LLOYDS BANKING GROUP PLC – 2018 STRATEGIC UPDATE PRESENTATION – BREAKOUTS

LEADING PERSONAL CUSTOMER EXPERIENCE – VIM MARU & JAKOB PFAUDLER

WEDNESDAY 21 FEBRUARY 2018

Vim Maru, Group Director, Retail

Welcome. I am Vim Maru, I am the Group Director for Retail and I am joined by Jakob Pfaudler, our Group Director for Community Banking. Over the next 20 minutes we will tell you how we will continue to deliver a leading personal customer experience over the next 3 year phase of our strategic plan. At the end of the session, there will be time for your questions.

As you've heard from Antonio and Juan, customers have been and remain at the heart of our strategy. Customer behaviours and expectations have been changing rapidly over the past few years and we will show you the significant progress we have made in response.

We recognise that that pace of change will continue to move rapidly and therefore through GSR3, our key priorities are to build on our number one UK digital bank by adding Open Banking functionality. To redefine our multi-channel model and spend 30 per cent more time on complex needs and remain number one for branch share. And finally to use enhanced capabilities to deliver on customers' expectations for more personalised propositions where we see opportunities to grow where we are under-represented and unlock a £30 to £40 billion customer balances opportunity.

On the left here, we have an outstanding customer franchise serving 27 million customers through iconic brands in banking and insurance. Most recently we had MBNA join the portfolio, a strong digital led brand that gives us flexibility for the future.

Our powerful brands enable us to achieve broad appeal and serve a diverse set of customers and their deferring needs and expectations. Our capabilities to manage multiple brands is seen in the results. Market leading awareness. Lloyds and Halifax in the top two. That is possible through nurturing icons like the Black Horse of Lloyds or the Widow of Scottish Widows, to brand association levels that are 40–50 per cent higher than the market average. And advertising effectiveness which is 2x the market average.

On the right hand side you see the deep customer engagement that we have and that truly differentiates us as the only bank with the greatest digital and physical reach. 209 million digital visits a month, that equates to 16 visits a month across our 13 million digital customers.

At the same time, we have 18m visits to branches every month, giving us unrivalled opportunities to serve our customers and support our customers with help and guidance. But the key advantage is that the whole is greater than the sum of the parts. 72 per cent of our customers use more than one channel showing the strength and reach of our multi-channel model.

And then, top right, our customers use their debit cards 320 million times in a month, representing 1 in 4 of such purchases in the UK demonstrating the engagement, data and insight that we have.

We have a track record of delivering for customers. On this page, on the left hand side we have simplified our products and services and made them more transparent to make it easier for our customers and colleagues. For example, our savings range has been reduced by 80 per cent. And most recently we led the UK market with a radical restructuring and simplification of our overdraft proposition moving from 30 variants to 1.

At the same time, we have enhanced the customer journeys. So in the middle you see some examples. Our mobile current account journey is rated number 1. That is possible through reducing customer effort, inputs and the time taken by 40 per cent and extending it to other channels like the branches.

In mortgages, an example, our mortgage agreement in principle, the digital capability for our mortgage agreement in principle, has enabled over 100,000 customers to get their agreement in less than 15 minutes.

And all of these actions are delivering results, on the right, NPS has increased by over 40 per cent and complaints are down 70 per cent.

So let me hand over to Jakob to talk to you about one of our key GSR3 priorities, our multi-channel model. Jakob.

Jakob Pfaudler, Group Director, Community Banking
Thank you and good morning everyone. I am Jakob Pfaudler and I run our Community Banking division. And I want to share with you our distribution strategy.

I would like to land three very simple points today actually. The first one is that we have an ambitious and bold strategy for all our channels, including the branch channel. Secondly, that being able to weave together what is the largest digital bank in the country with the largest branch based bank in the country, gives us a unique and enduring competitive advantage. And thirdly, that by reconfiguring and redesigning our physical distribution we will be able to drive out meaningful further efficiency gains.

