a normal dividend policy and also your agreed level of Tier 1 capital.

So I have rather laboured that first slide, but it does contain a lot of important information on what we are doing with our new policy. If we go to the second slide, we have had market feedback over the summer from a number of people. The first one being that the long-term opportunity that we proposed, is an insufficient discount from the previous LTIP. And we have had a lot of discussion about that. Let me just say de facto, 150 per cent will be the maximum opportunity norm from now on. There has been debate about 400, 300, and 150. Of course we are aware of the recommendations of the Investment Association and by alighting on the norm of 150, I believe, we meet the spirit on the letter of that guidance.

A second discussion we have been having with some investors is that second bullet and that the pre-grant test is really unnecessary and it builds back the very complexity we are trying to take out. Unfortunately, there isn’t a lot we can do about that. In the world of CRD4, which applies to large banks, it is required that there would be a test, both for individuals and at a Group level, before awards are made.

I think that more or less deals with that slide. I will say consultation over on the right is something I have already talked about. Our normal maximum opportunity will be 150 per cent. There will be a pre-grant test and as I have said, there is continuing simplification of the balance scorecard underway. And on the disclosure point at the bottom, I touched on that already with respect to giving you a glimpse of what was going on in the Remuneration Committee when a mechanical outcome was made into a different outcome.

If we go to the last slide, 2020 in context. Obviously, this is an unusual year in the world. It is an unusual year for RemCos. But we have already taken quite a few things off the table. First of all, no annual bonus awards for executive directors or members of the GEC. No softening of performance conditions for LTIPs which are still running on. I have attended webinars and seminars with other Remuneration Chairs where I have got the firm impression that they were starting to soften LTIP metrics and levels of performance required over the summer. We absolutely decided not to do that, first of all because we had no crystal ball, but more importantly, because we think a deal is a deal and once you establish your criteria you have to live with them.

Now the Committee, on the third point, will be looking at all the factors, including shareholder experience, before we make any decisions on the first grant of the LTSP, which would be due March 2021. Just to remind you, the current Group Chief Executive, António, is not eligible for an award under that because he will be leaving the Company. And then finally, the so called windfall gain methodology will be disclosed and indeed discussed extensively at RemCo. We have seen recently, for example, Legal & General making a very strong statement that the methodology you alight on, whether it is a priority change or an exposed test of so-called windfall gain, must be disclosed. And I think that makes perfect sense. So we will certainly be in line with that.

That is the end of the slides. Let me just try and sum up. Do I think this new policy is perfect? No, I do not. I don’t believe that is actually achievable. But in designing and implementing the policy, what we have to do is thread our way through multiple conflicting objectives and multiple conflicting preferences on the part of stakeholders. For example, the mix between short-term and long-term. The mix between cash and shares. Keeping your pay ratios in mind. Keeping to the spirit and the letter of regulatory expectations, which these days can be quite complicated actually. Being open to the evolving attitudes of broader society. And then finally, being commercial. When you are trying to attract or indeed to retain very senior people in a large complex company, the actual addressable market of candidates can be surprisingly small. So whatever you may wish, the reality is that you have to be commercially attractive in your offering but at the same time you are threading your way as I put it, through these various criteria.

I think we have made progress with our new policy and indeed we did achieve approval with it. But there will be more to go and I will look forward to having consultations with many of you in the coming weeks and months. Thank you.

Douglas Radcliffe
Thank you very much indeed Stuart. Unsurprisingly, we have received quite a few questions with regards to your presentation and remuneration as a whole. Actually a number of them are based around one particular topic which is ESG measures and climate change and how they are included within remuneration structure. So I think this question pretty much sums it up. On this call the Board have talked about the importance of ESG, but at present there is limited reflection in remuneration structures. Do you plan to include more performance metrics on climate change and other ESG metrics within the new structures?

Stuart Sinclair
Yes, we are taking apart, disaggregating the current scorecard and we expect to reassemble it with probably three buckets of measures, one of which would be ESG and strategic related. So I think we will see more presence of it and as I said in my talk, we will achieve this very important line of sight. The measures will be there for all to see, they will be for the most part quantitative. There will be progress noted on each measure and that will be one of the things which drives pay. So I think it is going to be a nice tight closed loop approach but we have not yet finished that redesign as regards bringing the right ESG measures into the heart of this scorecard.

