



# STRATEGIC UPDATE

Presentation to analysts  
and investors

28 October 2014



LLOYDS  
BANKING  
GROUP



Lloyds Banking Group plc

Strategic Update

28 October 2014

## **FORWARD LOOKING STATEMENTS**

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking 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 to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such 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 exchange rates, stock markets and currencies; 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; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; terrorist acts, geopolitical events and other acts of war or hostility, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; 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 in the UK, the European Union (EU), the US or elsewhere including the implementation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; 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 ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs; 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 and lending companies; and exposure to regulatory scrutiny, legal proceedings, regulatory and competition investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. 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 Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

## STRATEGIC UPDATE

'Over the last three years the successful delivery of our strategy has ensured that we have become a safe, highly efficient, UK focused retail and commercial bank. The next phase of our strategy builds on these strong foundations to meet the rapidly changing needs of our customers, and sets out how we plan to grow the business to become the best bank for customers and deliver superior and sustainable returns for our shareholders.'

António Horta-Osório  
*Group Chief Executive*

### KEY MESSAGES

- We are a low cost, low risk, customer focused, UK retail and commercial bank
- The strategy laid out in 2011 is now substantially complete. We have reshaped the Group, strengthened the balance sheet and delivered Simplification savings which have enabled reinvestment for growth
- Customers remain at the heart of our strategy. We will deliver the best customer experience by strengthening our multi brand, multi channel business model
- We will transform our digital capability, providing customers with simpler, seamless interactions across online, mobile and branches, and improving the efficiency of products and services
- We will sustain extensive customer reach through our branch network and telephony, adapting capability to service effectively more complex customer requirements
- The Group is well positioned for sustainable growth. We intend to grow our main retail businesses in line with market, and generate above market growth in areas where we are underrepresented, drawing on Group strengths to deliver competitive advantage
- We will deliver further improvements to our market leading cost position, a source of sustainable competitive advantage for the Group, delivering better value for customers and superior, sustainable returns for our shareholders
- We are issuing new medium-term targets for efficiency, risk and returns:
  - Cost:income ratio to exit 2017 at around 45 per cent; targeting reductions in each year
  - Simplification run-rate savings of £1 billion per annum by the end of 2017
  - Asset quality ratio of around 40 basis points through the economic cycle, and lower than this over the next three years
  - Sustainable returns on required equity of around 13.5-15 per cent by the end of the strategic plan period and through the economic cycle
- With the actions we are taking and our differentiated business model and strategic capabilities, the Group will become the best bank for customers, thereby enabling the delivery of superior, sustainable returns to shareholders

## INTRODUCTION

Lloyds Banking Group is holding a presentation in London today, 28 October 2014, hosted by our Chairman, Lord Blackwell and led by our Group Chief Executive, António Horta-Osório. The presentation will outline the significant progress made since the previous review in June 2011 and the strategic priorities for the business over the next three years. In particular, it will outline how we will strengthen our multi brand, multi channel distribution, transform our digital capability, continue to simplify our operations and processes, and invest in the business to become the best bank for customers and deliver superior, sustainable returns to shareholders.

## STRATEGIC CONTEXT

In 2011 we outlined our strategy to become a simple, low cost, low risk, UK focused retail and commercial bank. The strategy was built upon being the best bank for customers by investing where we could make a real difference, while returning the Group to delivering strong, stable returns for our shareholders.

Our 2011 strategy contained four significant actions to take the Group forward: reshape, strengthen, simplify and invest. Significant progress has been made in each of these areas and we have built a strong track record of delivery:

- **Reshape** our business portfolio to fit our assets, capabilities and risk appetite
  - Non-core assets reduced by more than £140 billion
  - International presence reduced from more than 30 countries to seven
  - Asset quality ratio of 27 basis points, significantly ahead of original guidance of 50-60 basis points
- **Strengthen** the Group's balance sheet and liquidity position
  - Capital position improved with a fully loaded common equity tier 1 ratio of 12.0 per cent
  - Reliance on wholesale funding reduced by more than £150 billion
  - Loan to deposit ratio improved from 154 per cent to 109 per cent
- **Simplify** the Group to improve agility and efficiency
  - Simplification on track to deliver £2 billion per annum of cost savings
  - Cost leadership position created
- **Invest** to be the best bank for customers
  - Over £1 billion of strategic investment in the last three years

## 2014 STRATEGIC UPDATE

We are a low cost, low risk, UK focused retail and commercial bank. We have a number of distinct assets and capabilities, including our unique multi brand, multi channel model, our customer franchise, our market leading cost position, our proven management and high quality committed people.

With the significant progress achieved in recent years, we start from a position of financial and competitive strength in our next phase of becoming the best bank for customers and shareholders. Our plan outlines how we intend to deliver value and high quality experiences for customers alongside superior and sustainable financial performance within a prudent risk and conduct framework. We remain committed to Helping Britain Prosper, supporting the UK economy and the communities in which we operate.

Over the next three years, we need to adapt to the changes in financial services brought about by technology, changing customer behaviour and increasing regulatory requirements, at a time when traditional competitors' strategies converge and new entrants compete for customers. This will be achieved through three strategic priorities for 2015-17:

- Creating the best customer experience
- Becoming simpler and more efficient
- Delivering sustainable growth

### **Creating the best customer experience**

Customers remain at the heart of our strategy. Our ambition is to create the best customer experience through our multi brand, multi channel approach, combining comprehensive online and mobile capabilities with face to face services delivered through our branch network and telephony. We will transform our digital presence while sustaining extensive customer reach through a branch network focused on delivering high quality interactions and the right outcomes for customers.

#### *Digital*

Over the past three years, we have invested in building a resilient, secure digital infrastructure. Over the next three years, we will invest about £1 billion to deliver simple and efficient digital products and services for customers across our businesses. We will expand our digital capabilities to provide enhanced services, deeper analytical capability and personalisation to benefit customers. By transforming our key customer journeys end-to-end, we aim to provide an improved experience for customers, including seamless multi brand, multi channel servicing between online, mobile and branches, and a more efficient operating model for the Group.

#### *Multi brand, multi channel distribution*

We remain committed to our multi brand, multi channel business model. Maintaining a branch network with extensive customer reach remains important for acquiring new customers and servicing existing customers' more complex needs. We will realign our branch capabilities to operate more efficiently, increasing self service technology and investing in remote advice services, with an increasing number of counter transactions migrating to digital and self service. We are committed to maintaining or growing our share of branches and will optimise our network by consolidating mainly urban branches in overlapping locations. We anticipate this will lead to a net reduction of about 150 branches. Over 90 per cent of Lloyds and Bank of Scotland customers will continue to have a useable branch within five miles of their home, while the Halifax branch network will be maintained.

### **Becoming simpler and more efficient**

We will create operational capability which is simpler and more efficient than today and will become more responsive to changing customer expectations while maintaining our cost leadership amongst UK high street banks.

We will commence a second phase of Simplification and cost efficiency to achieve run-rate savings of £1 billion per annum by the end of 2017, creating value for customers and improving our long-term competitiveness. In order to achieve these savings, we will invest around £1.6 billion over three years on initiatives to simplify processes and increase automation. In particular, we will digitise our key customer journeys to improve customer service and increase the efficiency of end-to-end processing. Other operational processes will be redesigned and automated to deliver customer and cost benefits. In addition to process digitisation, we will use innovative sourcing solutions, improve demand management and simplify supplier specifications to manage sourcing more effectively.

Within the organisation, we will rebalance roles to reflect the evolving nature of the business and ensure we have the people and capabilities required for the transition to a more digitised, IT enabled business. We anticipate a reduction of approximately 9,000 full time roles across the business while building new capability in digital and IT. We will also further rationalise our legal entities, including our life companies.

### **Delivering sustainable growth**

As the UK economy continues to recover, we will seek Group-wide growth opportunities whilst maintaining our prudent risk appetite. We will maintain market leadership in our main retail businesses, making the most of our multi brand, multi channel strategy to meet customer needs whilst also focusing on areas where we are currently underrepresented. We have identified a number of growth opportunities including business banking, financial planning and retirement and unsecured consumer lending.

Retail's multi brand strategy, which includes Lloyds Bank, Halifax and Bank of Scotland, provides broad customer reach. We will enhance our offering for mass affluent and wealth customers, and increase our presence in London and the South East where the Group is underrepresented. Strengthening our proposition for small businesses will underpin our continued commitment to Helping Britain Prosper.

In Commercial Banking, we are targeting net lending growth of more than £1 billion annually in both our SME and mid market businesses. We will invest further in scalable technology platforms that deliver long-term capability to meet our clients' evolving needs in lending, transaction banking, and financial and capital markets. We will also continue to improve capital efficiency in our larger corporate client segments, being more relevant to clients and reducing low-return legacy exposure. As a result, we are now targeting a return on risk-weighted assets of at least 2.4 per cent by the end of 2017.

In Consumer Finance, we aim to extend our market leadership in Asset Finance by building our digital capability and creating new propositions for franchise and non-franchise customers in both our Blackhorse and Lex Autolease businesses. We are targeting double digit average annual growth in UK customer assets against a market growth expectation of approximately 5 per cent per annum. In credit cards, we will make better use of Group customer relationships and insight to seek growth within our current risk profile from both franchise and non-franchise customers. We are targeting approximately 6 per cent per annum balance growth, above overall market growth expectations of approximately 4 per cent per annum.

In Insurance, financial planning for retirement is a critical need for UK customers and one that the Group is uniquely placed to serve. By connecting products, services and customer insight already in existence in Scottish Widows, we will enable our retail customers to make long-term preparations for retirement, growing customer assets by over £10 billion by 2017. Commercial Banking and Insurance will jointly assist corporate clients in providing pensions for their employees through auto-enrolment and bulk annuities. In the General Insurance business, we aim to have a leading position in the home insurance market for new business through a multi channel, low cost approach with investment in direct channels. Across the whole Insurance business, we will continue to leverage operational and financial synergies within the Group.

As the largest retail and commercial bank in the UK, Helping Britain Prosper remains central to the Group's purpose. We are already the largest lender to first-time buyers, providing one in four mortgages, and have supported over 75,000 business start ups in the first nine months of this year. Over the next three years, we expect to commit over £30 billion of additional net lending to UK personal and commercial customers.

## **BUSINESS TARGETS**

As a result of the strategy update, we are today outlining new business targets.

In order to make the Group more efficient, we expect to exit 2017 with a cost:income ratio of around 45 per cent and are targeting reductions in each year of the plan. We also anticipate a reduction of 9,000 full time roles by the end of 2017 and plan to make further Simplification savings of £1 billion per annum by the end of 2017.

We expect our asset quality ratio to be around 40 basis points through the economic cycle although it is likely to be lower than this for the next three years. We also anticipate a sustainable return on required equity, based on an indicative required equity of 11.5 per cent, of around 13.5-15 per cent by the end of the strategic plan period and through the economic cycle.

## **CONCLUSION**

Our strong foundations, differentiated business model and strategic capabilities combined with the three year strategic plan we have outlined today, leave us well positioned to continue to deliver the best experience for our customers while delivering superior and sustainable returns for our shareholders.

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Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN  
The statement can also be found on the Group's website – [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com)

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# AGENDA



<b>Introduction to the strategic update</b>	<b>Lord Blackwell</b> Chairman
<b>Our strategy and delivering sustainable growth</b>	<b>António Horta-Osório</b> Group Chief Executive
<b>Creating the best customer experience: Digital</b>	<b>Miguel-Ángel Rodríguez-Sola</b> Group Director, Digital
<b>Creating the best customer experience: Retail distribution</b>	<b>Alison Brittain</b> Group Director, Retail
<b>Becoming simpler and more efficient and financial strength</b>	<b>George Culmer</b> Chief Financial Officer
<b>Summary and conclusion</b>	<b>António Horta-Osório</b> Group Chief Executive

# AGENDA



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<b>Our strategy and delivering sustainable growth</b>	<b>António Horta-Osório</b> Group Chief Executive
<b>Creating the best customer experience: Digital</b>	<b>Miguel-Ángel Rodríguez-Sola</b> Group Director, Digital
<b>Creating the best customer experience: Retail distribution</b>	<b>Alison Brittain</b> Group Director, Retail
<b>Becoming simpler and more efficient and financial strength</b>	<b>George Culmer</b> Chief Financial Officer
<b>Summary and conclusion</b>	<b>António Horta-Osório</b> Group Chief Executive

## UNIQUE POSITION IN THE UK MARKET

Our strength lies in our differentiated, multi brand, multi channel business model

