

LLOYDS
BANKING GROUP



Board Corporate Governance Event 2020

9 November 2020



Company representation

Today's 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

Agenda – Board Corporate Governance Event

Presentation

Presenter



12.30	Introduction and Group Board	Lord Blackwell
12.55	Responsible Business Committee	Sara Weller
13.20	Board Risk Committee	Nick Prettejohn
13.40	Remuneration Committee	Stuart Sinclair
14.00	Audit Committee	Sarah Legg
14.15	Q&A and Closing Remarks	Chairman and others

Strategic challenges and our response

Strategic challenges

External challenges

- Macro-environment: Covid economic uncertainty; regulatory constraints on dividends; low interest rate environment
- Technology shift
- Competitive dynamics
- Changing customer expectations / preferences
- Evolving societal expectations: ESG, Universal service expectations

Internal challenges

- Managing change
- Culture & skills

Shares trading at c.50% book value

Our response

- Strategic transformation to “bank of the future”
 - Unique multi-brand, integrated financial services business model
 - Maintain leading cost efficiency
 - Tech migration (largest UK digital bank)
 - Customer franchise / data
 - Targeted growth
- Integrated social and business purpose
- Employer of choice
 - Culture / skills development
 - Motivating purpose

Sustainable competitive advantage and shareholder value

Board's focus areas in 2020 and emerging priorities for 2021

2020

COVID-19 response, customers and colleagues

Review strategic plan (separate strategy sessions in June and November)

Customer propositions

ESG / Helping Britain Prosper plan

Technology / Core banking system

Risk management

Culture transformation

Workforce engagement

Remuneration plan

Leadership succession



2021

Strategic update – SR21

Helping Britain Recover – customer support and conduct issues

Growth areas: Insurance & Wealth, Payments

Future ways of working / estate strategy

ESG / Climate risk

Technology / Core banking system

Culture / Skills transformation

Leadership transition



Our response to Covid-19 – “Part of the Solution”

Rapid response – working closely with the Government and regulators



Customers

- Circa £11bn lending to businesses through Government-backed schemes
- Around 1.2m customers supported through payment holidays



Colleagues

- Continue to guarantee pay for our colleagues
- Additional award for frontline colleagues



Communities

- Additional funding to our independent charitable Foundations
- Access to support e.g. mental health advice via different routes such as branches and website



Governance

- Final 2019 dividend cancelled at regulator’s request; Board agreed no distributions until end 2020
- Group Executive Directors and GEC have requested not to be considered for 2020 bonus

Beyond the crisis

Remain focused on working with all stakeholders to support customers, help Britain recover, and rebuild trust, incl. challenge of responding to personal and business customers in financial stress

Opportunity to embed benefits from accelerated change, including digital adoption, work behaviours and more resilient and environmentally sustainable economy

