

LLOYDS  
BANKING GROUP



# Board Governance Event 2022

Lloyds Banking Group  
14 December 2022





# Board Governance

Robin Budenberg  
*Group Chair*

# Agenda

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Board Governance

Robin Budenberg  
*Group Chair*

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Responsible Business Committee

Amanda Mackenzie  
*Chair of the Responsible Business Committee*

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Audit Committee

Sarah Legg  
*Chair of the Audit Committee*

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Board Risk Committee

Catherine Woods  
*Chair of the Board Risk Committee*

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Remuneration Committee

Alan Dickinson  
*Deputy Chair, Senior Independent Director*  
*Chair of the Remuneration Committee*

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Q&A

Moderated by Douglas Radcliffe  
*Group Investor Relations Director*

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Also present: Nigel Hinshelwood, *Ring Fenced Bank Senior Independent Director, Chair of the IT and Cyber Advisory Forum*

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# Helping Britain Prosper is at the heart of our strategy



# Building an inclusive and sustainable business

## Helping Britain Prosper

Continue to embed purpose at the core of business, operations and culture

Foster purpose-driven decision making

## Delivering for our stakeholders

### Building an inclusive society

Improving access to quality housing

Promoting financial inclusion and education

Enabling regional development

Creating a more inclusive organisation and society

### Supporting the transition to a low-carbon economy

Reducing our own carbon footprint

Reducing our financed emissions

Helping to finance the transition

# Board's focus areas

## Delivered

- ✓ Setting Group purpose and strategy
- ✓ Alignment of organisational structure to new strategy
- ✓ Strategy and purpose KPIs
- ✓ Financial performance KPIs
- ✓ Board effectiveness review

## Long term focus

- Customer experience
- People and culture
- Technology and data transformation
- Growth initiatives
- Building an inclusive society
- Transition to a low carbon economy
- Risk / resilience

## Short term focus

- Supporting customers most impacted by rising costs of living
- Executive management team transformation
- Delivery: strategic progress and financial performance
- Operational effectiveness

# Culture change as enabler of our purpose-driven organisation

- Significant cultural change over recent years because of internal changes and external environment
- Our next step of cultural change plays a critical role as an enabler of our new strategy
- Shifting our culture to Grow with Purpose – focus on organisational change needed
- Culture change led by CEO and the new GEC team, supported by the Board



# Measured management transformation to drive strategic delivery

## Group Executive Management

- Appointments well progressed to deliver strategy
- 15 members / attendees
- 6 women and 1 minority ethnic members/attendees (as at Dec 2022)
- Clear delineation of responsibilities between the Board and Executive Management
- Met Hampton-Alexander Review recommendations
- Aim to meet FTSE Women Leaders Review recommendations

## Executive management appointments in 2022

**Chirantan Barua**, CEO, Insurance, Pensions & Investments **External**

**Elyn Corfield**, CEO, Business & Commercial Banking

**Sharon Doherty**, Chief People and Places Officer **External**

**Jo Harris**, CEO, Mass Affluent

**Laura Needham**, Chief Internal Auditor **External**

**Jasjot Singh**, CEO, Consumer Lending

**Jayne Opperman**, CEO, Consumer Relationships **External**

**John Winter**, CEO, Corporate & Institutional Banking **External**



# Non-Executive Directors: clear delineation of responsibilities

Non-Executive Directors	Role on the Board	Joined	Nomination & Governance	Audit	Responsible Business	Remuneration	Board Risk	IT and Cyber Advisory Forum
<b>Robin Budenberg</b>	Chair, Chair of Nomination and Governance Committee	2020	C		✓	✓		
<b>Alan Dickinson</b>	Deputy Chair, Senior Independent Director, Chair of Remuneration Committee	2014	✓	✓	✓	C	✓	✓
<b>Sarah Legg</b>	Independent Director, Chair of Audit Committee	2019		C	✓		✓	✓
<b>Lord Lupton</b>	Independent Director, Chair of Lloyds Bank Corporate Markets plc	2017			✓			
<b>Amanda Mackenzie</b>	Independent Director, Chair of Responsible Business Committee	2018	✓		C	✓		
<b>Harmeen Mehta</b>	Independent Director	2021						✓
<b>Cathy Turner</b>	Independent Director	2022				✓		
<b>Scott Wheway</b>	Independent Director, Chair of Scottish Widows Group	2022	✓				✓	
<b>Catherine Woods</b>	Independent Director, Chair of Board Risk Committee	2020		✓		✓	C	✓
<b>Nigel Hinshelwood</b>	Ring Fenced Bank Senior Independent Director, Chair of IT and Cyber Advisory Forum	2019	✓	✓		✓	✓	C
<b>Sarah Bentley</b>	Ring Fenced Bank Independent Director	2019				✓		✓
<b>Brendan Gilligan</b>	Ring Fenced Bank Independent Director	2019		✓			✓	