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LLOYDS BANK

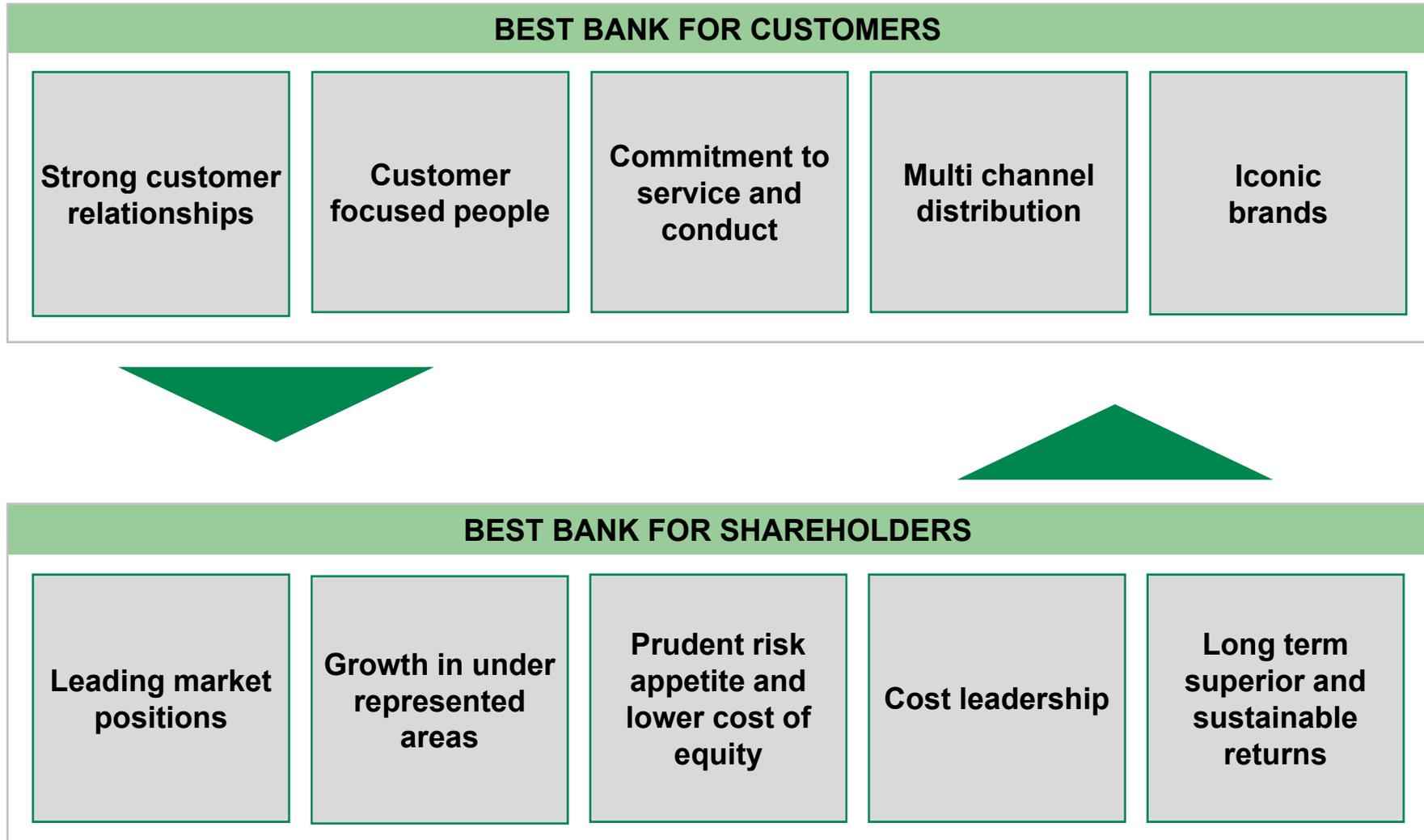


**Low cost, low risk,  
customer focused,  
UK retail and commercial bank**



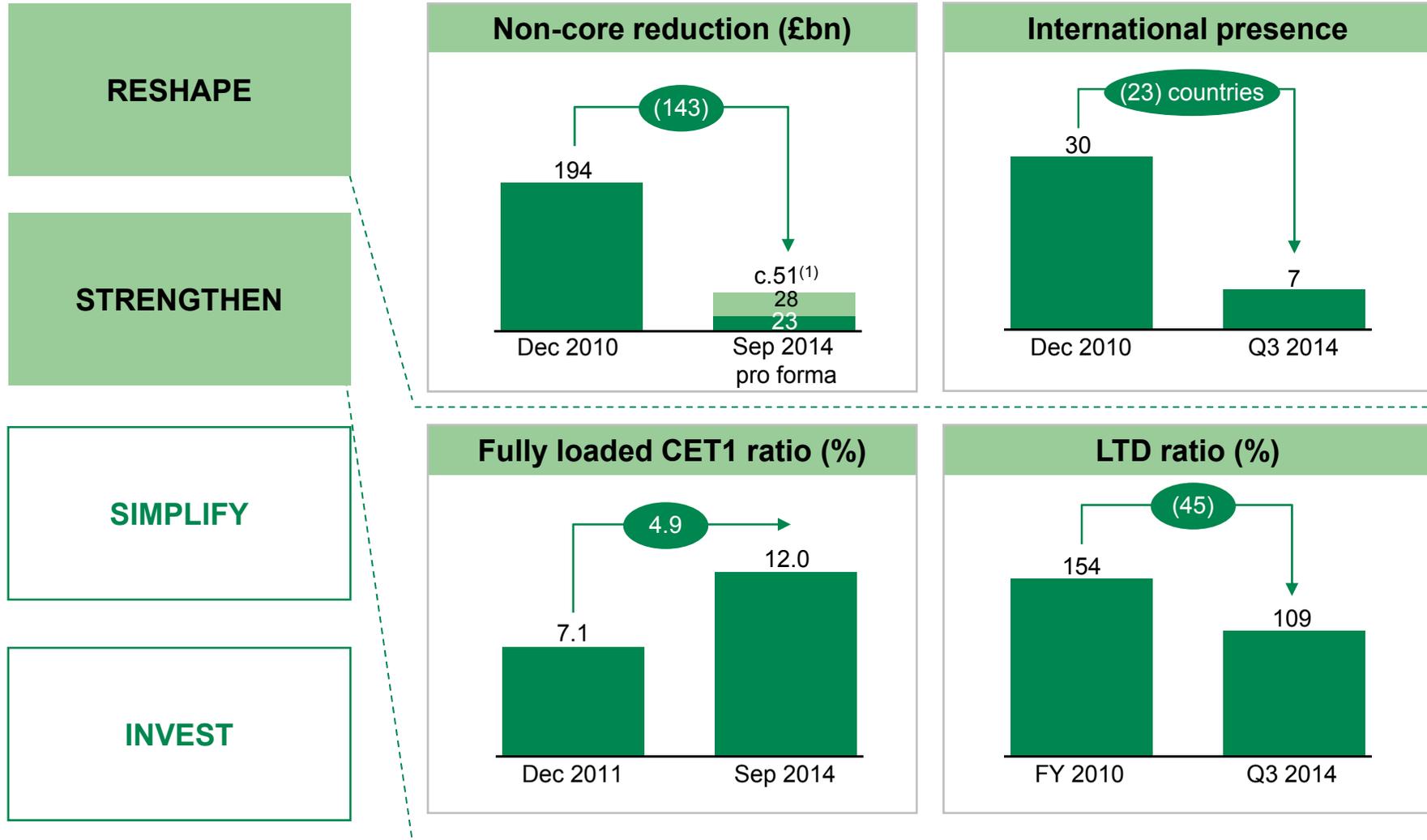
# UNIQUE POSITION IN THE UK MARKET

We remain committed to Helping Britain Prosper by becoming the best bank for customers and shareholders



# ACHIEVEMENTS SINCE 2011

## Reshape and Strengthen – substantially complete



<sup>(1)</sup> Comprises £23bn of run-off portfolio and £28bn of assets previously classed as non-core.

# ACHIEVEMENTS SINCE 2011

Simplify and Invest – accelerated delivery of strategic objectives

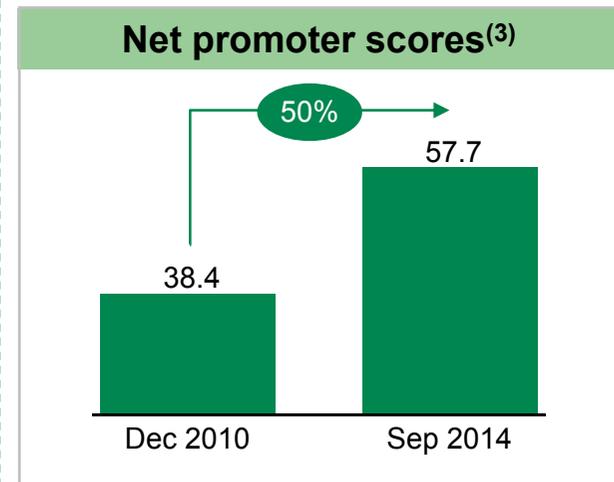
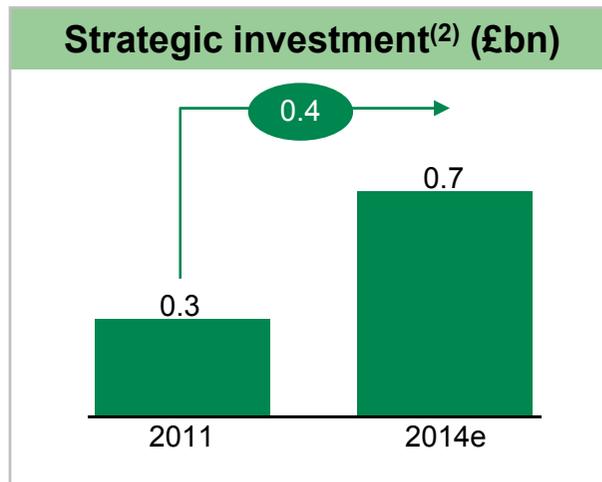
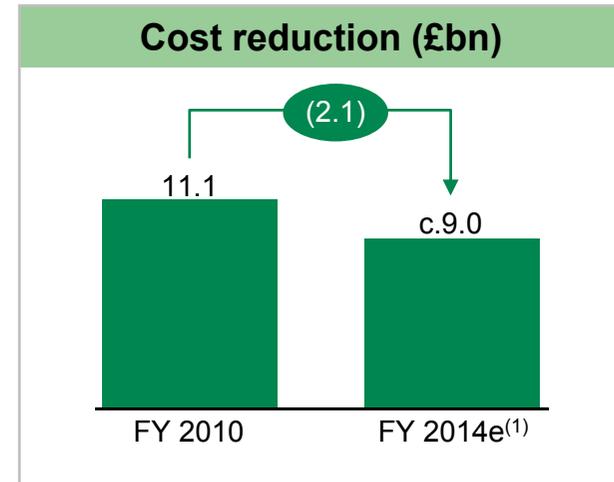
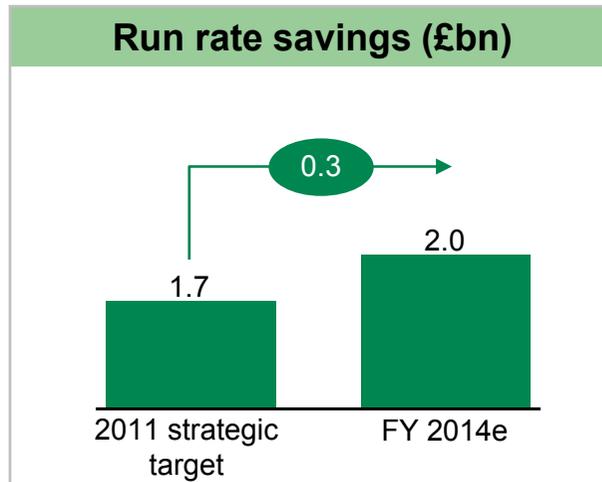


RESHAPE

STRENGTHEN

SIMPLIFY

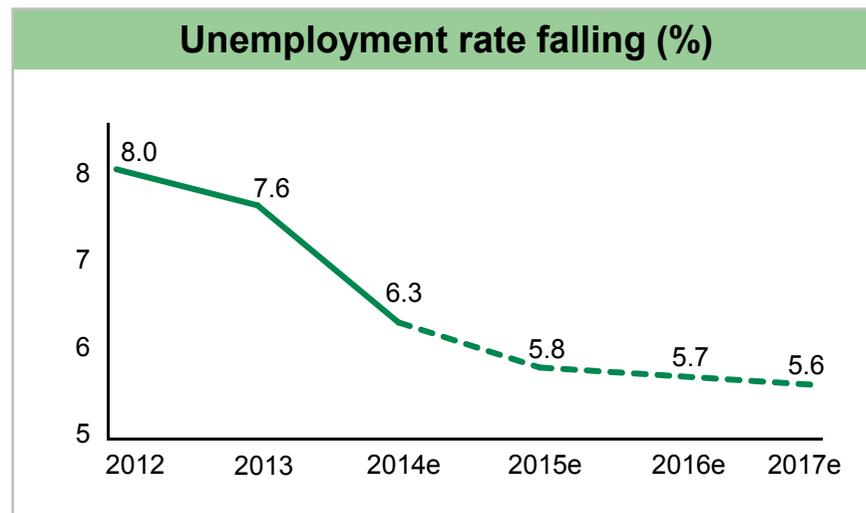
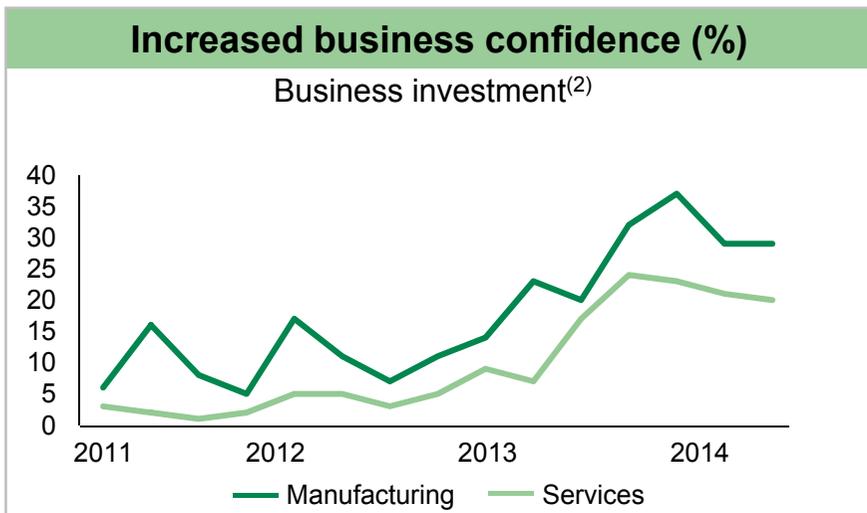
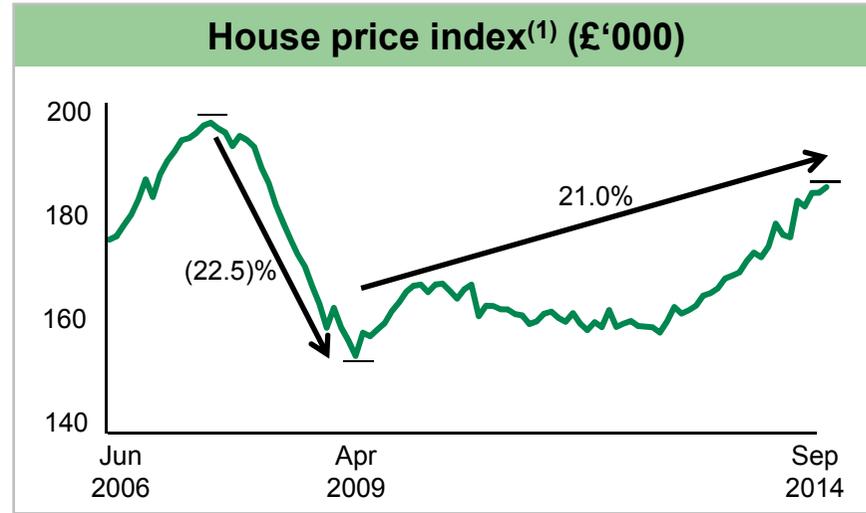
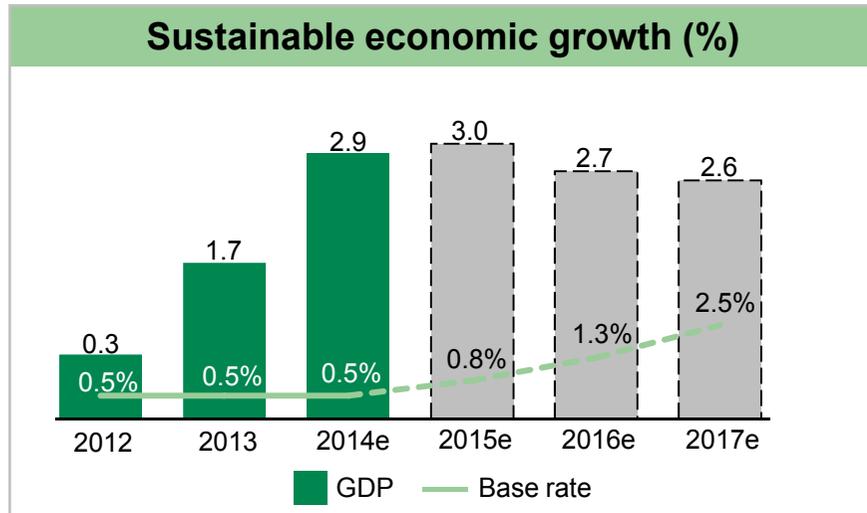
INVEST



<sup>(1)</sup> Excludes TSB running costs. <sup>(2)</sup> Annual cash spend. <sup>(3)</sup> Weighted by brand and channel usage.