Now let me start with a few basic customer trends. Won't come as a big surprise, that we see rapid and if anything, accelerating move of our customers towards the digital channel. Our digitally active customer base has grown by 28 per cent over the past 3 years and their engagement with digital has actually doubled over the same time period. And at the same time we see a quite steady 13–14 per cent reduction in branch transactions per annum and that continues.

And the same trend is visible in the way customers buy products from us. Antonio has already mentioned that this morning. Digital, 70 per cent now is now, by a wide margin, our largest sales channel for the basic banking products, bank accounts, savings accounts, cards and loans.

But you know at the same time the more complex product areas, like a mortgage, they are still deeply rooted in the face to face environment by customer choice. And that's why we think the multi-channel model is such a unique strength to us. It gives us an ability to capture 25 per cent of market share in the digital channel for those products and at the same time for example 21 per cent market share of branch mortgages.

And on top of that it really generates value for us. Vim has already mentioned, 72% of our customers use more than one channel, and it's those customers that generate most value for us. A customer using more than one channel is 40% more valuable. A customer that uses all our channels is 70% more valuable. We are simply able to have a deeper engagement and serve more of their needs.

And there is something intrinsic about this. This is driven by customer needs and customer psychology. 75 per cent of our customers tell us they prefer a face-to-face interaction for their first banking relationship. 60 per cent really want a face-to-face advice for a mortgage. And you know, this is not just a generational thing, this is not just the older generation preferring the older channels. If you looked at the millennials as a customer group, they show the exact same behaviour, the need for guidance, the need for assurance is just the same across the generations.

And that's the reason why we think the multi-channel model is such a competitive advantage for us and will continue to be so. But clearly we cannot be blind to the customer trends we are seeing and the change in behaviour. So the trick here will be to adjust the purpose and the focus of each of our channels and tailor it more to the underlying customer need. Put very simplistically, we want to create an unrivalled digital customer experience for all the basic banking needs, and we want to re-orientate our face-to-face channels towards the more complicated, more complex customer needs. Mortgages, insurance, help for business customers, financial planning and retirement, but also more complex servicing needs.

So therefore digital will indeed be the bedrock of our distribution going forward. And in a minute Vim will share what we do with digital and how we get it ready for the Open Banking environment. What we feel what distinguishes us from a pure online player is that we are actually able to bring all that digital firepower, all that investment that you have heard about, we are able to bring this into the face-to-face environment. To put it into the hands of our colleagues and equip them to have a deeper conversation with the customer. So we've now rolled out iPads to all our branches. And if you are a customer you can basically have the same customer experience, on the same interface, whether you sit at home on your sofa with an iPad in your hand, or you sit on a sofa in one of our branches with an iPad in your hand and a colleague helping you through the journey.

But you know our vision for branches is more ambitious than a just a superb transactional experience. We really think that in a world that is ever more digital, more choice, more propositions, in a world where security and trust are becoming more important considerations for customers. In such a world, the value of a human customer interaction will actually become more important, not less important, more important for the complex needs.

So we do want to equip our branches to serve those complex needs. But at the same time it is obvious that we need to square the circle of firstly having that deeper engagement in our branches, secondly, optimising our cost to serve, and thirdly, maintaining that unrivalled reach that we have on the high street.

And the trick here will be to become more flexible about our branch formats, to become more flexible in the way we tailor formats to the needs of the micro-markets that we see in the country. So over the next few years, we will convert a meaningful number of our branches into smaller more cost effective micro branches, still full service branches, but without a counter in them, with more technology and more customer self service. And at the same time we will orientate our larger community and anchor branches, to focus on more complex customer needs. And where we can't economically viably have a full physical presence, we will extend our mobile branch fleet. Customer feedback has been phenomenal on them. They are essentially full branches on wheels now and we will roll them out more over the next few years.

And in all of this, just to point out, remote advice, so an ability to have a video conference with an adviser, remote advice is a real game changer for us, because it does allow us to give access to expertise and advice even where we don't have a physical adviser present. And we have last year rolled out a 'home to hub' offer where customers can dial in, can video conference from their home and we will roll this out into most of our branches over the next few years. So even where we don't have an adviser, we have direct access to expertise.