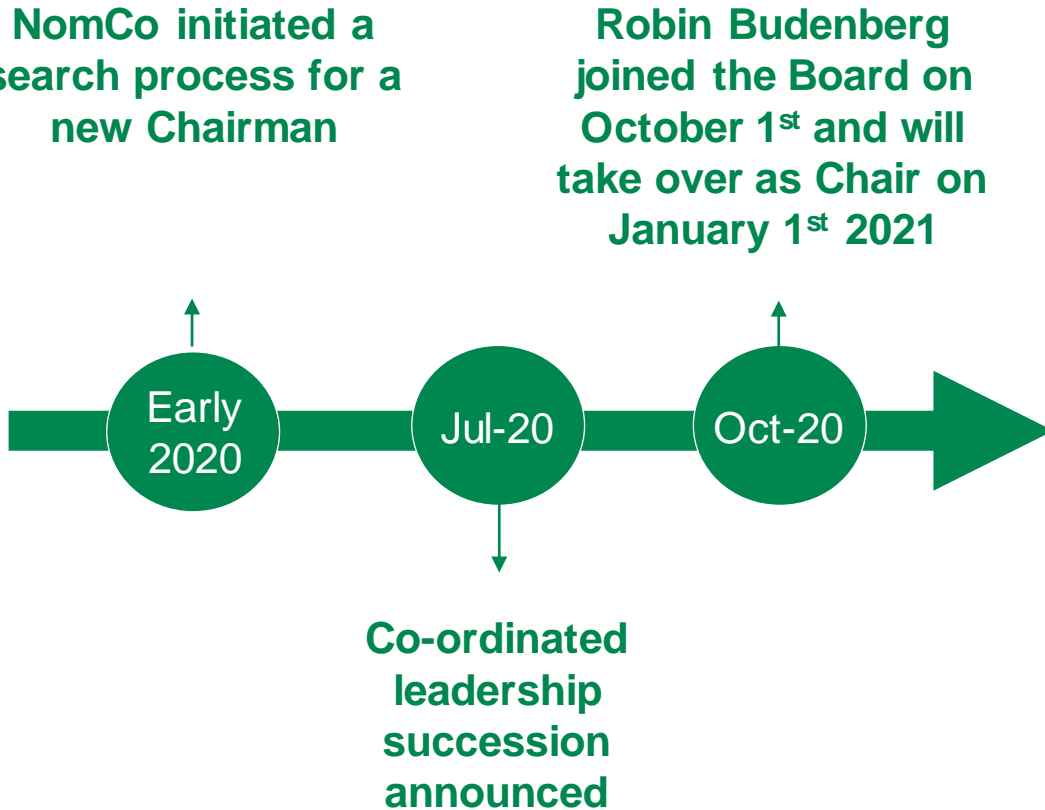
Leadership succession

CEO search underway

Search for António's successor initiated

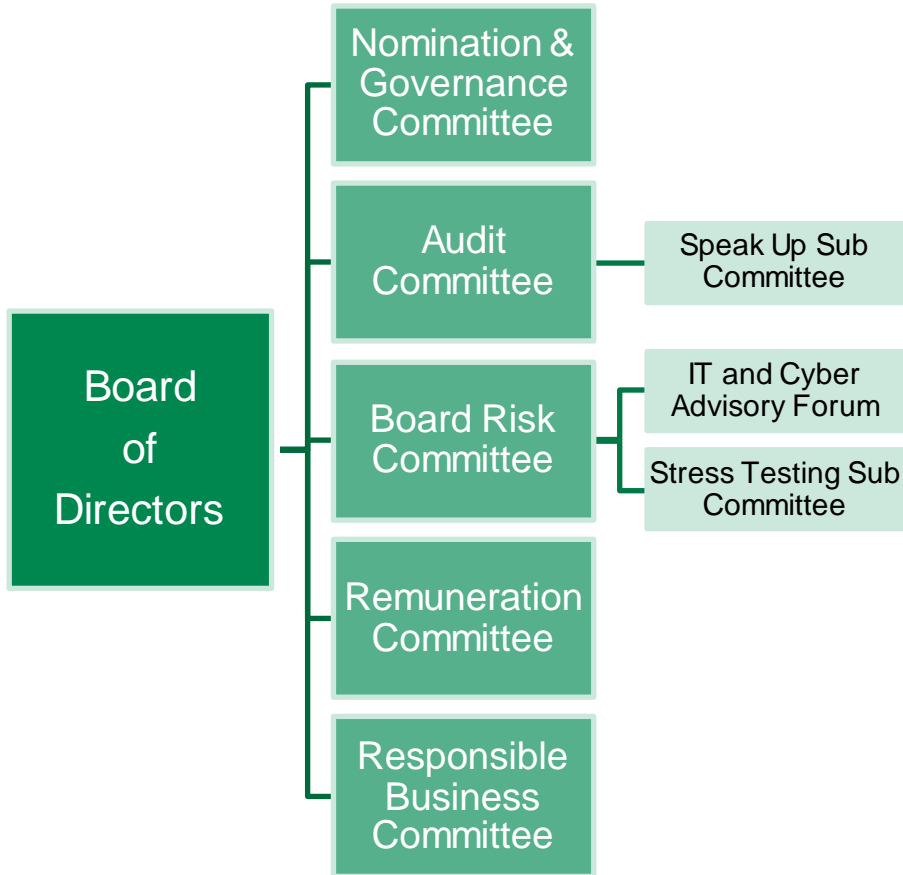
António completely focused with the executive team on delivering current plans and maintaining momentum of strategic transformation. Will present FY 2020 results