# ECONOMIC ENVIRONMENT

Strengthened economic environment although some uncertainty remains



<sup>(1)</sup> Halifax house price index (HPI). <sup>(2)</sup> Net balance of companies that say their investment in plant, machinery and equipment has increased over the past three months, source the British Chamber of Commerce.

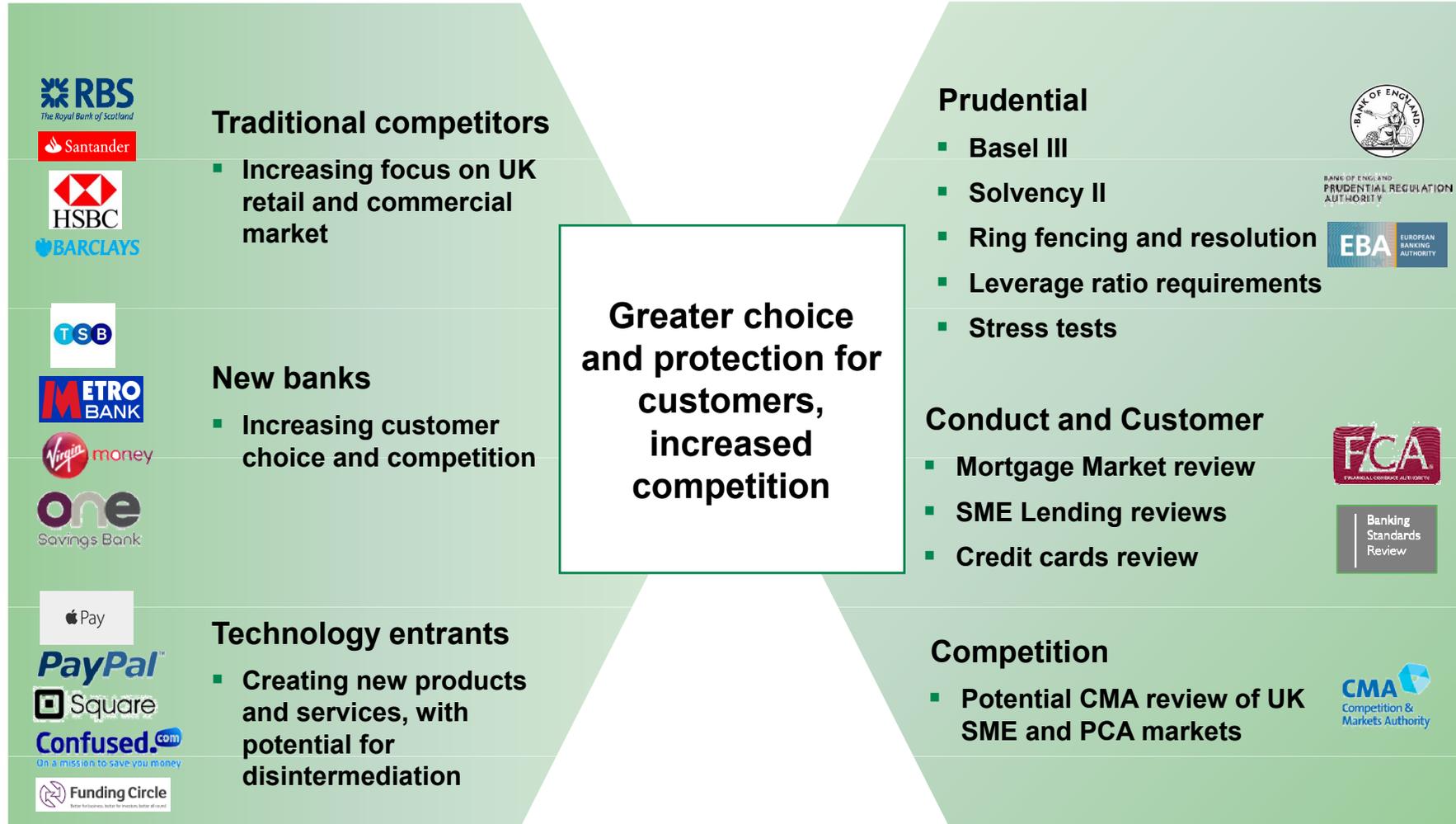
# NEW BANKING ENVIRONMENT

Opportunities and risks from an increasingly complex regulatory and competitive environment



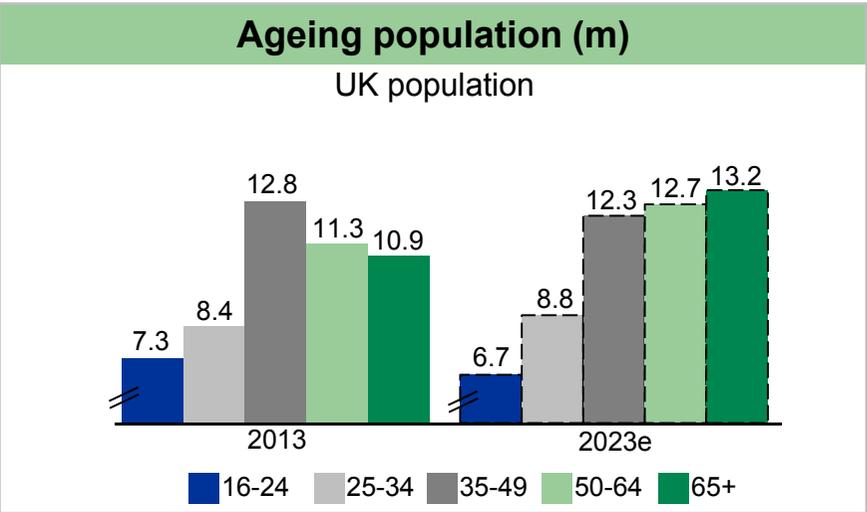
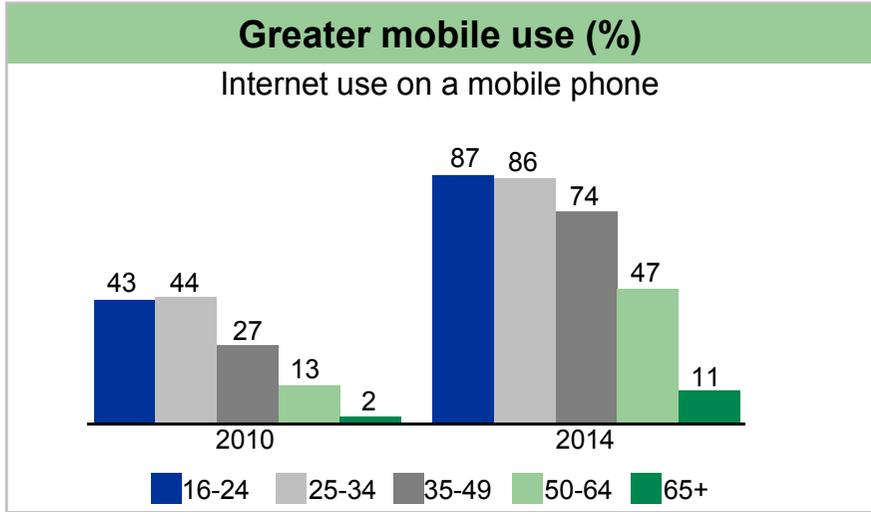
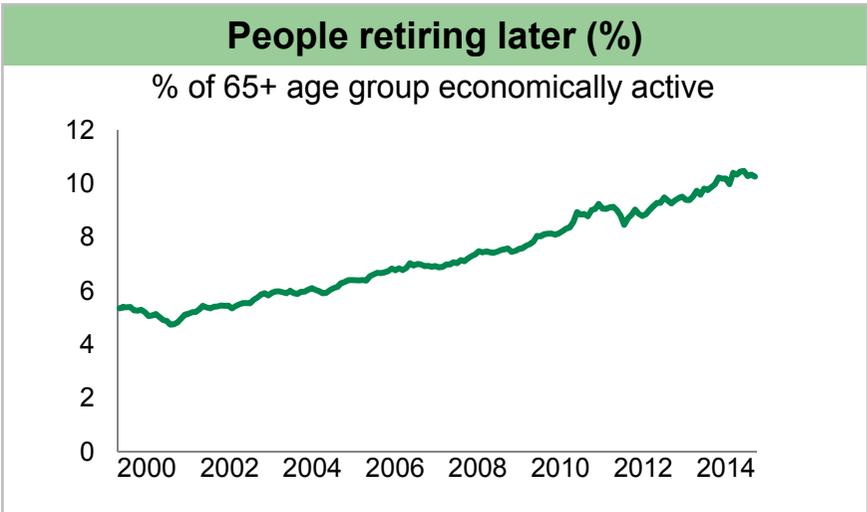
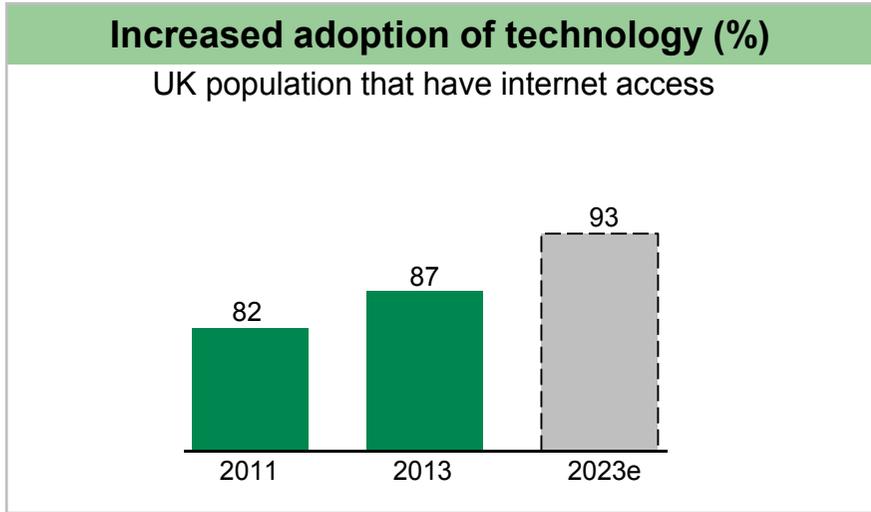
## COMPETITION

## REGULATION



# CHANGING CUSTOMER TRENDS

Substantial change in digital adoption and demographics are changing customers' behaviours and expectations



Source: ONS Q1 2014.

# STRATEGIC FOCUS

Strengthening our unique capabilities to respond to the changing external environment



## OUR BUSINESS MODEL

Low cost, low risk, customer focused, UK retail and commercial bank

## OUR STRATEGIC PRIORITIES

Creating the best customer experience

Becoming simpler and more efficient

Delivering sustainable growth

## OUR AIM

Best bank for customers

Superior and sustainable shareholder returns

## OUR COLLEAGUES

Engaged and customer focused colleagues

# CREATING THE BEST CUSTOMER EXPERIENCE

Responding to changing customer needs to create a better customer experience



	Strategic initiatives	Key outcomes
<b>Multi channel</b> <div style="border: 1px solid black; padding: 2px; margin: 5px 0;">Digital</div> <div style="border: 1px solid black; padding: 2px;">Branch</div>	<ul style="list-style-type: none"> <li>▪ <b>Seamless multi channel distribution across branch, online, mobile and telephony</b> <ul style="list-style-type: none"> <li>– Transforming digital experience</li> <li>– Sustaining extensive customer reach through branches</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Improved customer experience through enhanced digital offering</b> <ul style="list-style-type: none"> <li>– c.50%-70% simple needs met through digital</li> <li>– c.£1bn digital investment</li> </ul> </li> <li>▪ <b>Retaining convenience and reach of the leading branch network (currently c.2,250 branches)</b> <ul style="list-style-type: none"> <li>– Commitment to maintain or grow share of branches</li> <li>– Optimised branch network, net 150 branch reductions</li> </ul> </li> <li>▪ <b>Top three for customer satisfaction</b></li> <li>▪ <b>Lowest reportable complaints ratio within our peer group</b></li> </ul>
<b>Multi brand</b>	<ul style="list-style-type: none"> <li>▪ <b>Tailored product propositions to meet customer needs more effectively</b></li> </ul>	
<b>Service and conduct</b>	<ul style="list-style-type: none"> <li>▪ <b>Commitment to conduct and investment in service</b></li> </ul>	

# BECOMING SIMPLER AND MORE EFFICIENT

Improving customer interactions and maintaining cost leadership by simplifying our business