# Responsible Business Committee

Amanda Mackenzie  
*Chair of the Responsible Business Committee*

# Responsible Business Committee's focus areas

## Delivered

- ✓ Development of Group purpose and values
- ✓ Culture & workforce engagement
- ✓ Group's response to rising cost of living
- ✓ Net-Zero Banking Alliance sectoral targets
- ✓ Approach to Consumer Duty rules implementation

## Long term focus

- Embedding purpose in operations and the business
- Building an inclusive & sustainable organisation
- Environmental sustainability strategies, including biodiversity
- Social sustainability strategies, including just transition
- Culture & workforce engagement

## Short term focus

- Evolution of rising cost of living and the Group's response
- Implementation and embedding of Consumer Duty

# Supporting customers and communities

## Customers

- Customers demonstrating resilience at present and adapting to higher cost of living
- Targeted support provided where required with additional organisational capacity
  - **Retail**
    - Proactively contacting those most-impacted
    - Suppressed fees for vulnerable customers
    - >100k helped out of persistent debt so far this year
    - Education and guidance through our Cost-of-Living Hub
  - **Commercial**
    - Specialist relationship manager support
    - Ongoing outreach targeting clients in most-impacted sectors

## Communities

- Additional cost of living support to c.800 new and existing charities through our charitable Foundations
- Approx. 85k hours of skills based colleague volunteering YTD supporting charities and communities



# Focused on building an inclusive society

## Access to quality housing

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Support across the housing sector – house ownership, rental, social housing, house builders

*Example: Supported >200 housing associations across the UK, with c.£12bn funding to the social housing sector since 2018*

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## Financial inclusion and education

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Enhancing financial inclusion with focus on digital skills, vulnerable customers, financial capability

*Example: All colleagues trained on how we can support vulnerable customers as part of mandatory training, with bespoke role specific training for customer facing colleagues*

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## Regional development

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Supporting businesses and communities in need of regeneration

*Example: Partnering with UK Urban Future Commission to support levelling up across major UK cities*

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## Inclusive organisation and society

Target 50% women, 13% Black, Asian & Minority Ethnic, 3% Black colleagues in senior roles by 2025 – c.39% women in senior roles at H122; c.9% of minority ethnic and 1% of Black colleagues at FY21

*First FTSE 100 company to set targets to increase gender and ethnic diversity at senior levels*

# Continued progress towards our net zero ambitions

- Published new sector-based 2030 emissions targets in October in line with Net-Zero Banking Alliance commitments
- Published a new net zero ambition for our supply chain
- Committed to not providing direct finance to new greenfield oil and gas developments – the first major UK bank to do so
- First Group Climate Transition Plan to be published in Feb 2023

## Green and sustainable finance targets

£10bn green mortgage lending by 2024

£8bn financing and leasing for EVs and PHEVs by 2024

£15bn sustainable financing for Corporates by 2024

£20-25bn invested in climate-aware strategies through Scottish Widows by 2025

## Net zero ambitions

### Financed emissions

Net zero emissions in our lending and investment portfolios by 2050 or sooner, with interim goals to:

- Work with customers, government and the market to help reduce the emissions we finance by >50% by 2030
- Halve the carbon intensity of Scottish Widows investments by 2030

2030 emission reduction targets developed for 7 sectors incl. auto OEMs, aviation, oil & gas, power, thermal coal, retail motor and residential mortgages