New CEO will transition into key role of shaping and delivering the Bank of the Future with the Chairman and Board



Our governance structure

Board Committees



Group: 2 executive & 10 non-executive directors;
 Ring fenced bank: 2 executive & 13 non-executive directors



Committee members

	Joined	Risk	Audit	Remuneration	Responsible business	Nomination & Governance
Lord Blackwell	2012	✓		✓	✓	C
Alan Dickinson	2014	✓	✓	✓	✓	✓
Robin Budenberg	2020	✓		✓	✓	✓
Sarah Legg	2019	✓	C			
Lord Lupton (L)	2017	✓			✓	
Amanda Mackenzie	2018	✓		✓	✓	
Nick Prettejohn (S)	2014	C	✓			✓
Stuart Sinclair	2016	✓		C	✓	✓
Sara Weller	2012	✓		✓	C	✓
Catherine Woods	2020	✓	✓	✓		

C = Chair L = Chair of LBCM plc S = Chair of Scottish Widows Group

Board skills and diversity

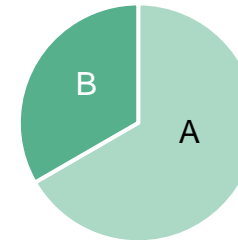
Board skills matrix

(Skills and experience, non-executive directors only)

Retail/Commercial banking	9 out of 10
Financial markets/wholesale banking/corporate clients	8 out of 10
Insurance	8 out of 10
Prudential and conduct risk in financial institutions	10 out of 10
Core technology operations	4 out of 10
Government/regulatory	10 out of 10
Consumer/marketing/distribution	6 out of 10
Digital impact	9 out of 10
Major change programmes	9 out of 10

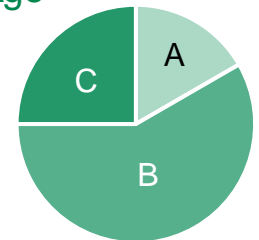
Board diversity

Gender



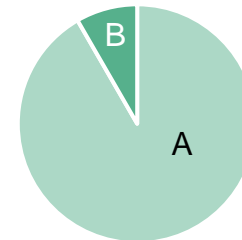
A Male (8)
B Female (4)

Age



A 46-55 yr (2)
B 56-65 yr (7)
C 66-75 yr (3)

Ethnicity



A White (11)
B Black, Asian, Minority Ethnic (1)

Looking to further enhance Board diversity



Q&A

Lord Blackwell
Chairman
Chair of the Nomination & Governance Committee





Responsible Business Committee

Sara Weller
Chair of the Responsible Business Committee



Our approach to responsible business – Helping Britain Prosper

Our approach

- Embracing responsibility to help address UK's social, economic and environmental challenges
- Operating as a responsible, sustainable and inclusive Group
- Embedded through our Helping Britain Prosper plan, launched in 2014 and reviewed annually
- Focus on areas where we can make the biggest difference
- Fully aligned with business strategy and integral to our purpose and building a more successful Group
- Supporting the UN Sustainable Development Goals

Helping Britain Prosper focus areas

- Helping the transition to a sustainable, low carbon economy
- Helping Britain get a home
- Helping people save for the future
- Supporting businesses to start up and grow
- Tackling social disadvantage across Britain
- Building capability and digital skills
- Championing Britain's diversity

Focus areas in 2020 and emerging priorities for 2021

2020

Helping Britain Prosper plan

Societal response to Covid-19 pandemic

Environmental sustainability

Mental health

**Ethnicity and support for Black, Asian & Minority
Ethnic colleagues**

Digital skills

**Reporting standards and frameworks (e.g. TCFD,
SASB)**

Whilst creating closer linkages with our
commercial objectives



2021

How we look to Help Britain Recover

Society of the Future

Environmental sustainability

Mental health

**Ethnicity and support for Black, Asian & Minority
Ethnic colleagues**

Whilst embedding Social Purpose into the
core of our Business Strategy

Our stand for racial equality

Our targets

Announced in July our **Race Action Plan** with commitment to **increase Black representation in senior roles from 0.6% to at least 3% by 2025**