So if I take all of this together we will be able to do three things. We will be able to focus our human capital on the most valuable and most complex customer needs. We will be able to capture further efficiencies and we will be able to maintain our reach on the high street.

We expect to have about 60 per cent of our human customer interaction, our face to face customer interaction, focused on the more complex customer needs. That's an increase of 30 per cent over the next three years. We also expect to be able to capture a further 15 per cent unit cost reduction in our physical distribution channel and at the same time we are committed to maintaining the largest branch network in the country, we are committed to maintaining a 21 per cent branch market share over the next three years. And potentially by rolling out more of our mobile branches, actually increase the number of locations we serve over the next three years.

Now let me hand back to Vim who will talk a little bit more about Open Banking.

Vim Maru, Group Director, Retail

Thank you very much Jakob. So as we look to the future of retail banking an important development is Open Banking. As a Group, we welcome Open Banking. We were the only large retail bank to successfully meet the CMA's Open Banking launch date on 13th January. And whilst January represented the launch of Open Banking, it is important to remember it's the first of a series of regulatory changes to come over the next couple of years.

And on this chart, I am going to draw out 3 key developments for you. The first is the introduction and developments of APIs that enable secure data sharing. The second is the technical standard that comes into force at the backend of 2019, that will give customers an extra layer of security but it will also begin the phasing out of screen scraping where customers share their passwords with third parties.

And finally in May of this year, GDPR, so General Data Protection Regulations comes into force. And that will give customers more control over their data but with safeguards in place to ensure that all companies, including banks, use this data responsibly.

The implications of all of that are on the right hand side. We see customers having more control over their data and the ability to share that. That leads to new innovations in products and services. But all of that is accompanied with a real and heightened focus on security and trust.

We see Open Banking as an exciting opportunity for us to serve our customers with greater innovation in our products and services. Our competitive strengths position us well for Open Banking. And you see that on the left. We are the number one UK digital bank. Our app is rated number 1 for functionality. Customers trust us for security versus third parties. And for those customers who want to aggregate their financial services, bring all of their finances together, they prefer to do that with their main bank. It is convenient.

One the right you see some of the areas that we are developing for our customers. So "everything in one place" which brings all of your finances together. Innovative tools which gives customers more control over their finances and personalised insights. New propositions where we are exploring third party networks and non financial services propositions.

And finally, and last but not least, security is a shared priority for us and customers and therefore our proposition, when we launch it, will be an API only model.

So alongside our Open Banking ambition, we will respond to customers' growing expectations for personalised propositions. We have a diverse customer base and on the left hand side there are some illustrative examples that give you a sense of the diversity of our banking franchise. And customer needs vary, depending on whether they are home owners or renting, whether you are digitally active or not, your age or your attitude to cash.

Alongside that we are seeing customers' expectations are being framed by their experiences outside of banking, such as with Amazon or Netflix. I'm sure you experience that all the time. We feel we are well positioned for these trends because of the investments we are making in our data and digital capabilities that you will have heard about from Zak and Jen. That allows us to move from a one size fits all model to a tailored service that allows us to enhance the customer experience for all customers, to drive data driven personalised propositions, whereby we unlock an opportunity that we have identified, where 10m customers our market share is only 17 per cent. And if we were able to move to our natural market share that opportunity is £30-40 billion of customer balances.

So in summary, we have an outstanding customer franchise serving 27m customers, through our unique multi-brand strategy through iconic brands in banking and insurance. Alongside deep customer engagement across channels and payments. And our GSR3 priorities are, firstly to build on our number 1 UK digital bank by adding Open Banking functionality. Secondly, to redefine our multi-channel model spending 30 per cent more time on complex needs and remaining number 1 for branch share. And thirdly, to use enhanced capabilities to meet customers' expectations for personalised propositions, unlocking an opportunity of £30–£40 billion of customer balances.

I hope we have given you a strong sense of why we believe we will continue to deliver a leading customer experience. Thank you and we will take your questions.

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Question and Answer Session

Session 1

Question 1
Clare Kane, Credit Suisse
When will the aggregation app be up and running and do you have any internal assessment of take-up or usage?