Douglas Radcliffe
And is your view specifically that climate change would be included as part of that as well?

Stuart Sinclair
Well, obviously it has to be in your top list of three or four as Nick was saying with respect to risk. So I would be surprised if it has no role but that work is still underway and I would hope that we can have some conversations about that when I see investors in the coming weeks and months.

Douglas Radcliffe
Excellent. Another question that has come in is actually related to CEO pay. And actually asking about the new structure and really saying, obviously as part of the new pay structure the actual opportunity has reduced. And the question has come in, has the reduction in the pay opportunity had any impact on CEO or indeed other recruitment?

Stuart Sinclair
Well, that is a very interesting question. We are in the middle of CEO recruitment and there is not much I can really say about that today, suffice to say recruitment appears to be proceeding in a very promising way with a rich set of candidates, all of whom are aware of the broad outlines of our policy. So I think it is not proving to be an impediment.

Douglas Radcliffe
Good. One other question that has come through, and you did touch upon this in your presentation. But specifically, what is the role of RemCo discretion in the new remuneration policy? And how in practice does it work?

Stuart Sinclair
You know, there is more consistency than change on that topic. We have always had discretion and we have frequently exercised it. I think the changes which investors would see from the outside would be, number one, more fulsome discussion of where, how much and why? Which is very much in keeping with the whole thinking about opening up the windows as it were of remuneration so that other stakeholders can understand.

Secondly, you would probably be looking at things like conduct and indeed some aspects of ESG to the degree that they were felt not to be quantitatively sufficiently reflected in pay outcomes, to be a major part of the conversation. And indeed I am not giving away any confidences when I say we have spent quite a bit of time with the FCA talking to them about the various ways, including discretion and override, in which conduct matters will be reflected in actually people's pay packets to the degree they may differ from time to time from the, as it were, quantitative outcome that you would get from a scorecard.

So I think the real answer to your question, Douglas, is there has always been discretion, it is just going to be more explicit and slightly more elaborately described from now on.

Douglas Radcliffe
Okay, alright. A couple of other questions if I may. So first of all, how does introducing non-performance based share plans address any of the concerns that you had set out initially in the beginning of your presentation for the previous arrangements? How do you plan to align the reward with shareholder, stakeholder outcomes given no forward looking targets will be set?

Stuart Sinclair
There is a doctrinal dispute raging, isn't there between long-term share plans and LTIPs that some people like, some people don't. To me we do address the questions which were heard when we went around to see investors a couple of years ago. And I suppose at the end of the day I subscribe to the view that management should eat its own cooking. And what that really means is the behaviour of the stock price over a long period, and remember holding periods these days, partly for regulatory reasons, partly because it is just the right thing to do, are quite elongated. They can run seven years. That the activities management is undertaking, its priorities, its projects will be flushed out into cash flow and investors' assessment of whether or not they have done the right things, in the right way.

So I feel we actually do achieve things through that mechanism. Now, that is a debate that we could spend the rest of the day on and we have been around the houses with many investors on it. I think at the end of the day this is one where you have to agree to disagree if you just don't like the direction of travel. I do take comfort from the fact that the Investor Association, I believe, has said they do think this is the way many remuneration plans are going to go in future.

Douglas Radcliffe
Okay, thank you Stuart. The final question, there may be additional questions in this area which we can touch upon at the end. But the final question in this section will be, how involved were the RemCo in designing the scheme rather than off the shelf scheme designed by a remuneration consultant? Were any other alternatives considered?

Stuart Sinclair
The answer to that is very easy. We don't have consultants designing remuneration. Indeed we didn't even have a remuneration consulting firm doing the conventional week by week, month by month advice. We had an adhoc arrangement with our consultant which was perfectly sufficient. We visited, we heard, we listened, we synthesised, we sat down with a blank sheet of paper. And when I say we, it was the committee members, NEDs principally, but also Matt Sinnott and his Reward Team working through ultimately four options down to two, down to one, which we thought best reflected the concerns which I began by listing at the beginning of my talk today. We would then from time to time speak to our consultant to say, how is this looking as a hypothesis versus where you expect other firms to be going? And that is a very valuable thing actually because they do have a sweep across 20-40 different clients. But that was the extent of it. They commented, they definitely did not design.