	Strategic initiatives	Key outcomes
<b>Simplification</b> <ul style="list-style-type: none"> <li>Process redesign and automation</li> <li>Third party spend</li> <li>Organisation design</li> </ul>	<ul style="list-style-type: none"> <li>Re-engineering and simplifying processes to deliver efficiency in a digital world</li> <li>Reducing third party spend</li> <li>Rebalancing roles to reflect the multi channel nature of our business</li> </ul>	<ul style="list-style-type: none"> <li>Increased automation of end to end customer journeys</li> <li>More efficient change capability</li> <li>Resilient systems and processes</li> <li>Role reduction of c.9,000, using natural turnover and redeployment where possible</li> <li>£1bn of additional run rate savings by end 2017</li> <li>Cost:income ratio to exit 2017 at around 45%; targeting reductions in each year</li> </ul>
<b>IT efficiency and resilience</b>	<ul style="list-style-type: none"> <li>Increased investment in IT efficiency and resilience</li> </ul>	

# DELIVERING SUSTAINABLE GROWTH

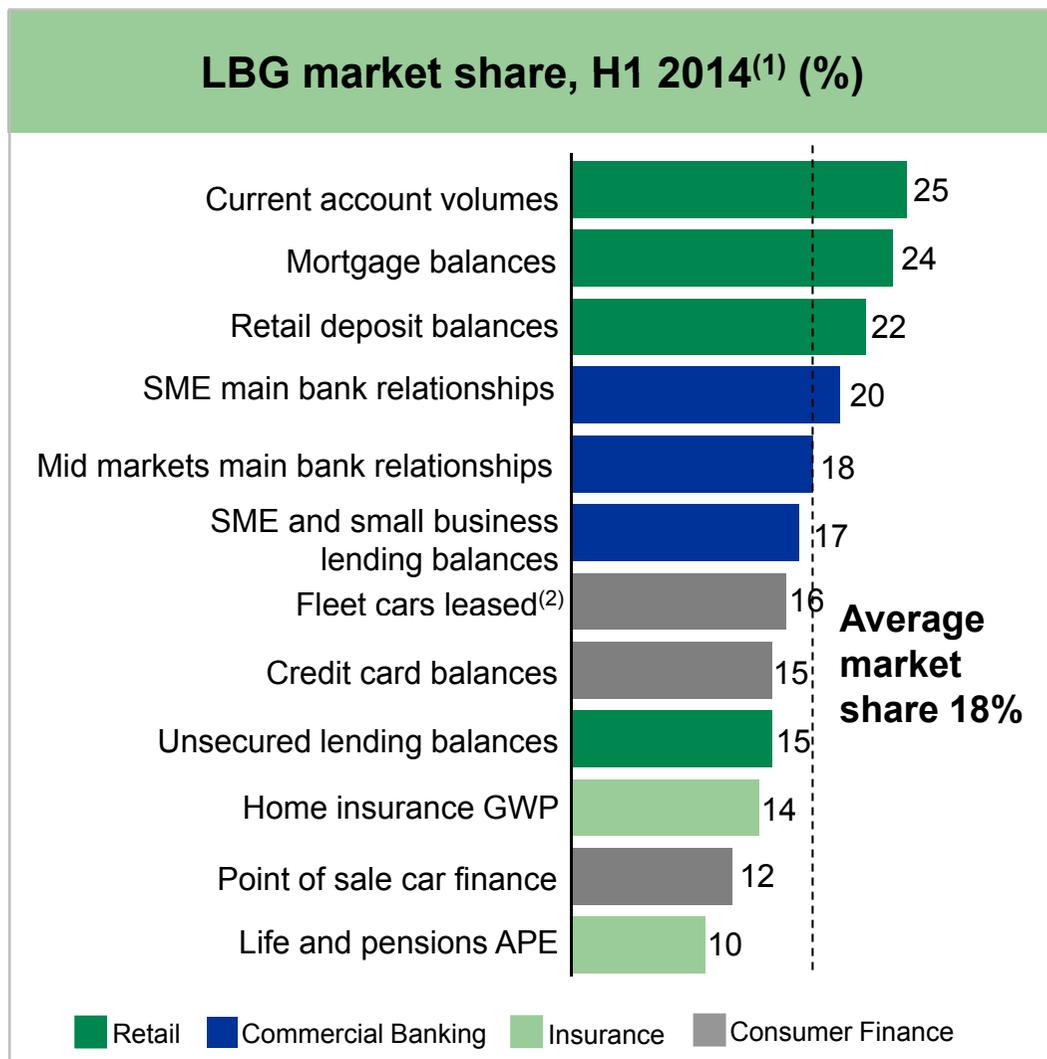
Supporting UK economic growth, investing where we are under represented and can support customers



	Strategic initiatives	Key outcomes
Key retail and commercial business lines	<ul style="list-style-type: none"> <li>▪ Maintain market leading position in key retail business lines</li> <li>▪ Keep gaining market share in SME and Mid Market corporate lending</li> </ul>	<ul style="list-style-type: none"> <li>▪ Growth in line with the market in current accounts and mortgages</li> <li>▪ Growth above market in under represented areas</li> <li>▪ Net lending growth of &gt;£1bn annually in both SME and Mid Markets</li> <li>▪ Consumer Finance to increase UK customer assets by over c.£6bn from 2015 to 2017</li> <li>▪ Supporting our customers in retirement planning, increasing customer assets by over £10bn</li> </ul>
Priority growth areas	<ul style="list-style-type: none"> <li>▪ Leverage Group strengths to capture growth in under represented areas, including                             <ul style="list-style-type: none"> <li>– Consumer lending (cards, asset finance and unsecured lending)</li> <li>– Financial planning and retirement</li> <li>– Business banking</li> </ul> </li> </ul>	

# DELIVERING SUSTAINABLE GROWTH

We have multiple growth opportunities that build on our strengths and capabilities



### Growth opportunity

- **Maintain market leadership in key retail business lines**
  
- **Grow above market in areas where we are under represented**
  
- **Pursue our growth opportunities within our prudent risk appetite**

Source: CACI, BoE, FLA, Charter House, Experian, BBA, ABI. All positions at H1 2014.  
<sup>(1)</sup> Excluding TSB. <sup>(2)</sup> Fleet car leased share as at FY 2013.

# BUSINESS PRIORITIES: DIGITAL TRANSFORMATION

New digital propositions will transform customer interactions through a seamless online, mobile and branch experience



## Building on our digital strength

Since 2011...

- >£750m invested in digital
- c.20% retail digital market share
  - 10.3m active digital customers
  - 5m active mobile customers
  - £1.5tn in digital commercial client transactions
- **No.1 iOS rating** for consumer and SME apps (Oct 2014)

## Seamless multi channel interactions

By 2017...

- c.£1bn further investment in digital
- **Transformed customer experiences and efficiency**
  - Improved digital sales and service capability
  - Digitised end to end customer journeys
- **Extended multi brand multi channel capabilities**
  - Commitment to branch network
  - Increased self service and introduction of remote advice



New consumer digital platform



Upgraded self service machines



Remote advice and video conferencing



New commercial digital platform



New mobile apps

# BUSINESS PRIORITIES: BUILDING ON RETAIL STRENGTH

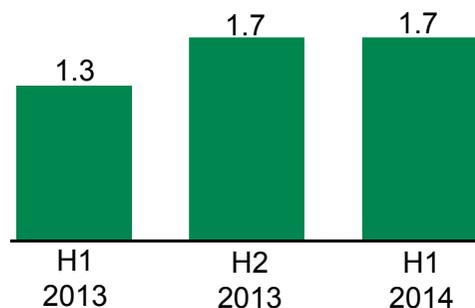
Maintaining leadership positions whilst growing in under represented areas in response to customer needs



## Current performance

Mortgage balances	£301bn ↑
Deposit balances	£284bn ↑
First time buyer support	1 in 4
Net switchers ranking	Halifax #1

## Underlying profits (£bn)



## Priorities

- 1 Strengthen franchise
- 2 Multi brand, segment focus
- 3 Reshape distribution
- 4 Simplify Retail processes and operations

## Initiatives

- Maintain share in core markets
- Customer data and insights
- Regional growth opportunities
- Mass Affluent and Wealth
- Business Banking
- Seamless multi channel
- Digital and mobile innovation
- Redefined role for branches and telephony
- Distribution cost reduction
- Further end to end process simplification and automation

# BUSINESS PRIORITIES: COMMERCIAL BANKING

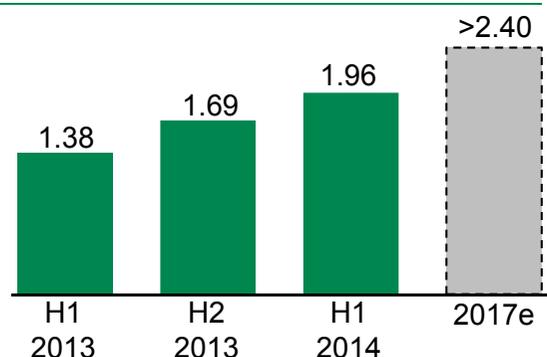
Targeting growth in key segments through relationship model while maintaining capital discipline



## Current performance

SME lending in last 12 months	5%	↑
Commercial transaction banking deposits <sup>(1)</sup>	11%	↑
Funding for lending commitments <sup>(1)</sup>	£11.5bn	
RWA movement YTD 2014	10%	↓

## Return on risk-weighted assets (%)



## Priorities

- 1 Target growth in key segments and geographies
- 2 Create front line capacity through simplification and digital
- 3 Invest in critical infrastructure
- 4 Maintain capital discipline and lending growth

## Initiatives

- SME and Mid Markets growth through sector and relationship model
- Simpler pricing and improved products
- On boarding and servicing
- Client insight and analytics
- Build digital capability
  - Global Transaction Banking
  - Financial Markets
- Global Corporates optimisation
- Targeting RoRWA of >2.40%

<sup>(1)</sup>YTD, September 2014.

# BUSINESS PRIORITIES: INTEGRATED INSURANCE OFFER

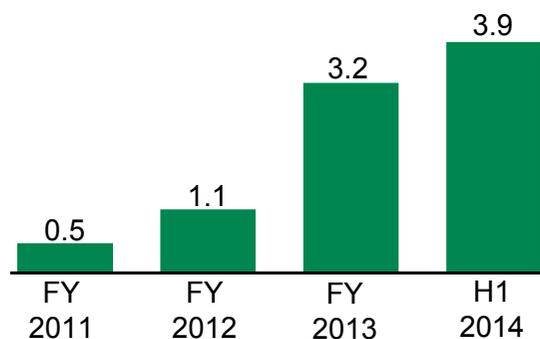
Responding to changing customer needs and regulation by leveraging Group capability



## Current performance

Corporate and individual pension customers	2m
Home insurance customers	4.2m
Corporate pension AUM in H1 2014	7% 
Combined operating ratio	80%

Cumulative dividends (£bn)



## Priorities

- Leveraging unique Group capabilities**
- Focus on retirement**
- Improved digital distribution**

## Initiatives

- Broaden reach through customer franchise
- Leverage operational scale
- Financial synergies and improved customer risk insight
- Online tools and guidance
- Ongoing relationships beyond retirement
- Support corporate customers de-risk and manage their pension schemes
- Enhanced digital reach through internet banking
- Investment in home insurance digital platform
- End to end pensions digitisation

# BUSINESS PRIORITIES: CONSUMER FINANCE

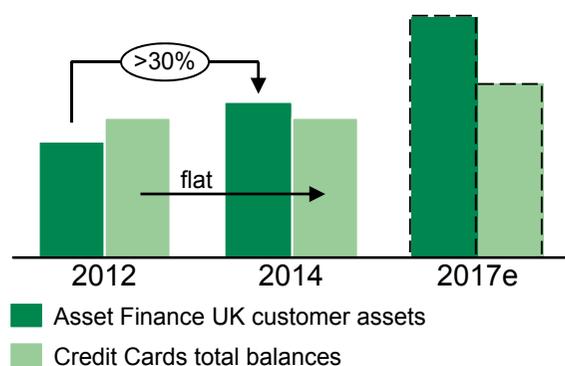
Optimising growth in Asset Finance and Credit Cards through digital capability, Group relationships, and non-franchise opportunities



## Current performance

Point of sale car finance share	12%
Fleet cars leased market share	16%
Credit card balances market share	15%
Credit card sales positions since 2013 <sup>(1)</sup>	#1

## Business performance



## Priorities

1 **Deepen Asset Finance product offering to franchise and non-franchise customers**

2 **Credit cards positioned to meet more customer needs**

## Initiatives

- Strong franchise driven growth through better propositions
- Help dealers and manufacturers increase customer loyalty
- Double digit average annual growth<sup>(2)</sup> of UK customer assets compared to market growth expectation of c.5% p.a.

- Opportunities to grow in franchise and non-franchise
- Providing customers with fair value products
- Average<sup>(2)</sup> annual balances growth of c.6% compared to market growth expectation of c.4% p.a.

<sup>(1)</sup> Source: e-Benchmarking. <sup>(2)</sup> Period: 2014 – 2017.