This is in addition to our existing targets to increase roles held by Black, Asian and Minority Ethnic colleagues to 10% (target exceeded) and to 8% of senior roles by 2020

Moody's note the Race Action plan is credit positive given improved diversity and reduced social risk

Race Action Plan

- Colleague advisory boards made up of Black, Asian & Minority Ethnic colleagues
- Working in partnership with experts to develop a race education programme
- Regular listening sessions to gauge colleague experiences and progress against our goal
- Commitment to publish our ethnicity pay gap report by the end of 2020
- All recruitment shortlists at senior level to have a Black, Asian or Minority Ethnic candidate

Video: Black Lives Matter

Environmental sustainability

Our targets

Ambitious goal to **reduce the carbon emissions we finance by >50% by 2030**

2030 internal carbon reduction target already met; developing new internal carbon, energy and travel targets



Actions taken

- Provided >£6bn in green finance since 2016 through sustainable finance initiatives
- Supported >40 renewable energy projects, equalling power generation for 5.1m homes
- Partnered with Woodland Trust to plant 10m trees over the next 10 years
- Only UK bank to score an A rating for a second year running in CDP Climate Change Survey
- Achieved the rank of 'leader' and 2nd in Europe in ShareAction's latest banking survey
- Plan to fully implement the TCFD recommendations and provide full disclosure by 2022



Sector statements

Managing our sector risk appetite

- Managing our risk appetite to a number of sectors is a critical part of our sustainability strategy
- Our 12 external sector statements set out our risk appetite for lending to these sensitive sectors
- Updated and made our coal statement more ambitious:
 - No financing of new coal fired power stations
 - New clients now required to have <30% of revenue from operation of coal fired power stations and/or coal mines
 - Existing customers now expected to explain how they plan to reduce reliance on revenue from coal fired power stations and/or coal mines to <30% by 2025
- Annual review of sector statements currently underway

Existing sector statements

Power

Coal

Oil and Gas

Mining

Forestry

Defence

Manufacturing

Automotive

Agriculture

Animal Welfare

Fisheries

UNESCO World Heritage Sites

Impact in our communities

Our targets

Guaranteed £25.5m of funding to our charitable Foundations in 2021 to continue vital work in communities

Help 1.8m individuals, small businesses and charities to develop digital skills by 2020

Actions taken during the pandemic

- Donated >£25m to our four independent charitable Foundations in 2020
- 500 colleagues volunteered at 75 Foundation charities through Covid Response Forums
- Additional funding to our long-term partner, Mental Health UK, to enable extension of the Mental Health & Money Advice Service
- C.57,000 individuals, charities and companies have accessed free digital skills training through Lloyds Bank Academy
- Funding to The Silver Line to support increased demand for those feeling isolated or lonely

Committed to take action

Immediate action required

- Environmental sustainability remains an existential threat to the economy and the whole world
 - We remain committed to play a leading role in helping the UK transition to a sustainable, low carbon economy
- The crisis has exacerbated social issues requiring immediate action during the pandemic and beyond
 - We continue to support customers, colleagues, communities, and the wider society during the pandemic and beyond to help Britain recover
- Working together with the Government, our regulators and many other stakeholders to build an inclusive and more sustainable future

ESG at the heart of the Group purpose

- Board is fully engaged and committed
- Oversight through the Board's Responsible Business Committee, with support from the Group Executive Committee, and its dedicated Sustainability Committee
- Further integration into the Group's overall strategy, and everyday business planning and operations
- Increasing transparency on our progress, including risks and opportunities
- Fully aligned with the interests of all our stakeholders

[See more detail in our 2020 ESG Investor Presentation](#)



Q&A

Sara Weller
Chair of the Responsible Business Committee





Board Risk Committee

Nick Prettejohn
Chair of the Board Risk Committee



Focus areas in 2020 and emerging priorities for 2021

2020

Impact of Covid-19

Climate risk

Stress testing

Customers in financial difficulty

Operational resilience

People risk

Data risk

Emerging and strategic risks

Credit deep dives (Buy-to-Let, Automotive sector, Financial Sponsors)