### Own operations and supply chain

Net zero carbon operations by 2030

Reduce emissions from our supply chain by 50% by 2030 on path to net zero by 2050 or sooner

# Overseeing cultural change and alignment with purpose, values and strategy

- Regular updates on the Group's progress on culture and colleague sentiment:
  - Annual and monthly colleague surveys
  - Quarterly Workforce Engagement updates
  - Regular updates on culture
- Closer to Clients, Customers & Colleagues programme; Non-executive directors participating in:
  - Customer focus groups - themes in 2022 including cost of living, family, small business, spending, universal credit and fraud
  - Colleague focus groups - themes in 2022 including strategy, values, pay & reward and hybrid working

# Audit Committee

Sarah Legg  
*Chair of the Audit Committee*



# Audit Committee's focus areas

## Standard agenda items

- Portfolio impairment review (IFRS 9 ECL)
- Conduct and litigation
- Insurance and pension scheme assumptions
- Climate reporting update and related disclosures
- Regulatory reporting controls environment
- Sarbanes Oxley controls opinion
- Deferred tax asset and tax uncertainties
- External reporting publications
- External audit oversight
- Internal audit, including Speak Up

## 2022/2023 priorities

- Impairments – economic scenarios & judgements
- Conduct and litigation
- IFRS 17 implementation
- Climate impact on financial statements
- Regulatory reporting including assurance
- Sarbanes Oxley – continuous improvement
- Audit and corporate governance reforms
- Finance Transformation Strategy

# Oversight over IFRS 9 Expected Credit Losses (ECL)

## ECL modelling

Investment to deliver ECL assessment and sensitivity analysis at improved speed and accuracy  
Allowing capture of late-breaking news and updates to ECL analysis

## Judgemental adjustments

Focus of the Committee; well-defined, discrete adjustments, managed with specific release criteria  
Judgemental COVID ECL adjustments largely released, inflationary risks an increased focus area

## Governance

Regular review of portfolio performance by the Committee, with external auditor scrutiny  
Oversight of judgemental adjustments and adequacy assessment at portfolio level

## Benchmarking

Actively benchmarking externally by portfolio

## Disclosures

The Committee oversees disclosure updates to IFRS 9 information

# Focused on accounting and reporting developments

## Sustainability reporting

- Sustainability reporting in line with TCFD requirements and industry guidance – well received by market
- Embedded into financial reporting framework
- Sustainability reporting updates to the Committee
- Climate reporting control environment maturing
- Risk assessments considering the impact of sustainability on financial statements
- Continuing review of external developments, including new reporting standards (ISSB, SEC, EFRAG) and assurance

## IFRS 17 – Insurance Contracts

- Replaces IFRS 4 for accounting insurance contracts
- Impacts timing of profit recognition from insurance contracts; no change to profits over lifetime of product
- Effective 1 January 2023
- Regular updates to the Committee on the Group's implementation programme
- Dedicated "Deep Dive" Session held in October 2022
- Updates have covered both the financial impacts and the control framework for the transition and BAU reporting

# Board Risk Committee

Catherine Woods  
*Chair of the Board Risk Committee*



# Board Risk Committee's focus areas

## Delivered

- ✓ Multiple stress testing exercises
- ✓ Climate risk framework & CBES response
- ✓ Operational resilience Board Risk Appetite metrics & Self-Assessment
- ✓ Commercial Real Estate data remediation
- ✓ Revised Risk Performance review process
- ✓ Resolvability assessment framework
- ✓ Data risk action plan

## Long term focus

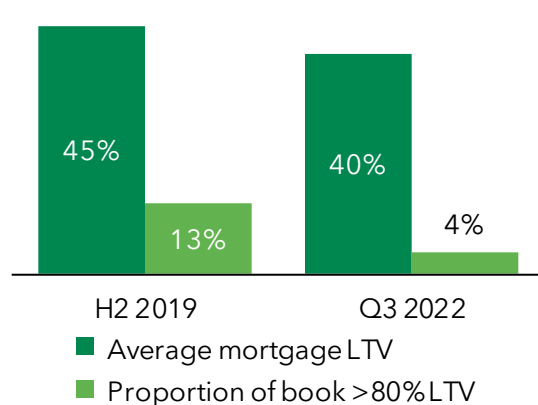
- Risk strategy and risk appetite
- Risk governance and oversight
- Ensuring risk culture is fully embedded
- Assessing emerging and principal risks
- Approving stress and scenario testing