# CAPABILITIES TO DELIVER

Entering the next phase of our strategy from a position of competitive, operational and financial strength



## Strategic priorities

- **Clear, simple strategy**
- **Multi brand, multi channel model enabling differentiation**
- **Strong management team**
- **Track record of delivery**
- **Change management capability developed through integration and simplification**
- **Engaged and customer focused people**

**Creating the best customer experience**

**Becoming simpler and more efficient**

**Delivering sustainable growth**

# AGENDA



<b>Introduction to the strategic update</b>	<b>Lord Blackwell</b> Chairman
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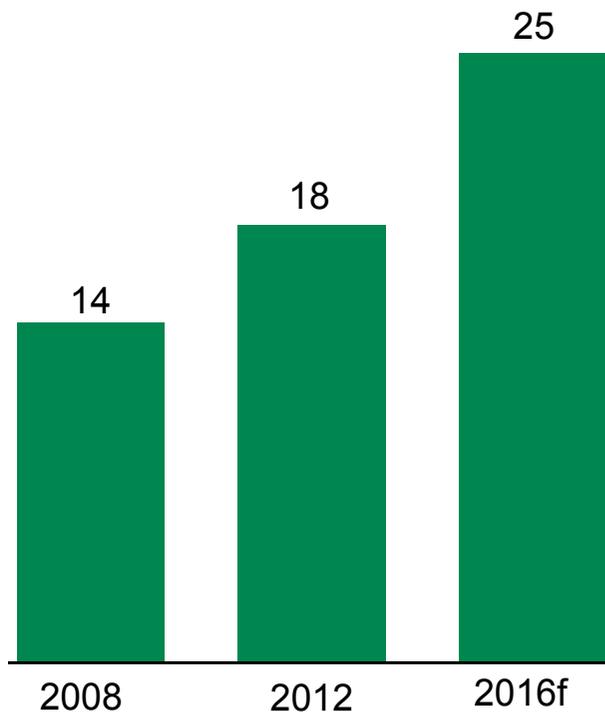
# DIGITAL IS CHANGING THE WORLD OF BANKING

Customers are changing how they want to interact and fulfil their needs



## UK economy is digitising...

UK e-commerce sales as % overall business turnover



## ...as is UK financial services

**16% growth**

digital retail customer banking sales, UK market, 2013 – 2014 (excluding savings)

**14.7 million**

banking apps downloaded, June 2014

**£1.7 billion**

weekly transfers via mobile, June 2014

**62% increase**

mobile e-commerce 2013 – 2014

**73% CAGR**

growth in mobile adoption 2012 – 2014

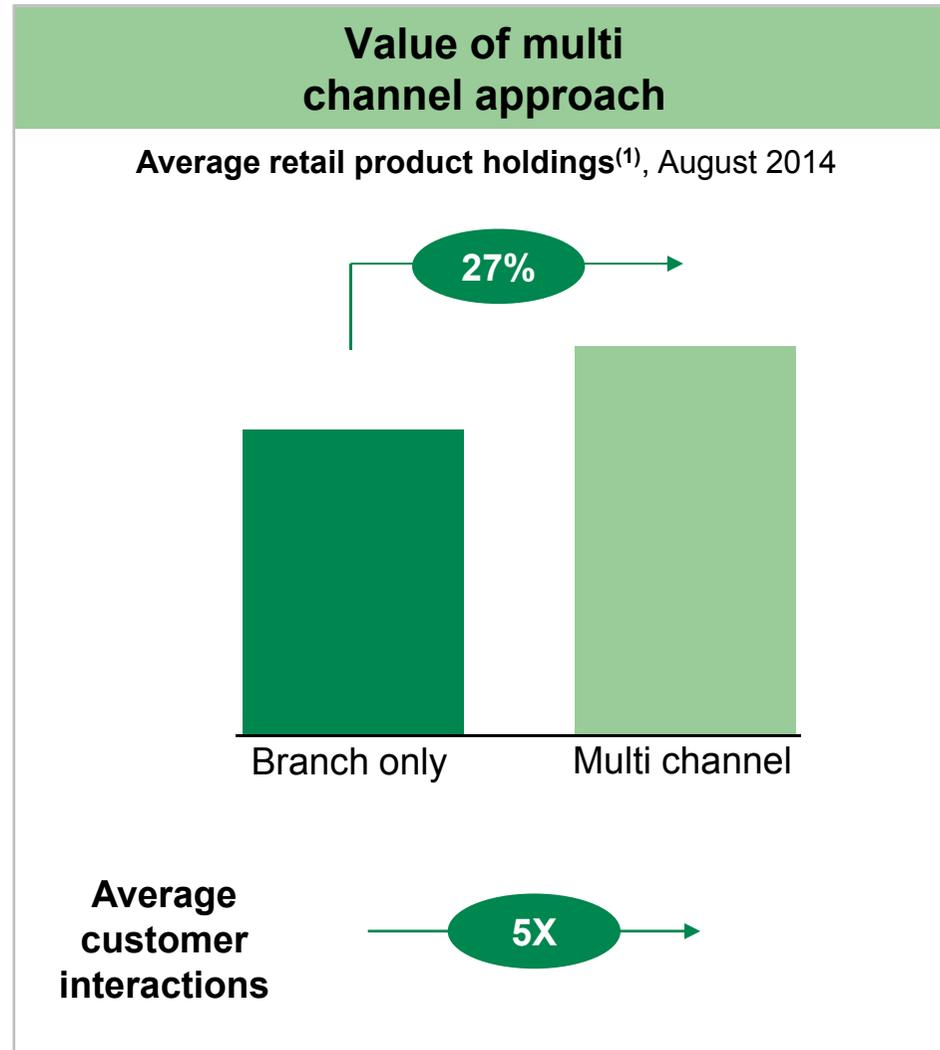
# IMPORTANCE OF MULTI CHANNEL

Digital in a multi channel context allows us to better meet customer needs and create value for the bank



### Digital as part of a multi channel approach

- **More choice and convenience for customers and clients**
- **Greater value to the bank:**
  - More customer needs met
  - Simpler products
  - Reduced acquisition and servicing costs
  - Increased engagement and loyalty
- **Faster, cheaper innovation through shared investment and development**



<sup>(1)</sup> Average customer holdings, interactions by channel, August 2014 consumer data annualised, indexed to branch-only.

# STRONG FOUNDATION AND PERFORMANCE

Significant digital investment over three years has built resilient, secure digital infrastructure and compelling digital propositions



Digital investment and focus	Substantial digital presence
<ul style="list-style-type: none"><li>▪ <b>&gt;£750m</b> digital investment in last three years</li><li>▪ Focus:<ul style="list-style-type: none"><li>– Retail and Commercial <b>platforms</b></li><li>– New <b>propositions</b></li><li>– <b>Security</b> and <b>Resilience</b></li></ul></li></ul>	<p><b>c.20%</b> retail digital market share, above the bank wide average market share of 18%</p> <p><b>10.3 million</b> active digital customers</p> <p><b>5 million</b> active mobile customers</p> <p><b>c.1.2 billion secure-site logons</b> in last 12 months</p> <p><b>£1.5 trillion</b> digital commercial client transactions per year</p> <p><b>#1</b> iOS rating for consumer &amp; SME apps (Oct 2014)</p>

# PREPARED FOR THE FUTURE

We have responded to how our customers want to bank with us



## We are now meeting many digital customer needs in three ways

### New business needs met online

- **40%** of simple customer needs
- **49%** of general insurance fulfilment

### Deepening relationships

- **40%** of direct mortgage product transfers
- **90%** of all commercial payments

### Servicing

- **85%** customer account servicing
- **85%** international payments

## Multi channel approach driving customer and efficiency benefits

### Customer satisfaction across channels

- **All branches** with access to single digital platform for servicing
- **50%** reduction in customer branch time for basic needs (e.g. travel money)

### Greater efficiency

- **One** digital front-end platform replacing three separate channel platforms
- **14.4 million** accounts have chosen to go paperless

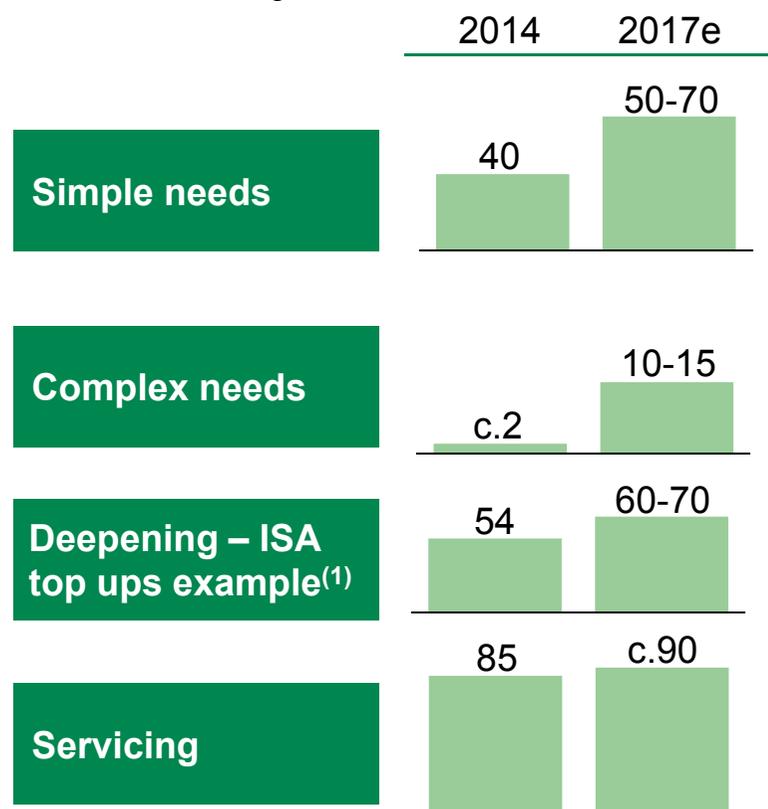
# DIGITAL BANKING EVOLUTION

Digitisation is expected to accelerate with opportunities to provide better service, greater efficiency and growth



## More needs to be met through digital

Retail customers, digital %



## Future opportunities to capture

### Better service

- Meeting complex needs digitally
- Seamless, multi channel experiences

### Greater efficiency

- Extending processes automation
- Consolidating IT systems

### Growth where LBG under represented

- Digital opportunity for Insurance / Cards
- Enhancing Commercial digital offer

<sup>(1)</sup> ISA top ups: digital as % of total ISA top-up value.

# DIGITAL TRANSFORMATION PRIORITIES

Three digital priorities to continue to embrace the digital future through c.£1bn investment over three years



1

**Deliver customer-centric digital propositions**

- Simple, **mobile first propositions and innovative digital services**
- Transformation of **customer experience**
- **Opportunity for growth** where we are under represented

2

**Enhance our digital capabilities and delivery**

- Consistent **multi channel** servicing
- Advanced **insight** capability and personalisation
- Digital technology to enable greater **efficiency**

3

**Transform customer journeys end to end**

- Better service through **improved customer journeys**
- **Lower risk and more efficient operating model**
- **Seamless, multi channel** servicing

# DIGITAL PRIORITIES

## 1. Delivering customer-centric digital propositions



### Digital

#### Retail customers



#### Example outcomes

- Complete **online servicing journeys**
- **Meet complex needs** digitally (e.g. mortgages) providing customers with support on their key financial decisions
- **Improve customer experience** with enhanced mobile focus (e.g. execution only insurance protection)
- Introduce **digital-led propositions** in asset finance

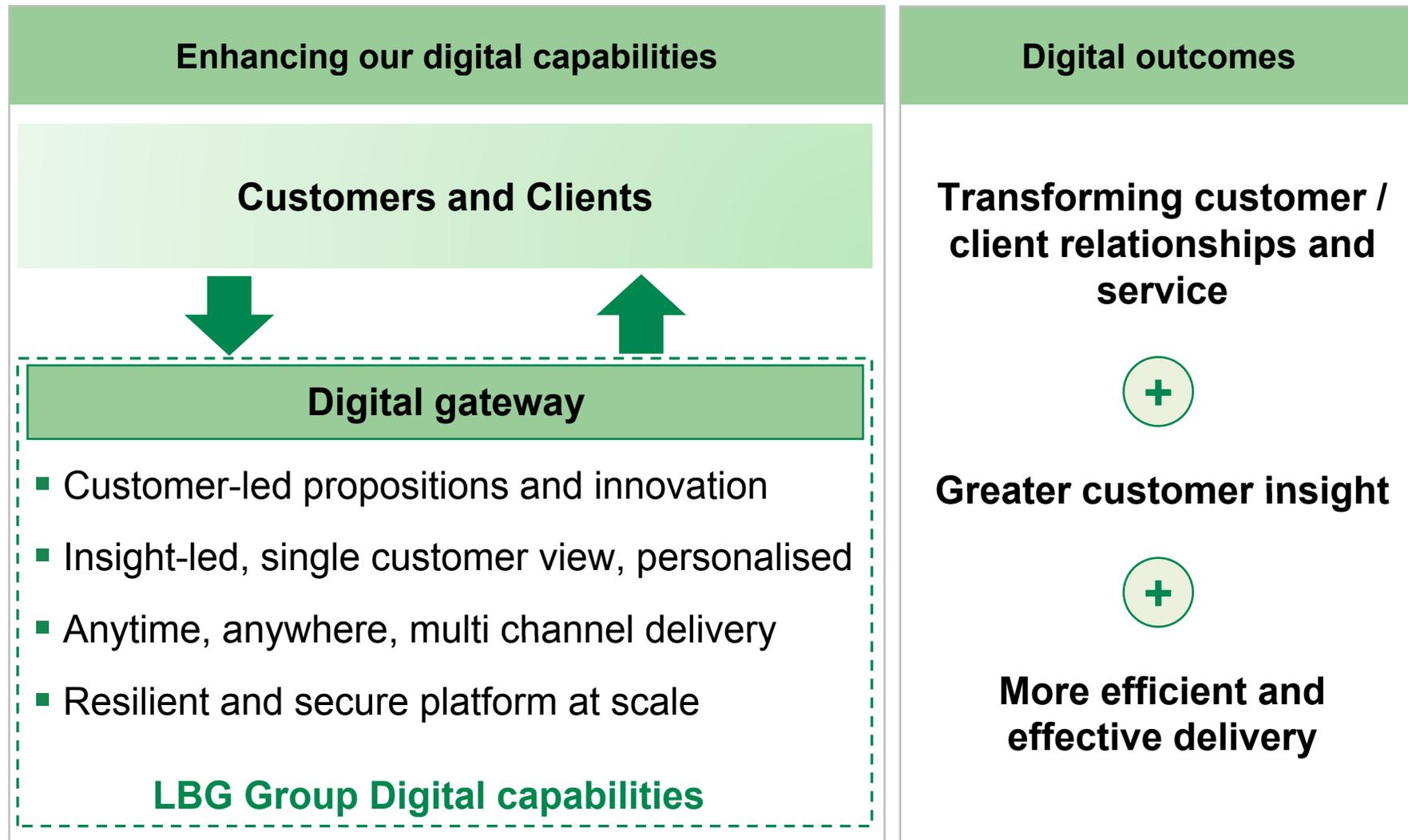
#### Commercial clients



- Simple digital platform – **single digital ‘front door’**
- Provide full suite of **digitally enabled propositions** and services (e.g. cash management, payments, trade)
- Personalised yet **consistent experience across channels** (e.g. relationship managers digitally enabled)