2021

Support for customers impacted by Covid-19

Climate risk

Stress testing

Data risk

Technology risk

Model risk

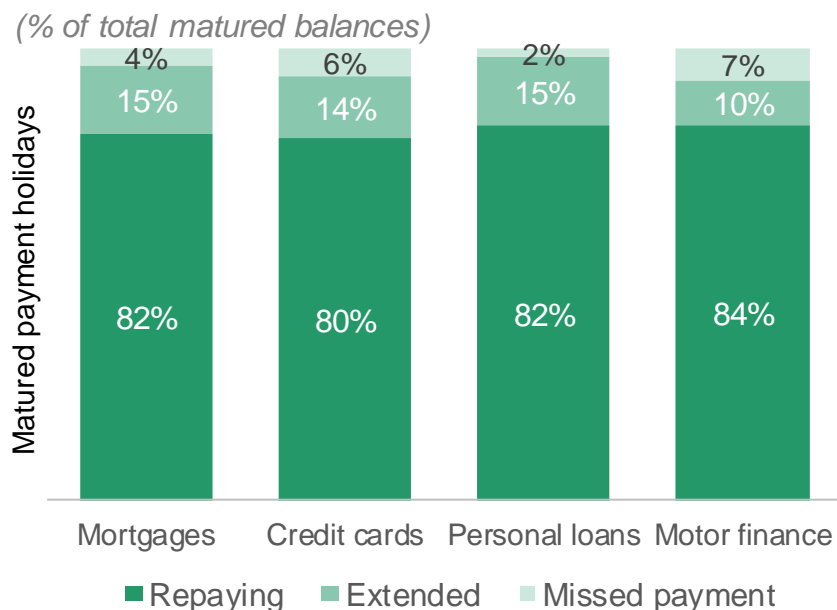
Deep dive on Housing Market

Deep dive on Commercial Real Estate

Deep dive on Credit Cards

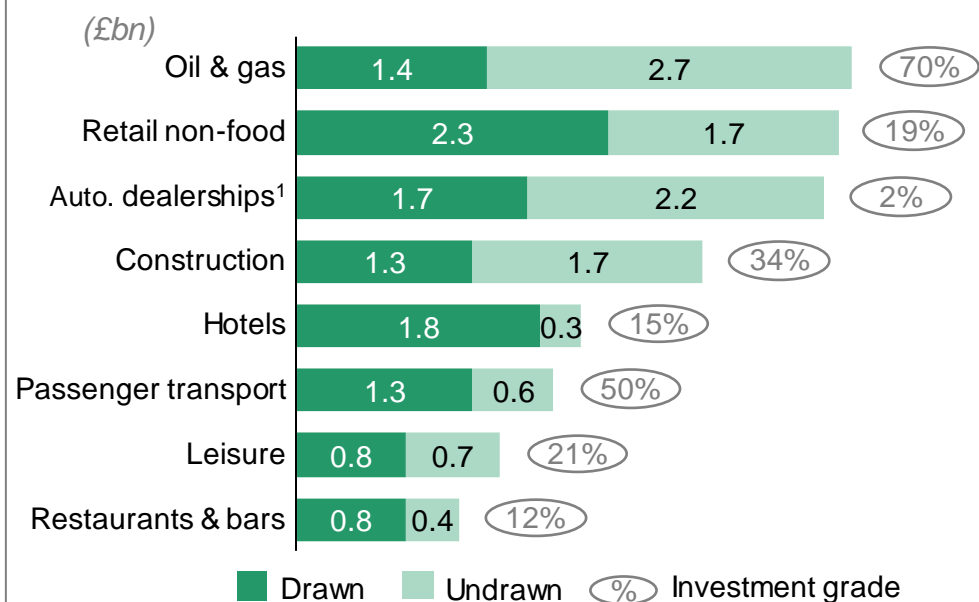
Credit impact of Covid-19

Payment holidays



- Payment holidays granted on £69bn of lending, with <£15bn now outstanding

Lending in key impacted sectors



- c.2% of Group lending and c.12% of Commercial to key impacted sectors
- Continue to support businesses with c.£11bn of government backed lending and market share of 18% of government support loans

**Majority of first payment holidays now matured with high proportion repaying
Limited exposure to most vulnerable sectors**