## Short term focus

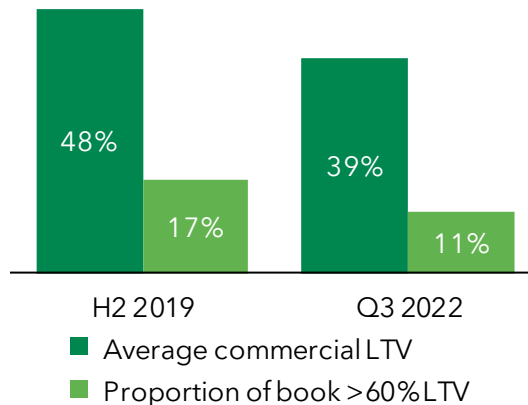
- Cost of living - credit impact and supporting customers in difficulty
- Macroeconomic and geopolitical uncertainties
- Operational resilience
- Significant regulatory change programmes

# Credit impact of rising cost of living

## Average mortgage LTV

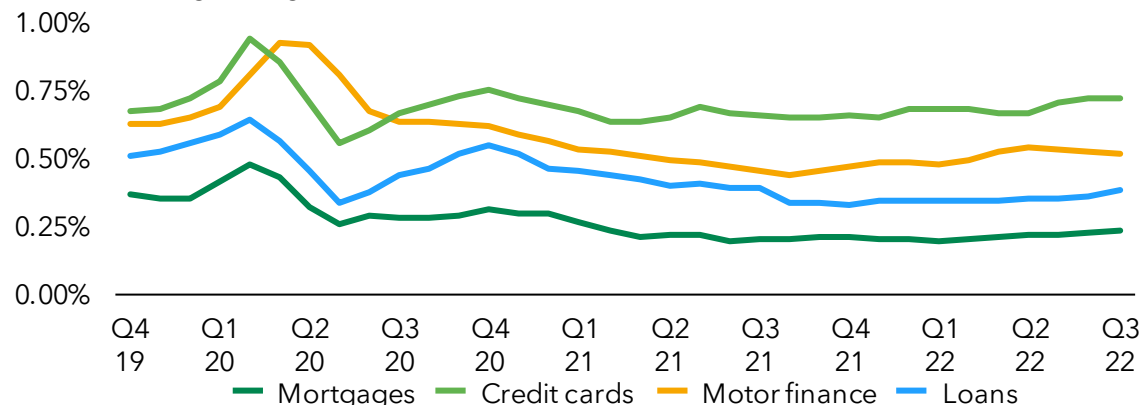


## Commercial Banking UK direct real estate LTV<sup>1</sup>



## New to arrears as a proportion of total balances

(3-month rolling average, %)



- Average mortgage LTV 40% with 96% of book below 80% LTV
  - Average household income for mortgages c.£75k p.a.<sup>2</sup>
- Net CRE exposure £10.9bn; average LTV 39% and c.89% with LTV <60%
  - Average interest cover ratio 4.4x
- >70% of Commercial exposure<sup>3</sup> at investment grade and c.90% of SME lending secured
- New to arrears remain low, at or below historical averages

1 - H2 2019 excludes CRE exposures <£1m; Q3 2022 includes all CRE exposures. Difference is not expected to materially impact trends. 2 - Relates to mortgage completions in 2022.

3 - Commercial Banking excluding SME and Business Banking.