Douglas Radcliffe
Excellent. Okay, thank you Stuart. As I say, I am sure you will be receiving more questions later on. But given the time we will now move onto actually the last formal presentation of today. And it is from Sarah Legg, who is Chair of the Audit Committee. Sarah.

Sarah Legg
Thank you Douglas. I am really pleased to be able to give you an overview of the work of the Group Audit Committee in 2020, having recently taken over as Chair of the Committee from Simon Henry in October, just last month. The Committee has continued to focus on the issues relevant to the Group's financial reporting, including consideration of key accounting judgements and ensuring the integrity of financial reporting related disclosures. The Committee has also spent a significant proportion of its time considering other related areas, including monitoring of the Group's internal control framework to ensure that it remains fit for purpose.

The sources of information here remain the Company's financial control function, the risk function, internal and external audit. So the Committee is receiving multiple independent and objective reports in support of the assurance work that we carry out.

If I go to the first slide, I have just provided a quick reminder here of the entity structure of the Audit Committees of the Group, including the Audit Committees of the insurance subsidiaries, which is principally Scottish Widows Group. And the Audit Committee of LBCM. The Audit Committees of Lloyds Bank Group and the Bank of Scotland are run in an aligned manner with the Audit Committee of Lloyds Banking Group. So this ensures that the appropriate legal entities discipline is applied as well as consideration of the Group as a whole.

If we turn to the next slide, I just want to spend a few minutes reviewing the key areas that we as a Committee have discussed and considered during the course of 2020. Perhaps as a weighting towards those matters that we see as being important through to 2021 and beyond. The Audit Committee has since the start of the pandemic spent more time considering the key judgements that underpin loan impairment calculations or expected credit losses under IFRS 9. This is a necessitated timely consideration and challenge of economic forecasts and scenarios. The use and output of credit models and the application of so called post model adjustments or management adjustments. Alongside this we have reviewed and considered developments and disclosure to enhance transparency in Q1, in the interim reporting of the half year and recently at Q3. This will continue to be a focus area for the remainder of the year and beyond.

It is also an area where the linkage between the work of the Risk Committee, as we heard from Nick, the Audit Committee and the Board as a whole, has all been important providing timely and diverse inputs and perspectives. We have continued to examine management assessment of the provisions in respect of conduct and legal matters, including PPI. And to consider disclosures related to the sensitivities of the key judgements laid here. We have also considered estimates and judgements related to pension schemes, tax calculations and Insurance, and assets and liabilities.

In addition, the Audit Committee has requested and received reports relating to internal controls over financial reporting as well as reports relating to process improvements over regulatory reporting. So for instance, over risk weighted assets calculations.

From a risk perspective, the Audit Committee continues to have oversight of the internal audit function, monitoring the effectiveness of Group internal audit and its audit programme. Approving the annual audit plan and budget, monitoring and assessing the independence of the function and of course considering the findings of internal audit and management's response to these audits.

I would also highlight that as we look forward to the end of the year and 2021, the Committee will oversee the transition for the external audit from PwC to Deloitte. So the appointment will be recommended to shareholders for approval at the 2021 AGM.

I have added a slide at the end here to note the controls of non-audit fees paid to the auditor, demonstrating the small scale.

Finally, as we look out to 2021, I thought I would highlight matters that will continue to be amongst the focus areas for the Audit Committee. Not a full list, given that the majority of the work carried out around the Audit Committee relates to the external reporting cycle itself. But just to give a sense of topical agenda items. Firstly of course the key judgements and estimates, particularly those that relate to economic forecasts impacting expected credit losses and related disclosure, particularly given the external uncertainties that we have talked about previously.

The progress of the external audit transition to Deloitte. Internal controls over financial reporting and RWA reporting will continue to take our attention. Development of reporting and underlying processes, including climate related disclosures as described by TCFD. Development of the speak-up processes and linkage to the sub-committee we have on this. And new accounting standards, we have some and here I am thinking of IFRS 17 as it relates to the Insurance business, some way off to 2023.

I hope this is helpful and gives you an idea of the work that we have been conducting. Thank you Douglas.

Douglas Radcliffe
Thank you Sarah. We have a couple of questions. So the first one is, has the testing macro-economic environment resulted in the Audit Committee picking up additional work? And if so in what areas?