# DIGITAL PRIORITIES

## 2. Enhancing our digital capabilities and delivery



# DIGITAL PRIORITIES

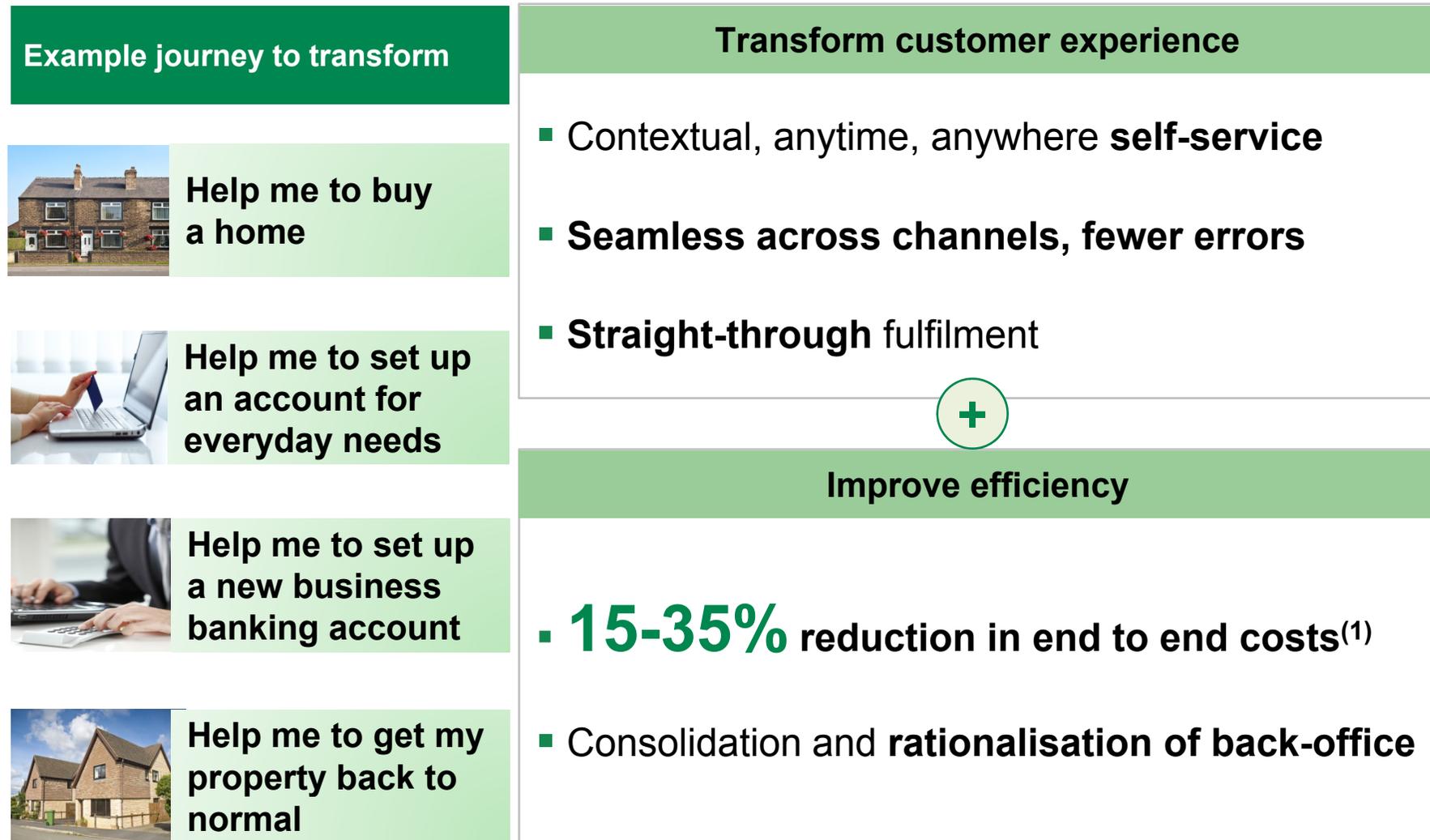
## 3. Transforming customer journeys end to end to improve customer experience, attract new customers and achieve cost efficiencies



Example journey to transform	From	Example of potential outcomes
 <p><b>Help me to buy a home</b></p>	<ul style="list-style-type: none"> <li>▪ 25 days to offer</li> <li>▪ Limited digital mortgage customer uptake</li> <li>▪ No mobile functionality</li> </ul>	<ul style="list-style-type: none"> <li>▪ Same week offer capability</li> <li>▪ 75% use to either apply, upload, track or manage</li> <li>▪ End to end mobile service</li> </ul>
 <p><b>Help me to set up an account for everyday needs</b></p>	<ul style="list-style-type: none"> <li>▪ Branch:&gt;100 questions</li> <li>▪ Manual intervention in 30% cases</li> <li>▪ Paper-communication</li> </ul>	<ul style="list-style-type: none"> <li>▪ STP digital process in branch</li> <li>▪ &lt;10% cases need intervention</li> <li>▪ Digital updates</li> </ul>
 <p><b>Help me to set up a new business banking account</b></p>	<ul style="list-style-type: none"> <li>▪ 6 weeks for simple account</li> <li>▪ Multiple paper forms</li> </ul>	<ul style="list-style-type: none"> <li>▪ Account pre-approved / completed in one week</li> <li>▪ One time digital capture</li> </ul>
 <p><b>Help me to get my property back to normal</b></p>	<ul style="list-style-type: none"> <li>▪ 2-5 touch points to claim</li> <li>▪ No online servicing capability</li> </ul>	<ul style="list-style-type: none"> <li>▪ 20-40% simple claims STP</li> <li>▪ 50-70% served online</li> </ul>

# DIGITAL PRIORITIES

3. Transforming customer journeys end to end to improve customer experience, attract new customers and achieve cost efficiencies



<sup>(1)</sup> For the top ten journeys to be digitised over the next three years.

# AGENDA



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# CUSTOMER STRATEGY

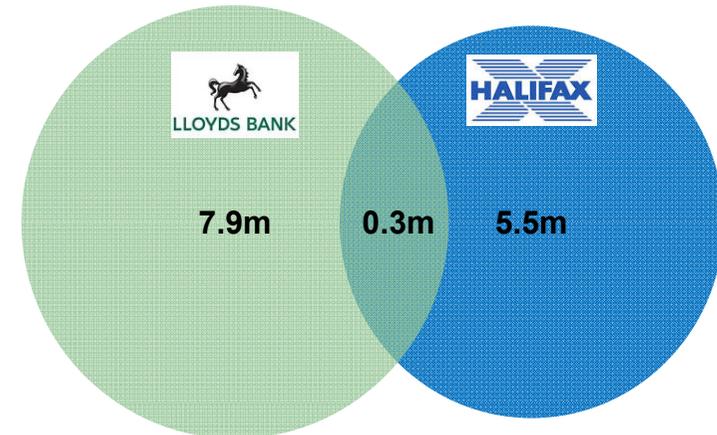
Our customer strategy is multi brand and multi channel



	 LLOYDS BANK BANK OF SCOTLAND	 HALIFAX
<b>Clear positioning</b>	<b>Service focused relationship brands</b>	Value focused high street challenger Leader in mortgages and savings
<b>Distinct proposition</b>	<ul style="list-style-type: none"> <li>Retail with specific segment focus (mass affluent, wealth and small business)</li> <li>Full service proposition including current account lifestyle benefits</li> </ul>	<ul style="list-style-type: none"> <li>Retail focus</li> <li>Simple, straightforward features and rewards</li> </ul>
<b>Multi channel distribution</b>	<ul style="list-style-type: none"> <li>1,296 Lloyds brand branches</li> <li>293 BoS brand branches</li> <li>Digital</li> <li>Telephony</li> </ul>	<ul style="list-style-type: none"> <li>663 branches</li> <li>Intermediary mortgages</li> <li>Digital</li> <li>Telephony</li> </ul>

## Multi brand maximises Retail's reach...

### Active current account customers

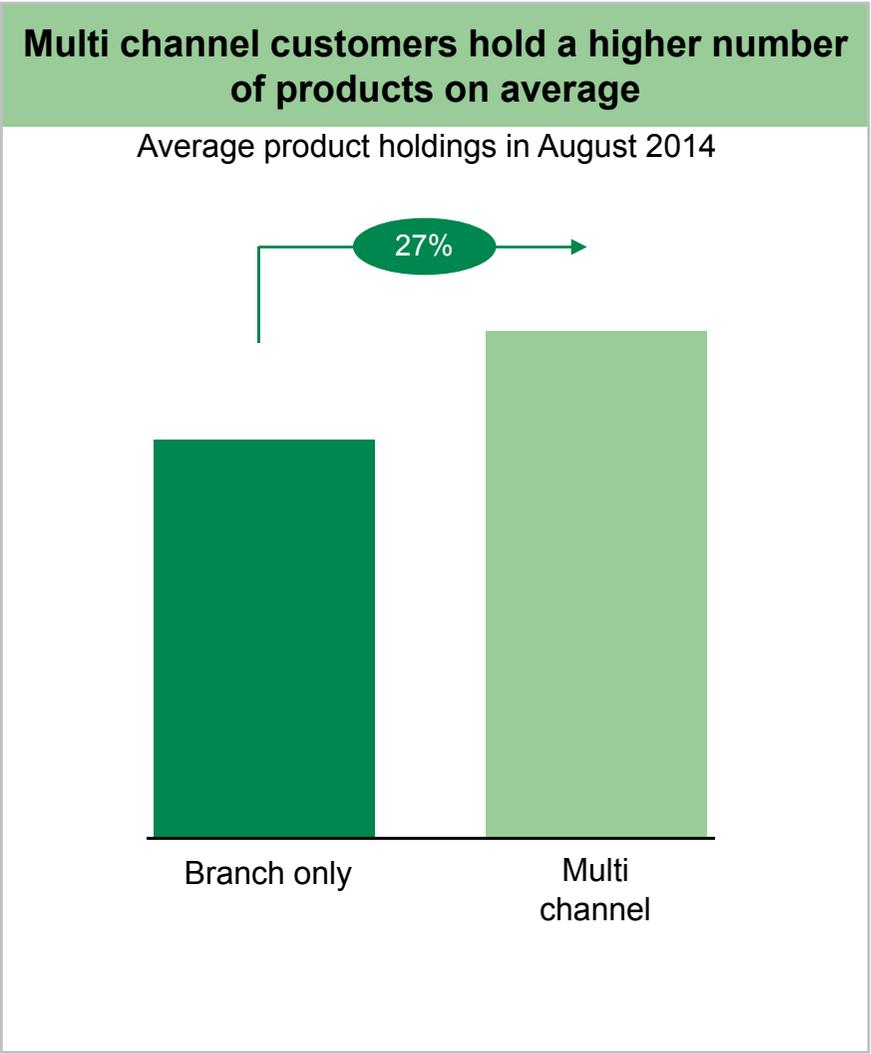
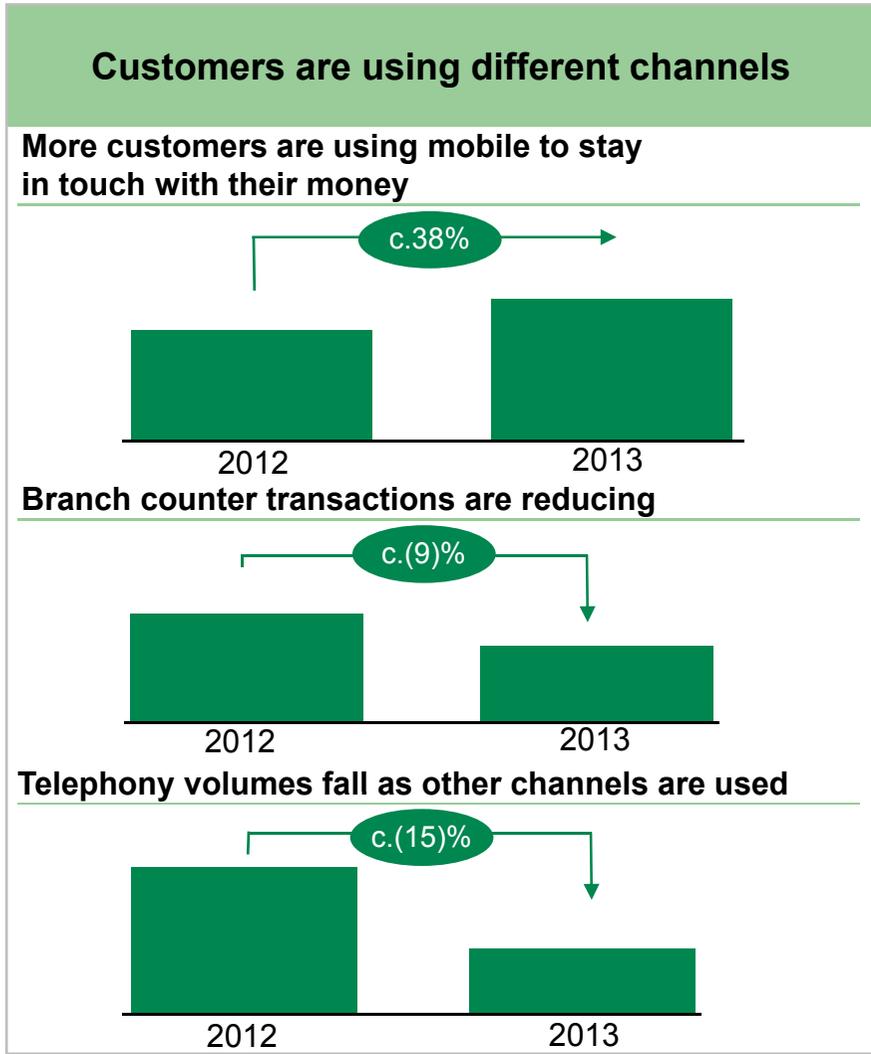


## ...and supports flexibility for the Group

- Multi brand, including **Birmingham Midshires** and **Scottish Widows Bank**, offers pricing flexibility
- Common operations across brands minimises cost duplication

# MULTI CHANNEL CUSTOMERS

Customers are increasingly adopting a multi channel approach and multi channel customers create more value for the Group



Source: LBG analysis.