# Climate risk management

## Significant progress across the Group

- Consistent framework and clear responsibilities in place to embed climate risk across the Group
- Successfully responded to Bank of England's CBES exercise
- Disclosures are consistent with TCFD recommendations
- Refreshed Group Climate policy
- Climate included in the Medium Term planning process
- Net zero targets published for high carbon sectors

## Further enhancements underway

- Apply broader ESG lens to risk management framework
- Develop quantitative risk appetite metrics to align to net zero commitments
- Develop further Board Risk Appetite metrics
- Continue to develop climate data
- Further embed climate factors into our credit decisioning and Management Information

**Making progress at pace by embedding climate risk across the Group and enhancing capabilities to meet external commitments and regulatory requirements**

# Strategic transformation oversight

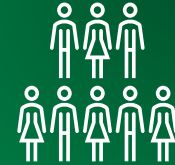
## Group-wide oversight is multi-dimensional

- Execution of change and impact on different risk types considered
- Oversight prioritised on strategic transformation impacting important & critical business processes
- Increased real-time oversight aligned to most material elements
- Uplift in data analytical skills / capabilities
- Risk Management Framework to evolve
- Approach supported by all 3 lines of defence

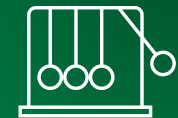


## Integrated oversight approach required

**Platform team  
approach**



**End-to-end  
accountability**





# Remuneration Committee

Alan Dickinson  
*Deputy Chair, Senior Independent Director  
Chair of the Remuneration Committee*

# Remuneration Committee's focus areas

## Delivered

- ✓ Cost of living payments to colleagues
- ✓ 2023 pay approach agreed for wider workforce with union approval
- ✓ Market review of Directors' Remuneration Policy
- ✓ ESG measures in balanced scorecard

## Long term focus

- Continued pay for performance and alignment with strategy
- Colleague sentiment and colleague surveys
- Further integration of ESG measures into pay structures
- Gender and ethnicity pay gap

## Short term focus

- Cost of living impacts on lowest paid colleagues
- Directors' Remuneration Policy design, investor consultation and vote
- 2022 remuneration outcomes in the context of Group performance and external environment

# Workforce engagement and support for colleagues

- Supporting colleagues with the rising cost of living and wider economic uncertainty while maintaining focus on cost efficiency
- Led the industry by paying a cost of living payment of £1,000 to all 63k colleagues in August 2022<sup>1</sup>
- Pay approach for 2023 supported by unions and voted in favour of by both unions' members
  - Represents an increase of 8 - 13% for c.43k lowest paid colleagues
  - Overall pay bill increase of c.6.3%
- Financial and non-financial well-being support to all colleagues, including help, ideas and practical support for managing personal finances (e.g. a dedicated colleague mortgage hub)
- Regular engagement through annual colleague survey and monthly pulse surveys
  - 2022 annual survey completed in November
  - 75% Engagement Employee Index (up 2 vs 2021)
  - 87% connecting with our purpose of Helping Britain Prosper
- Continued focus on pay gap - voluntary reporting on ethnicity pay gap

<sup>1</sup> - Excluding our executive roles.

# Directors' remuneration approach – RemCo considerations

- Directors' Remuneration Policy up for shareholder vote at the next AGM
- RemCo have concluded a review of the current Policy, including the Long Term Restricted Share Plan (LTSP), to ensure it aligns more closely with the Group's long-term strategic objectives and the evolving performance culture
- With the new strategy pivoting towards growth, RemCo sees returning to a performance based long term incentive plan (LTIP) would deliver better alignment with longer term strategic objectives
  - Maximum award of 300% of salary; no change at target remuneration
  - Increased pay for performance - if LTIP targets met and awards vested in full, there would be a c.30% increase in payout vs current Policy (LTSP). If threshold performance not met, there would be up to c.30% reduction in payout vs current Policy
  - Stretching performance metrics aligned to strategy to be agreed (including both financial and non-financial metrics)
  - Given uncertain economic and political environment (e.g. cost of living, rising rates) RemCo has reflected on the timing of such a change. Currently plan to proceed with an LTIP vote at the 2023 AGM
  - Ensuring the Policy remains competitive whilst reflecting shareholder feedback from 2020 vote
- Two additional specific changes proposed as part of 2023 remuneration votes – GPS deferral (Remuneration Report) and GPS quantum for CFO (Remuneration Policy)
- Positive feedback from initial shareholder consultation – engagement to continue in early 2023

# Q&A

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