Sarah Legg
Thank you Douglas, and we have spent time as I have mentioned on the economic scenarios, particularly in relation to impairment charges and ECL. It has been carried out in the course of our agenda and our meetings. We have also supplemented that with meetings in a timely fashion that have included the Board to consider those assumptions both for base case and for outer scenarios and those have been good and productive discussions that have been held in a time that is commensurate with the work that has to be carried out by the teams to produce figures in a robust fashion.

Douglas Radcliffe
Okay thank you. And the second question is what is the Audit Committee's role when it comes to climate risk disclosures? And how has this been working and evolving?

Sarah Legg
Thank you. I mean it is an evolving area that is very much front of mind and important when we look at the annual report and accounts that we develop the reporting there. That is principally being considered at a Board level, the Responsible Business Committee level, through the Risk Committee and from an overall Audit perspective ensuring that we have disclosures that benchmark to peers that take into consideration the external requirements, as I mentioned, TCFD. And we continue to work with the rigour that you would expect from those accounting considerations, consistency, comparability, basis of preparation and ensuring that in an area that is developing quite rapidly that we have an eye to those disciplines as this area evolves.

Douglas Radcliffe
Thank you very much Sarah. I am conscious of time. So let's now invite our other presenters back so that we can do our final Q&A Panel and we should have about twenty minutes or so to actually undertake or address a number of additional questions.

Excellent, everyone is now back. There are a number of questions that have been raised during the whole of the presentation, which I will now address. Lord Blackwell, I will probably address them to yourself first and then if we need to allocate appropriately we can do.

So the first question is relating to responsible business. Can you please comment on how you think about your thresholds or commitments around sector risk appetite? Is this an assessment versus peers? Do you take into consideration climate stress impacts, revenue implications or what else?

Lord Blackwell
The answer is a whole mix of those and we are looking at it sector by sector in relation to our business, how important those sectors are in our portfolio which obviously will vary from some of our competitors. Some of that is a risk question. Nick, I don't know whether you want to just pick up on the work that we are doing looking at climate risk in the sector areas?

Nick Prettejohn
Yes, we are using some external modelling assistants to look at exposure risk through transition risk in terms of financial and property risk and then translating that into a view on credit risk. That is a very detailed and extensive piece of work on top of the risk assessment that our Commercial Relationship managers are doing at an individual client level. And that work as I say is helped by a couple of external parties.

Douglas Radcliffe
Okay thank you. Another question, this was actually one that came from earlier, but are you conducting scenario analysis to show the risks to Lloyds in different warming policy response scenarios and will these be published? So very much a climate change question.

Lord Blackwell
Again our work in this is evolving all the time. Sara, do you want to comment on that?

Sara Weller
Well, actually I was going to suggest that Nick might want to pick that up. I mean the truth is yes we are looking at different warming scenarios but I think Nick, it is very much sitting in the realms of the Risk Committee rather than the Responsible Business Committee. So I think that is probably one for Nick.

Nick Prettejohn
We are looking at different scenarios and that includes the global warming potential of the portfolio as well as climates adjusted default probabilities. So we are looking at multiple scenarios and how those then feed through into asset values. As to the extent to which we publish those, the detail around publication, I think that would still be an open question. We have got to do the work first.

Douglas Radcliffe
Another question that has come through is very much, one of the most important roles of the Board will be to recruit a new Chief Executive. How is this process progressing and in particular what skills as a Board are you looking for?

Lord Blackwell
Well, Robin has only just joined the Board so we have only just kicked it off. We are obviously keen to have heavy involvement of the incoming Chairman alongside other members of the Board and clearly also the senior Independent Director playing a key role in that. We are looking for somebody who can address the challenges that I laid out at the start, in particular helping to manage the transformation in the business, lead the transformation in the business. A lot of that is underpinned by the technology change. So experience and understanding both of the vision where technology can take us and the practical implications of managing the change in technology. The execution of that is going to be absolutely critical over the next few years and we will be looking for a Chief Executive who has skills and experience to play a leadership role alongside other colleagues in the leadership team on that. But we also want somebody who is very customer focused. As I said at the beginning, we believe our value comes from the development of our customer relationships and we have to be very much a customer focused business. And we want somebody who embodies the purpose and values of the organisation. In fact, going back to some of the questions about things that went on in the past is absolutely essential, to play the role we want as an organisation, to play the role we want in society, that we have a leader who is passionate in their belief about the values and purpose of the organisation and can transmit that to the organisation, and build the culture that we want to take us forward.