# EVOLVING ROLE OF TELEPHONY

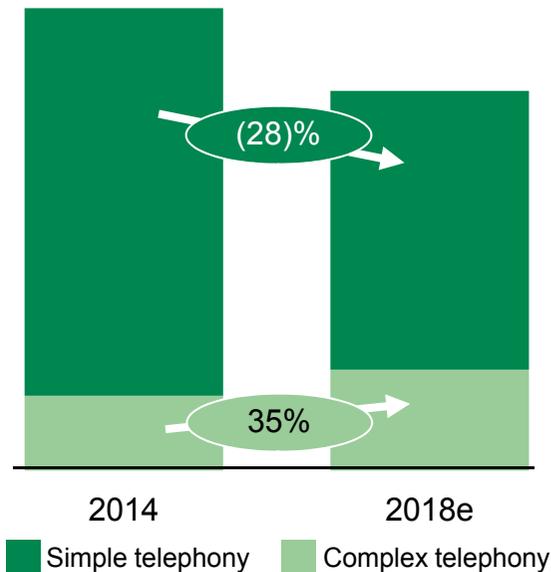
Telephony's core purpose will migrate from transaction enquiries to complex queries and remote advice, enabling increased branch productivity



## The role of telephony will change

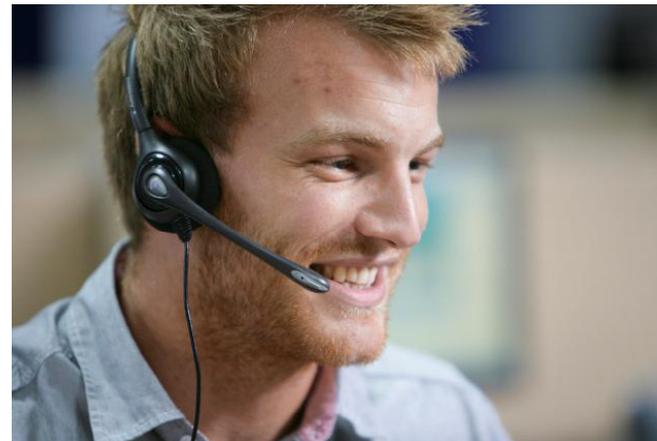
- As customers continue to self serve and efficiencies are driven, the number of simple telephony transactions decreases

### Telephony FTE resourcing



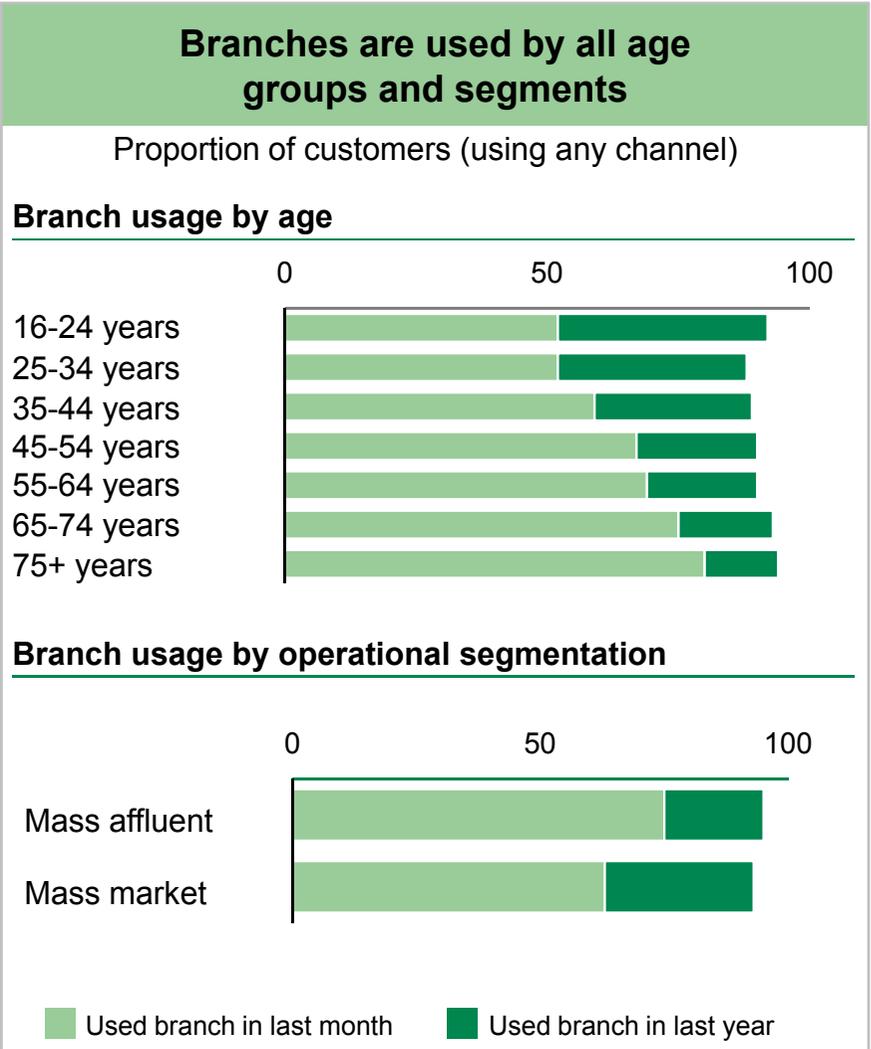
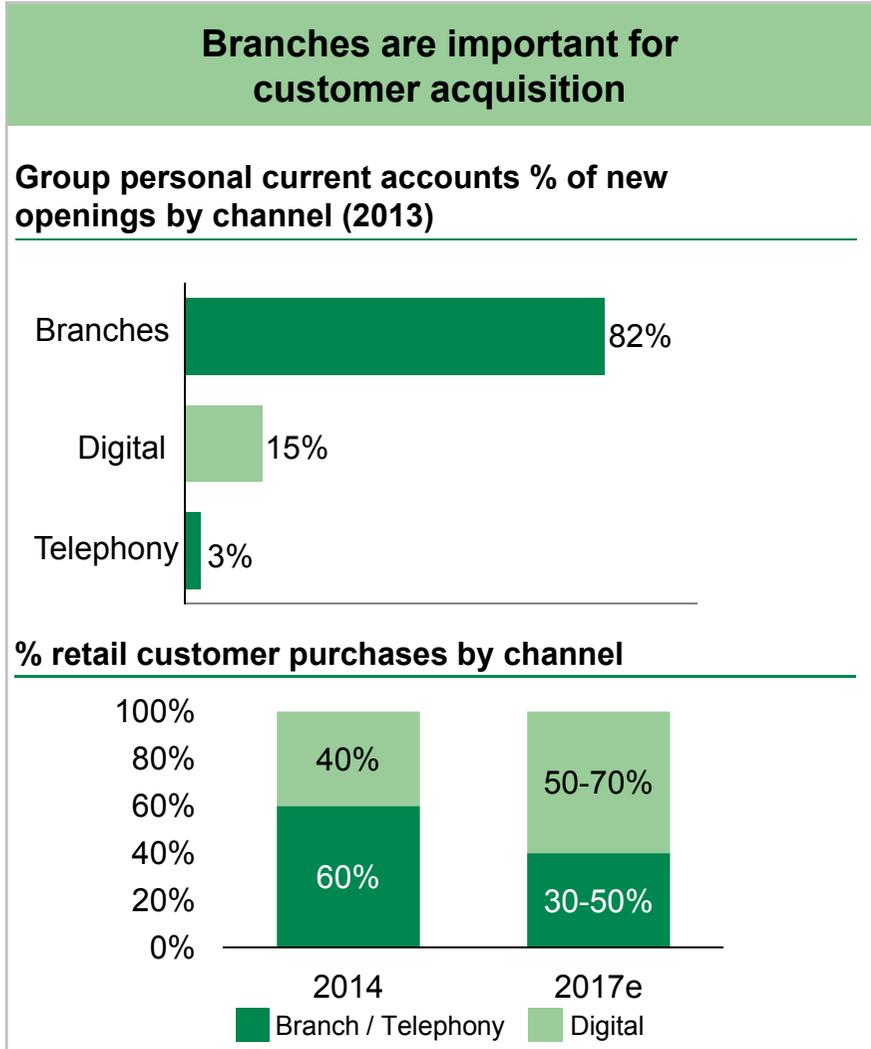
## Remote advice improves customer convenience and reduces risk

- Customers will be able to **access complex advice in branches** via remote advisory kit
- Provide **convenient access** to advice in all locations and become **centres of excellence** ensuring more consistency



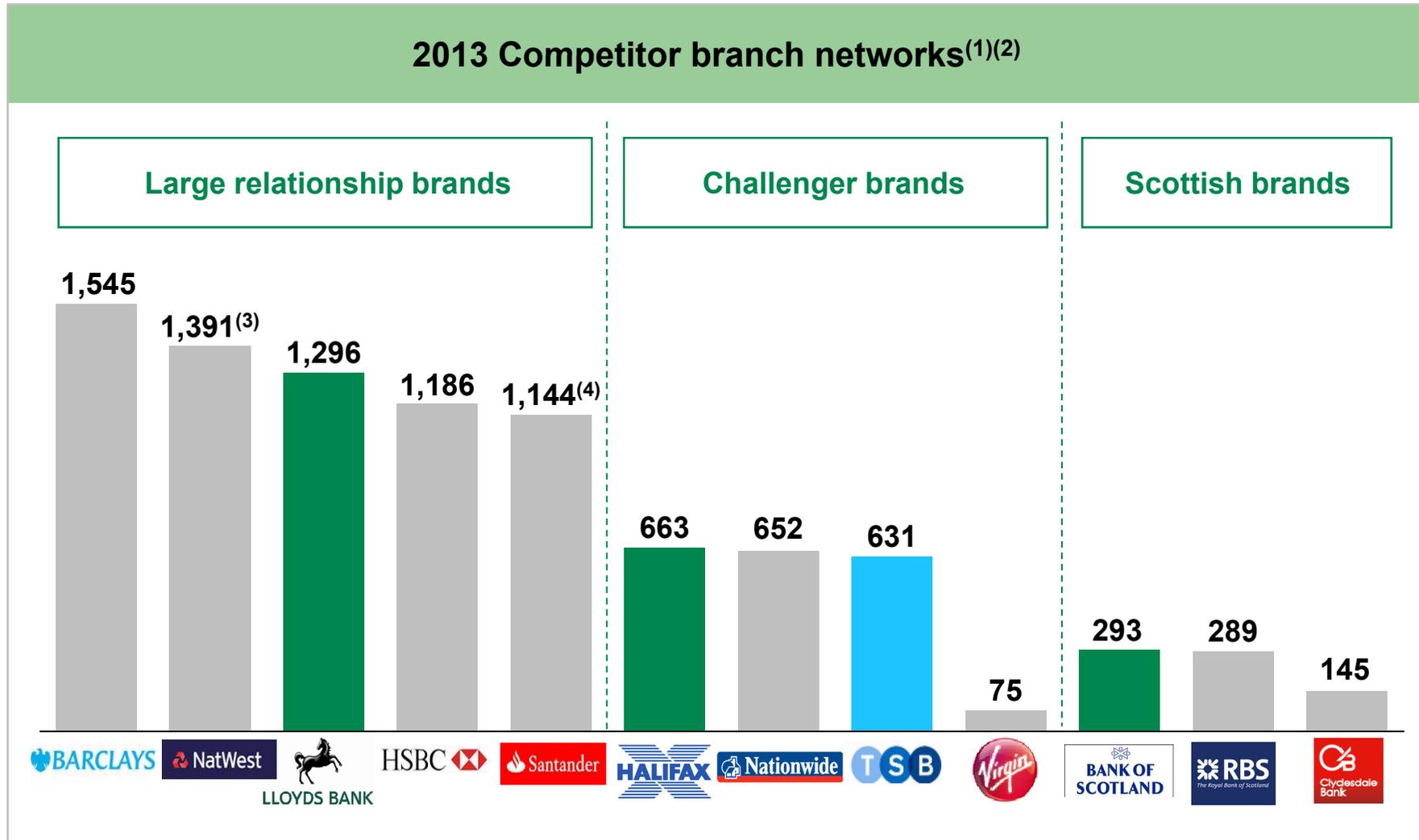
# BRANCH ROLE FOR CUSTOMERS

Convenient branches continue to have an important role for acquiring new and serving existing customers



# BRANCH PRESENCE

Our multi brand strategy means we have the largest branch reach in the UK, even after the TSB divestment



<sup>(1)</sup> Data only available for 2013, historical development assumed to be in line with average of named banks. <sup>(2)</sup> Source: BBA banking statistics; CACI. <sup>(3)</sup> NatWest branded branches only. <sup>(4)</sup> Santander includes Agencies.

# DEVELOPING OUR MODERN EFFICIENT BRANCH NETWORK

Retaining the convenience and reach of a large branch network while realising significant efficiencies



## Commitment to maintain or grow share of branches with enhanced customer experience

- Customers value the convenience and reach of our multi brand branch network
- New modern branch formats with key location investment
- Branches will become champions for our multi channel strategy, focusing on complex products and helping customers with digital education
- Branch footprint to be optimised:
  - 150 net branch consolidations will focus on urban overlaps
  - Branch openings will focus on London and South East as well as Halifax in Scotland
- Maintain Halifax branch coverage; >90% of Lloyds and BOS customers to continue to have a useable branch within five miles

## Increasing the efficiency of the branch network

- Property costs are a small proportion of overall network costs
- Focus will therefore be on implementing a new operating model to increase productivity:
  - Deploying additional self service capability, with greater functionality
  - Retraining colleagues to meet a wider range of customer needs
  - Deploying remote adviser capability to increase adviser utilisation and availability
  - Maximising the potential of our industry leading multi channel platform
- Over half of current counter transactions will be completed via self service or digital

# DEVELOPING OUR MODERN EFFICIENT BRANCH NETWORK

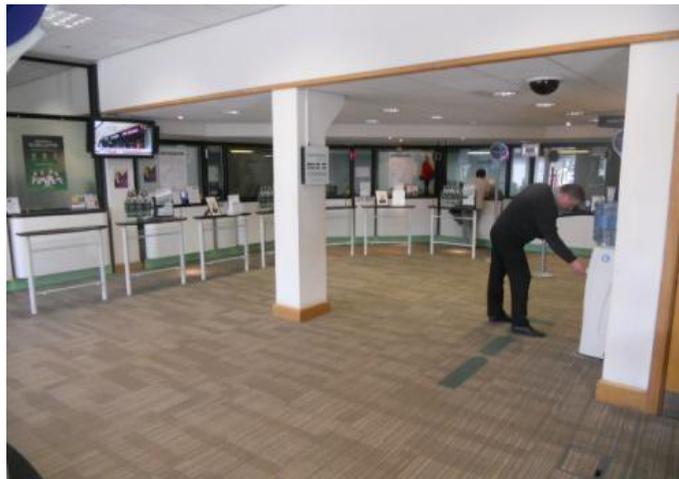
Retaining the convenience and reach of a large branch network while realising significant efficiencies



Consolidating and upgrading dated branches...