Cyber threat during Covid-19

No material change to cyber threat

- **Covid-19 related phishing campaigns and malware**, particularly in H1
- Increase in **internal low-level data loss prevention alerts** with colleagues adapting to working at home; reduced with increased education and technical controls
- Areas of focus **unchanged and non-Covid-19 related**, incl. ransomware, DDoS and cloud security
- **No change in threat from increased home working**; assessing controls as we journey towards a 'new normal'

Looking forward

Continue to monitor for any **change in the threat or attackers' methods, including insider behaviours**

Mitigation principles remain unchanged with a focus on security fundamentals such as patching and colleague education

Climate risk

Climate risk now incorporated into our risk management framework

- Climate risk established as a new primary risk type
- Senior management responsibility allocated to the Credit Risk Officer
- Dedicated climate risk training to Board and Management
- Board risk appetite proposals for climate risk will be included in next annual refresh
- Significant work underway to quantify financial impacts, incl. climate scenario analysis



Climate risk assessed as part of a broader, new ESG rating framework

- A new climate risk assessment indicator tool is in pilot to help better understand climate risk at corporate counterparty level
- Business strategy and policy in respect of high carbon sectors updated
- Climate risk is now a mandatory consideration for all credit applications >£500k
- Green finance solutions available to support customer / client transition

We are enhancing our climate risk management capabilities at pace to meet our climate change objectives and regulatory requirements



Q&A

Nick Prettejohn
Chair of the Board Risk Committee





Remuneration Committee

Stuart Sinclair
Chair of the Remuneration Committee



Key points of the new remuneration policy

Core aims for the new policy

Simpler reward package

Clear alignment to purpose

Rewarding and driving the right behaviours

Approved at the 2020 AGM with c.64% votes in favour

Key changes

- ✓ Pensions allowances reduced for all Executive Directors to 15%, aligned with the workforce
- ✓ 8% reduction in fixed pay and c.30% reduction in total remuneration potential for Chief Executive
- ✓ New long-term restricted share plan (LTSP) has replaced the previous LTIP
 - First award to potentially be granted in March 2021 (subject to 2020 performance and RemCo discretion)
 - Maximum opportunities significantly reduced
 - Lower, less volatile reward outcomes
 - Single balanced scorecard performance assessment used to size awards at grant, in line with regulatory requirement
 - Subject to three year financial underpins

Reflecting on shareholder feedback

Market feedback

- LTSP opportunity provides insufficient discount from previous LTIP
- Pre-grant test in LTSP is considered unnecessary and leads to additional complexity
- Further need for simplification and evidence of 'pay for performance'

Our response



- ✓ Consultations to commence with broad selection of stakeholders ahead of 2021 implementation
- ✓ Confirmation of approach to LTSP award sizing – 'normal maximum' opportunity 150% vs. exceptional maximum 200%
- ✓ Pre-grant test in line with our regulatory obligation to review performance prior to grant
- ✓ Significant simplification of the balanced scorecard underway
 - Fewer measures with more clarity on weightings and quantitative assessment
- ✓ Clearer, simpler and more transparent disclosure

2020 remuneration in context

- No annual bonus awards for Executive Directors and Group Executive Committee for 2020
- No softening of performance conditions of in-flight GOS (LTIP) awards to reflect Covid-19
- Committee will be looking at all factors including shareholder experience before final decisions on 2021 LTSP are made
- Current Group Chief Executive is not eligible for an award
- Share price will be considered in making any awards; methodology for managing potential 'windfall gains' will be disclosed