So those are the things we are going to be looking for. It is obviously a very demanding set of specs, but we are setting out in that process and we will obviously keep you informed as and when we make progress.

Douglas Radcliffe
Thank you Lord Blackwell. So another question that has come through is, as a leading provider of mortgages in the UK it would be interesting to understand where you stand with regard to developing green mortgages, including whether you are likely to have any targets in this area?

Lord Blackwell
We have a lot of ideas around how we build sustainability and environmental sustainability into our lending portfolio, particularly in the area of housing, as we are one of the major providers of housing finance as investors will know. And therefore we have the opportunity to make a major contribution to helping householders improve the environmental sustainability of their homes and adding that in the way we access mortgages and the mortgage support. And Sara again this is an area you have been spending a lot of time on in terms of our impact.

Sara Weller
Yes absolutely. Well, I think there is a massive overlap between the sustainability agenda and many of the economic drivers both short term and long term. Housing and vehicles are likely to be two of the very big areas that have to undergo a transition to a lower carbon solution in future. Both form a very big part of our lending portfolio obviously. And in both cases we think we can make a significant contribution to supporting and financing those transitions which are clearly not going to come out at zero cost. So absolutely, mortgages, but also not just support for people buying houses, but also support for the industry that are building them. And equally, as I say, vehicles too. So definitely, I don't know that we will be having individual targets for each individual sector, but I mean those are undoubtedly going to be key pillars in the overlap between sustainability and economic recovery.

Lord Blackwell
And it is a good example of the way in which our environmental sustainability agenda is being built into the core way we operate as a bank rather than as a separate add-on.

Douglas Radcliffe
Okay, thank you. Another question is how are you engaging with your clients to push them to set the right strategies to enable you to achieve your 2030 carbon target?

Lord Blackwell
It is clearly critical that we engage with our clients. They are the key part to us achieving that target and we are building that as Nick said earlier into the way we think about our credit policies and our approach to financing them. But we are also trying to help them think about what they need to do to improve their sustainability particularly in the SME and mid-corporate sector where we have expertise. We can share expertise, we can work with them and we are setting out to make that a core part of our support for

that business community to help lead them along the path and then show that that is rewarded if you like in the way in which we are able to finance them.

Nick, do you want to add anything to that?

Nick Prettejohn
No, I think it is as I say an integral part of our relationship management process, and specifically the approach that we are piloting with our Relationship Managers at the moment involves an assessment of transition risk, which is a natural topic of dialogue between our Relationship Managers and our clients. We are piloting that approach at the moment.

Sara Weller
Norman could I just add one thing. I think the other thing I would say is that reducing by 50 per cent the emissions we finance comes through in two or three different ways. And I think it is worth being clear about different buckets. One of which is that the overall system in the UK will decarbonise, so the energy grid will decarbonise. And actually that will happen no matter what any of us individually do, that will happen to the system. The second thing is that, as you say, people that we finance will have their own decarbonisation plans and we can, as Norman says, support them in that. And then the third bit of it of course is the mix of business that we do, the extent to which we shift our own focus from sectors which are heavy carbon to those that are either lighter carbon or those that are heavy today but are going light tomorrow. So I think there are all of those moving parts which means that the 50 per cent number will be made up by a whole series of different contributing factors. So it won't be a sort of linear, everybody reduces by half or we cut the number of clients in half. It will be just a mixture of different approaches.

Douglas Radcliffe
Thank you. A separate question, this is more accounting related. How do you think you stand relative to peers in terms of aggressiveness of accounting? There have been some concerns in the past that Lloyds is perhaps a little more aggressive than some in its assumption relating to credit cards or other products. Do you undertake as a Board any peer analysis to ensure that you are not an outlier?

Lord Blackwell
As you would expect, we and our auditors look at that intensely all the time, as do the regulators. So there is little room to be a great outlier and I am not sure that I recognise that description. But Sarah you come fresh to the Audit Committee, fresh to the Board over the last year, do you want to comment on that?

Sarah Legg
Yes, I mean clearly we can look externally, through our external auditors. And we have a look at items such as peer benchmarking certainly in the world of IFRS 9 where there are judgements and estimates here. Being able to look at peer benchmarking has been important. And to be able to get actually quite granular around that, but taking into account that you know in those areas, if I talk about staging, which is when you see a change in credit risk by portfolio, you have to take into account the fact that there are different write-off processes from organisations to organisations. I think being able to access that information, take a look at it and understand the reasons why there might be differences is really valuable anyway within the understanding of how the accounting standards work. So we have multiple sources to be able to consider judgements and estimates that are made.