...to a modernised, brand aligned look



Improving the branch layout...



...to enable improved customer interaction



# CREATING THE BEST CUSTOMER EXPERIENCE

Our multi brand, multi channel strategy will continue to be focused on the needs of our customers and provide a platform for growth



## Because customers....

## We will...

...value different things from different brands

...keep our multi brand strategy

...demand seamless and integrated experiences across channels

...invest in digital for sales and service, and build our industry leading integrated multi channel platform

...continue to value the convenience of branches for advice and service

...increase our market share of branches although branch numbers will fall  
...multi skill our colleagues whilst reducing the number of people as activity migrates

...want the service model to be defined by their needs

...guide, educate and follow customers rather than restrict availability

...value our multi brand, multi channel approach

...continue to be well placed to retain existing customers and acquire new customers

# AGENDA

LLOYDS  
BANKING  
GROUP



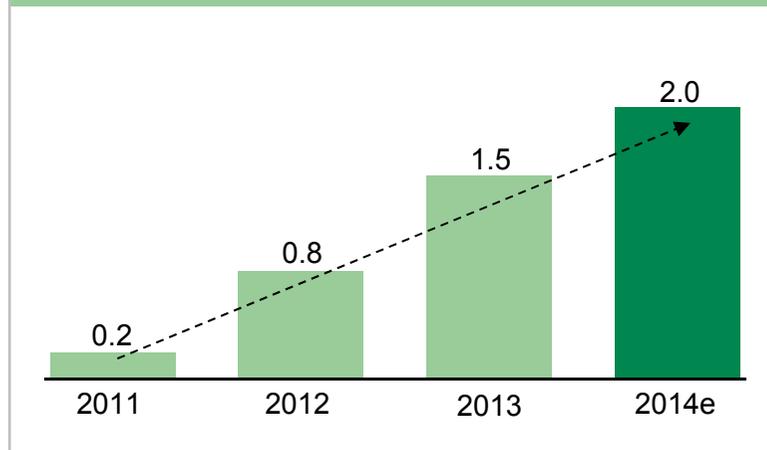
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# BECOMING SIMPLER AND MORE EFFICIENT

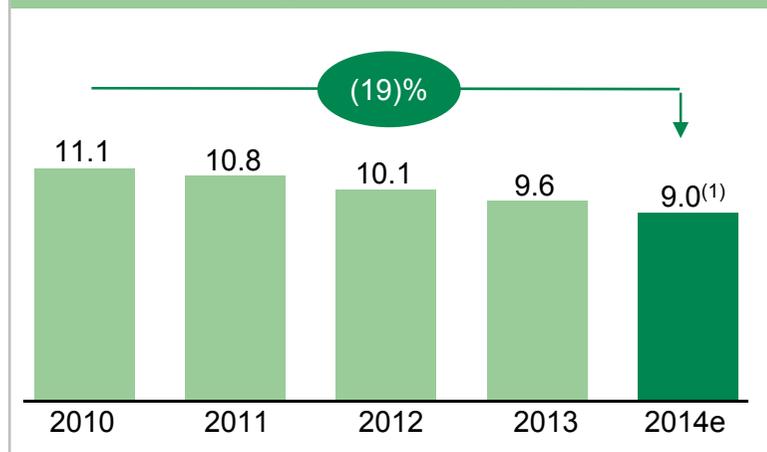
Strong track record of delivery: cost leadership achieved while improving customer experience



## Simplification run rate savings (£bn)



## Group cost base (£bn)



## Simplification 2011 – 2014

### Business benefits

- Run rate savings ahead of original target
- Roles reduced by c.15,000
- Suppliers reduced by over 50%

### Customer benefit

- Single service platform
- Net promoter score up over 50%<sup>(2)</sup>
- Over 50% reduction in complaints<sup>(3)</sup>

### Colleague impact

- Employee engagement index up 27%
- Fewer manual tasks
- Reduced colleague layers from 10 to 7

<sup>(1)</sup> Excluding TSB running costs. <sup>(2)</sup> From FY 2010 to Q3 2014. <sup>(3)</sup> Excludes PPI.

# BECOMING SIMPLER AND MORE EFFICIENT

Next phase of simplification expected to deliver additional £1bn of annual savings, greater value for customers and improved competitiveness



	Next phase 2015 – 2017	Indicative run rate savings
<b>Process redesign and automation</b>	<ul style="list-style-type: none"><li>▪ Digital transformation of end to end journeys</li><li>▪ Further process simplification and automation</li></ul>	£0.4bn
<b>Sourcing</b>	<ul style="list-style-type: none"><li>▪ Increased use of innovative solutions, e.g. e-Auctions</li><li>▪ Optimisation of supply chains</li></ul>	£0.3bn
<b>Organisation</b>	<ul style="list-style-type: none"><li>▪ Efficiencies in head office, distribution and support functions</li><li>▪ More agile ways of working</li><li>▪ c.9,000 role reductions</li></ul>	£0.3bn
		<b>£1bn</b>

## INVESTING FOR LONG TERM SUSTAINABILITY

Investment in customer focused capability and achieving further cost and operational efficiencies

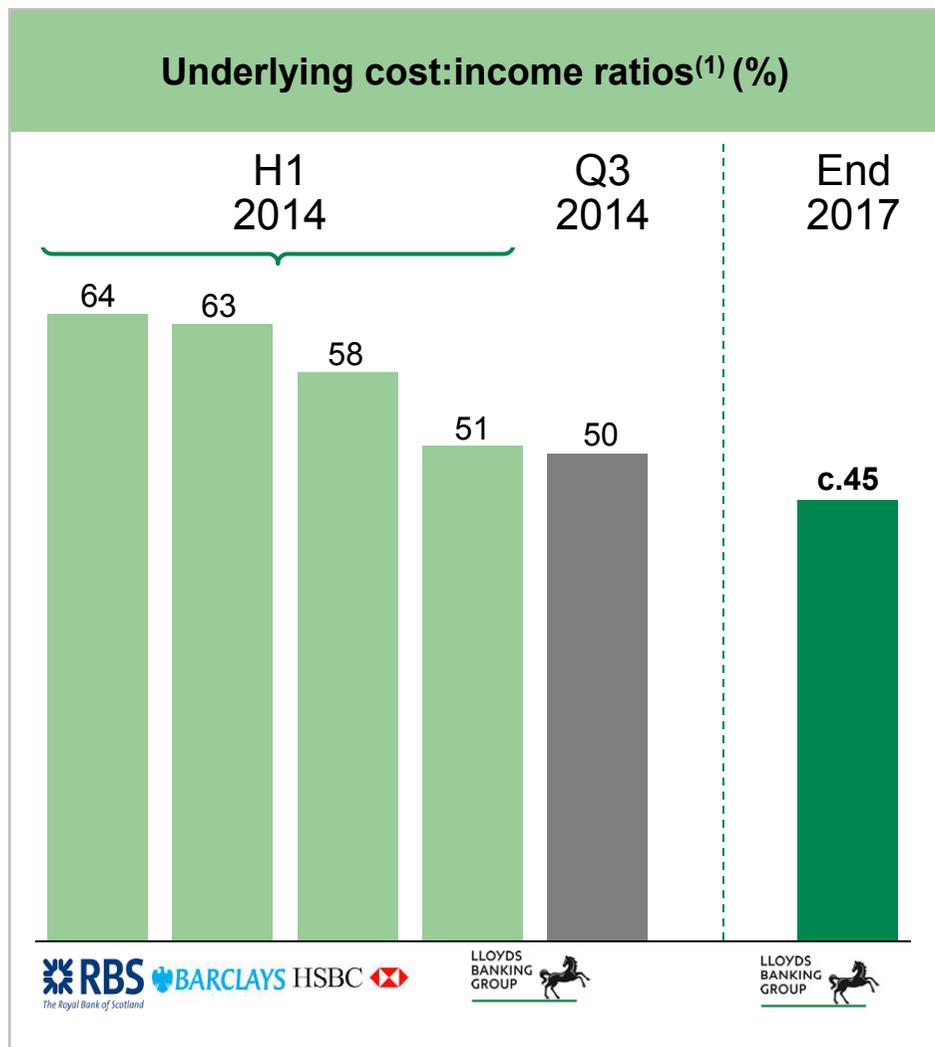
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- **Investment in simplification initiatives of £1.6bn over the plan period**
- **Simplification initiatives to focus on:**
  - Simplifying end to end customer journeys
  - Increasing the use of automation
  - Rationalisation of legal entities
- **Severance costs of c.£0.4bn over next three years to be taken below the line**
- **Investment costs matched to expense saving with cost:income ratio reductions each year**

# ENHANCING OUR COST LEADERSHIP

Continued focus on costs will enable us to extend our competitive advantage



- Cost management remains a key focus
- Expect to deliver a cost:income ratio of around 45% exiting 2017
- Targeting year on year reductions in cost:income ratio
- Cost leadership position will continue to be enhanced
- Cost position creates the capacity for customer focused investment

<sup>(1)</sup> Cost income ratios shown on an underlying or adjusted basis as reported by each institution in their H1 2014 results announcements; Barclays adjusted cost income ratio as reported in its H1 2014 investor presentation, excluding costs to achieve transform. Peer methodologies for calculating underlying or adjusted basis may differ.

# FINANCIAL SHAPE

Continuing to build on our strong balance sheet position



## Our achievements

- **Capital and leverage positions strengthened**
  - 12.0% CET1 ratio
  - 21.0% total capital ratio
  - 4.7% leverage ratio
- **Stable funding base**
  - Wholesale funding reduced by more than half to less than £120bn
  - Short term money market funding reduced by over 75% to less than £20bn
  - 109% loan to deposit ratio
- **Fundamentally reshaped and simpler business**
  - Run-off portfolio reduced to £23bn, representing less than 4% of loans and advances
  - Significant reduction in international operations

## Maintaining balance sheet strength

- **Further reductions in run-off portfolio**
- **Wholesale funding requirement weighted to longer durations**
- **Loan to deposit ratio 105% – 110%**
- **Steady state CET1 ratio of around 11%**
- **Total capital ratio of at least 20%**
- **Leverage ratio of at least 4.5%**

# MEDIUM TERM FINANCIAL TARGETS

Improved shareholder returns through sustainable growth, greater efficiency and lower risk



	METRIC	TARGETS
<b>Efficiency</b>	<p>Simplification savings</p> <p>FTE reduction</p> <p>Cost:income ratio</p>	<ul style="list-style-type: none"> <li>£1bn of further Simplification run rate savings by end of 2017</li> <li>c.9,000 role reduction across 2015 – 2017</li> <li>To exit 2017 at around 45%; targeting reductions in each year</li> </ul>
<b>Risk appetite</b>	<p>Asset quality ratio</p>	<ul style="list-style-type: none"> <li>c.40bps target through the economic cycle and lower over the next three years</li> </ul>
<b>Shareholder return</b>	<p>Return on required equity<sup>(1)</sup></p> <p>Dividend</p>	<ul style="list-style-type: none"> <li>13.5% – 15% by the end of the strategic plan period and through the economic cycle</li> <li>Medium term payout ratio of at least 50%</li> </ul>

<sup>(1)</sup> The shareholder return calculation has used an indicative required equity of 11.5% which is subject to evolving regulatory requirements.

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# SUMMARY

We are well positioned to deliver our strategy given our track record and strong business model



- Differentiated low cost, low risk, UK focused retail and commercial bank
- Customers remain at the heart of our strategy
- Digital capability positions us for the future
- Multi channel model to optimise customer reach
- Sustainable growth across our businesses
- Simple, efficient processes and operations
- We have significantly improved the Group's financial performance and have a proven track record of delivery

## Our strategic priorities

**Creating the best customer experience**

**Becoming simpler and more efficient**

**Delivering sustainable growth**

# SUMMARY

We will enhance our customer proposition while generating strong returns for shareholders



- **Unique assets**

- Multi brand, multi channel distribution model
- Strong customer franchise
- Integrated insurance proposition
- Strong balance sheet / funding position

- **Differentiated business model**

- Clear strategy: UK retail and commercial focus
- Leading cost position
- Low risk, leading to low cost of equity

### **Best bank for customers**

- Delivering the best customer experience

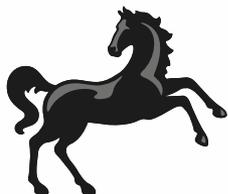
### **Best bank for shareholders**

- Delivering superior and sustainable returns

### **Helping Britain Prosper**

- Supporting and benefiting from UK economic recovery

# LLOYDS BANKING GROUP



Lloyds Banking Group is one of Britain's leading banking groups, made up of brands such as Halifax, Lloyds Bank, Bank of Scotland and Scottish Widows.

We have rebuilt our business to be stable, trusted and sustainable. We are deeply grateful for the support given to us by the UK and we are determined to play our part in helping Britain prosper. We'll do that with real pledges to help Britain's businesses, households and communities.



# Helping Britain prosper

## OUR PLEDGE TO BRITAIN'S HOUSEHOLDS:

We pledge to help more first time buyers than any other group in 2015, 2016 and 2017.



## OUR PLEDGE TO BRITAIN'S BUSINESSES:

We pledge to support 1 in 5 entrepreneurs in 2015, 2016 and 2017.



## OUR PLEDGE TO BRITAIN'S COMMUNITIES:

We pledge to maintain the UK's largest branch network in 2015, 2016 and 2017.



# FORWARD LOOKING STATEMENTS AND BASIS OF PRESENTATION

LLOYDS  
BANKING  
GROUP



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## FORWARD LOOKING STATEMENTS

This presentation contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking 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 to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such 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 exchange rates, stock markets and currencies; 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; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; terrorist acts, geopolitical events and other acts of war or hostility, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; 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 in the UK, the European Union (EU), the US or elsewhere including the implementation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; 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 ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs; 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 and lending companies; and exposure to regulatory scrutiny, legal proceedings, regulatory and competition investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this presentation are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements.

## BASIS OF PRESENTATION

The results of the Group and its business are presented in this presentation on a underlying basis. Please refer to the Basis of Presentation in the 2014 Q3 Interim Management Statement which sets out the principles adopted in the preparation of the underlying basis of reporting.

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