Q&A

Stuart Sinclair
Chair of the Remuneration Committee



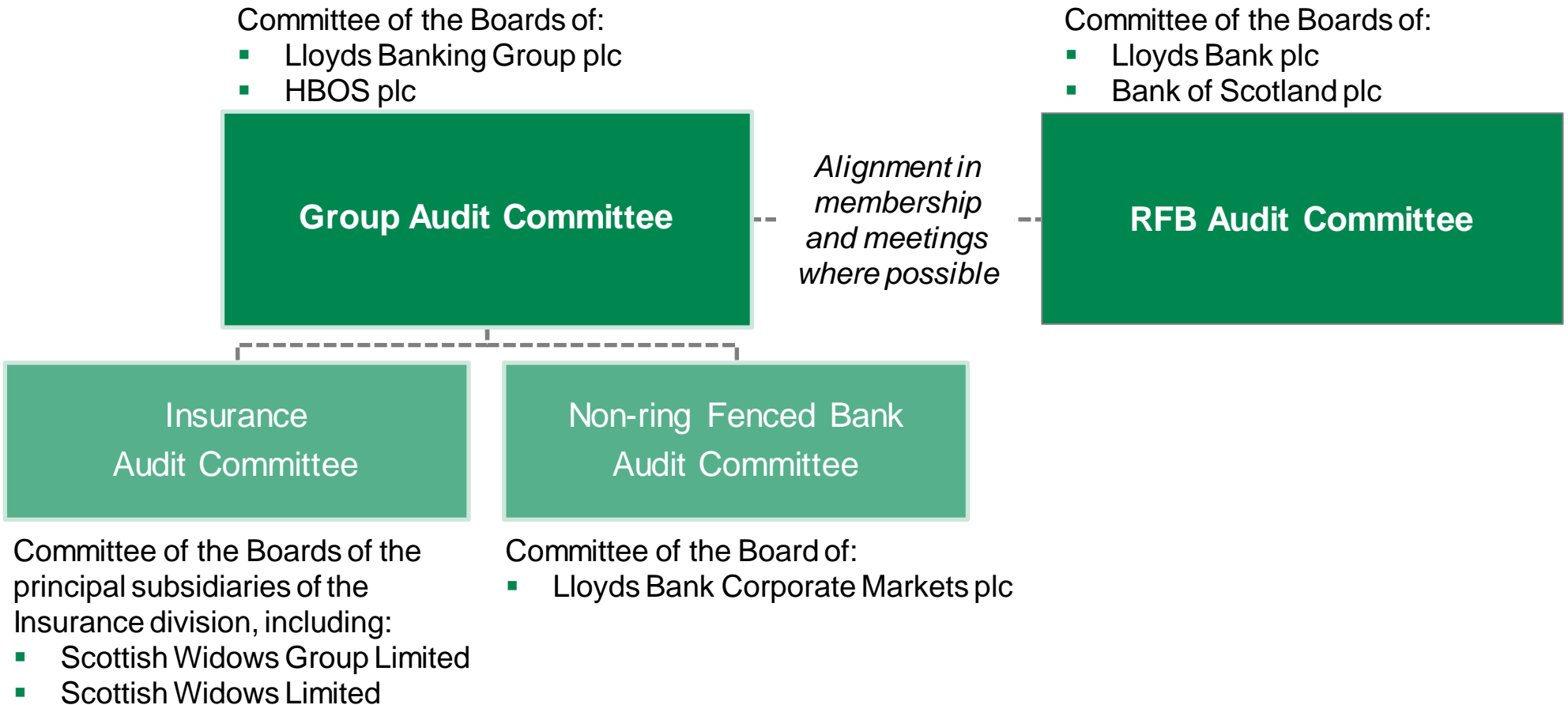


Audit Committee

Sarah Legg
Chair of the Audit Committee



Audit committee governance structure





Focus areas in 2020

Key accounting issues

Portfolio impairment review

Coronavirus implications

Conduct and litigation (incl. PPI)

Pension scheme assumptions

Deferred tax assets and tax uncertainties

Insurance assumptions

Sarbanes Oxley s404

Balance sheet substantiation and control

RWA and regulatory reporting

Risk and other issues

Group audit

Speak up

FRC audit quality inspection

Audit reform

Deloitte transition progress

External audit & change of auditors

External audit

- PWC to complete YE2020 audit and then step down as required by the Companies Act 2006
- Annual review of audit effectiveness showed standards being maintained
- Appointment of Deloitte as the new auditor with effect from YE2021 to be recommended to shareholders for approval at the 2021 AGM
- Transition process underway in support of a smooth and effective migration between auditors

Audit fees

- Rigorous process requiring approval of non-audit assignments with fees above a “de minimis” limit
- Fees are closely controlled

(£m)	2019	2018
Audit	25	24
Audit-related	1	1
Non-audit	1	2
	27	27



Q&A

Sarah Legg
Chair of the Audit Committee





Thank you for joining the event!