Douglas Radcliffe
Thank you. This is a strategic question. How are you preparing for the rise of challenger banks and indeed fintechs?

Lord Blackwell
We have been as I said thinking about the bank of the future for a number of years and modelling how fintechs and other competitors might evolve. On the whole, we don't see fundamental threats from most of the neobanks and new challenger banks because we have scale. That means that there are very few things, if any, that they can do that we can't do at scale, given that we are already the largest digital bank. There are some things which we may be slower to deliver until we have managed the technology transformation that we have underway. But the bigger concerns of the Board have been the big established internet competitors, the Googles, the Amazons, the Apples etc. to the extent that they are developing payment portals, to the extent that they have the ability to use their customer base to provide financial services. Those are in a way the bigger threats because they have the franchise and they have the access to customers. But those are where by building our own relationship with customers, building on our relationship, strengthening our relationship with customers and providing the best access to financial services, we think, we can defend our position and keep them at bay. But we will keep a continued eye on the fintechs and I am not in any way complacent. There are many of them we can learn from, there are many of them that are developing things which in a sense act

as our R&D lab. If we see things that they are able to innovate, we can copy quickly and then invest in scale to add to our own offering. And they are a very thoughtful part of the competitive environment frankly. I think we have been stimulated by them and they are something that have helped us and other banks to adapt and learn.

Douglas Radcliffe
Thank you. We have received another question on the emissions reduction target. Your financed emissions reduction target is commendable, but the 2019 report suggests that the current level of emissions is an estimate. How can a realistic target be set without knowing the exact level of today's situation?

Lord Blackwell
Well, we inevitably have to deal with the best information we can and the alternative was not setting any target at all. So we have set a target based on our view of the data as we currently have it. And as we get more data we will obviously continue to monitor that. Sara, again this has been at the heart of much of the work you have been involved in, do you want to comment?

Sara Weller
I mean you are exactly right Norman, it is chicken and egg. Sometimes you set the target when you know the data, sometimes you set the target to drive, not only our organisation but other organisations to actually work out what their data says because this whole question of scope three emissions, which is what this is about, there are many organisations that do not know what their own emissions are and their emissions are our scope three emissions. So I think we took the view that it is better to set a target that was stretching, it was certainly the most stretching of anything that was in the market at the time we set it. And then work through the data which will take not days or weeks or months but years to get a really good grip on this. And all the time we are getting more data we can refine the target and refine the sector mixes. So I just think it is an area where you just can't afford to wait. And we felt we had to make progress and we needed to start, set something stretching and then we will work towards it. And if we find in the end it should have been 25 or it should have been 75, you know, we will come back and say. But we know that it needs to be more than 5. And actually we weren't going to get there unless we set something stretching I think as a goal.

Lord Blackwell
It does go back to the fact we are a purpose driven organisation and I think for our colleagues as much as our customers, it is important to demonstrate our commitment to these objectives and set a bold goal that then as Sara says will drive action.

Douglas Radcliffe
Okay, well just one final question given the time. It is how does your current pay ratio work or how does it align with your commitment towards sustainability?

Lord Blackwell
I am going to hand that one straight to Stuart.

Stuart Sinclair
Right, well I am going to hand that one to my expert colleague Matt Sinnott, but while he is thinking about the right answer, let me answer a slightly different question very briefly. The pay ratios are very important, there are numerous ratios and society quite rightly cares about them. One of the things my Committee has to spend a lot of time on is not just the pay of top people, but the pay of the entire population, 60,000 plus. And this year we did spend time on, for example, improving the pensions of many of those people and also giving an adhoc pay award to the A, B and C grades who work particularly hard during the Covid early months. So I know the conversation inevitably is about what you are paying the top people and how that is reflected in ratios and so on. But let's please bear in mind that the Committee has a very, very big remit to deal with the pay, the training, the pensions, the redeployment of tens of thousands of other people. But Matt do you know the answer that ratio question?

Matt Sinnott
Yes, hopefully you can hear me clearly. What I would say about pay ratios of course is they provide a statistical snapshot of a point in time. And because they are a snapshot and because they are driven by a number of factors, including company performance as well as individual pay negotiations, they in and of themselves, in a given year, provide a relatively weak signal in terms of a company's commitment to the differential in pay between top executives and individuals. What is important to us and what I think I can speak on behalf of Stuart and the Committee has been important to them, has been ensuring that those trends over time demonstrate that there is a commitment to making sure the gap between the executives' pay and individuals' pay doesn't increase, doesn't widen. And that is also exhibited then by the specific actions that we take, for example, around representation of different interests around senior levels of our organisation, our representation, for example, through the gender pay gap that

we publish to illustrate our commitment to increase gender diversity across our organisation and ensure that the representation is fairly exhibited in that. And that the focus the Committee places on ensuring that at a management level we take actions, for example, through our good relationship with our recognised unions to ensure there is a fair and good pay distribution to our lowest paid colleagues in each of the pay deals we have seen in the last several years. And what we would expect and what I think you should expect in seeing those commitments come through is that over time those ratios do move in a way that reflects a sustainable commitment for the long-term rather than any one given year where other factors could make those statistics misleading.

Lord Blackwell
And if I can just add to that, to Matt’s point. For the last few years the Remuneration Committee and the Executives have committed to the fact that we have increased pay more for those at the bottom end of the pay scale than for the executive team and we have been doing that consciously year by year as part of addressing that balance. It can’t be done overnight, but is the direction of travel that we do recognise is important.

Douglas Radcliffe
Thank you Norman. It might be now an appropriate time perhaps for you to just to add a couple of closing remarks before I conclude.

Lord Blackwell
I would like to thank everyone for participating and I am conscious that we haven’t got around to all of your questions and if there are key questions that you would have liked answers to that you haven’t been able to raise, do pass them through to Douglas and I am sure we will be able to manage to get you responses. But I hope what you take out of this, is we are an organisation that is heavily committed to making our purpose both commercially and socially an integrated part of the way we think about our strategy. Trying to build this into: the way we measure, the metrics we use, our performance and our reporting to shareholders. We take this very seriously.

One thing I will add, we have talked a number of times about the leadership succession. It is critical for the Board that we maintain our momentum over this period. There are a couple of things which are critical over the next year, one of course is maintaining our response to the Covid situation and ensuring that we support customers in the way they expect to be supported, that we have the appropriate empathy and sympathy for customers in financial difficulty and businesses that are struggling and that we manage that sensitively. We are committed to doing that and it will be important to keep the focus on that.

But secondly, driving this transformation both strategically in the way I set out in terms of technology and customer focus, and our social agenda in terms of the ESG agenda and our activities in the communities. And all of that is part and parcel of our strategic planning, our planning process. The Board is heavily engaged in that at the moment and we have a strategy that I set out at the beginning. We are going through at the moment setting the priorities and the budget and the investment plans for next year. António will be announcing the results and updating on where we are on that in February and we will continue with that momentum. As and when a new Chief Executive is appointed, obviously they will be able to come in and add their perspectives and new thoughts, but we are determined to keep pushing ahead under the leadership of the Board and Robin as incoming Chairman to make sure this organisation keeps the pace of change and the focus on our purpose as an organisation at the centre of the UK economy that is so fundamental to so many people’s lives and so many business activities.

So thank you for your interest, thank you for being part of this and apologies for the delayed start. As I said if you have questions you still want to be addressed, do pass them through to Douglas so we can deal with them.

But with that I will just hand back to Douglas to wrap up.

Douglas Radcliffe
Thank you very much. As Norman said thank you very much indeed for your questions today and thank you for attending the event. I would also like to thank the Board members, the panellists for their various presentations.

If you do have a couple of minutes, it would be great if you could fill in the feedback form that will appear on your screens shortly. Otherwise, I would just like to say thank you again and have a great afternoon.

End

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as ‘believes’, ‘anticipates’, ‘estimates’, ‘expects’, ‘intends’, ‘aims’, ‘potential’, ‘will’, ‘would’, ‘could’, ‘considered’, ‘likely’, ‘estimate’ and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group’s future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group’s future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group’s credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic (including but not limited to the coronavirus disease (COVID-19) outbreak and associated potential and/or actual UK or international lockdowns) and other disasters, adverse weather and similar contingencies outside the Group’s control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group’s control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.