Answer: Vim Maru
So I think the first thing I would say is that when you look at the services that we want to offer in Open Banking, it is not going to be one Big Bang, it will come over time and there will be more and more builds over time. In the same way as we talk about agile capability, it is not a one Big Bang type approach. On aggregation, the important thing to realise is that through Open Banking, the only APIs that are available today are current account APIs. So for people who want to aggregate current accounts, you can aggregate current accounts, but it isn't the core thing that people want to aggregate. They want to aggregate with their savings and their credit cards. And that is why I talked about the regulatory standard that is coming in 2019. Over time there will be more APIs that cover savings, credit cards and that will allow us in our API only model to integrate that. So we need to see exactly when the Open Banking implementation entity extends that, and then integrate that. But what we are doing already is experimenting and working as we were the first to launch and it allows us to start testing and bringing some of the aggregation of current account services together and you will see more about that probably at the back end of 2018.

Further question
Could you do that working with your own brands, aggregate your own brands across products and services?

Answer: Vim Maru
You see on the video actually, one of the exciting opportunities for us as part of GSR3 is to bring a Single Customer View from an insurance perspective. So you see the little picture of the Scottish Widow there. That is one of the key planks of this which is to actually bring more of our brands together. We are not necessarily convinced that all of our Lloyds customers will want to see Halifax holdings. Actually the cross holdings in our multi-brand strategy are very low between Halifax and Lloyds so it is not as exciting for those customers. But bringing the insurance business together in a Single Customer View, and you will hear more about that from Antonio Lorenzo, is a really exciting opportunity already. But then there are things like MBNA that we could bring in etc. as well.

Further question:
Could I have one final question? On the £30-40 billion, can you just give us a bit of detail about what those balances are and which segments are represented? If that's part of your growth, how much of that is built in to your three year plan?

Further question:
Chintan Joshi, Abaco
And also, if I could add to that, what is the sensitivity around that as well?

Answer: Vim Maru
So I think we see it as a long-term opportunity and moving from a 17 per cent market share to a 19/20 per cent market share isn't something that you do overnight. The second thing to say to your question is that we will be disciplined about that as we always have been in that this is not at any cost, it is to make sure that we provide customers with what they want so that they bring more of their business to us. So I think those are the first couple of things.

The third thing to say is that we see the opportunity right across the balance sheet actually, we see it in mortgages, we see it in consumer lending, and we see it in deposits, right across the piece. And what we have got are customers who are at different stages in their life. Some people are borrowing, some people are deposit rich, and therefore when you look across that 10 million base that we micro-segmented, there are a mix of customers in there that we think we can actually, because we already have the relationships with them, the opportunity for us to grow our business with them, but in a disciplined way.

Question 2

Michael Helsby, BAML

If Open Banking works, it is going to reduce inertia which is going to be good for some people, bad for others. I'd just love to get your perspective as the biggest bank in the UK what you think of the opportunity but you have also got the biggest back book and you've also got some of the richest pricing, so how do you think about those challenges and balancing those two?

Answer: Vim Maru

Shall I repeat the question? So I guess there is a question about, I guess, the risk of Opening Banking and the risk to the back books as a result of Open Banking given, I guess, you are asserting that we have the richest back books there.

So I guess if I deal with that which is I think second part of that which is I think we have actually competitive pricing across the piece and therefore I wouldn't say necessarily that we have the richest back book. In fact things like our SVR rates are actually well below the market average and very competitive in the marketplace too. But I think the reason we think of Open Banking as a significant opportunity are the things that I called out. We already have the largest digital bank. We already have an app which we built with the best functionality in the market. And so adding to that and from a customer convenience perspective and a customer's view of security and trust, we think we could actually be a winner out of Open Banking and also offer them broader financial services needs as well.

I think if you look back in history we have always embraced competition and competitive moves. So whether you go back a few years to the ISA changes that came, we embraced that. We put the ISA promise out there. We put the prize draw out there, in fact actually we grew rather than shrunk as a result of more competition in the market. Same with the switcher market; another one where more competition, 7 day switch, great for customers. We did well out of it. So I think we have got a track record of embracing competition and delivering for customers.

Question 3

Alastair Ryan, BAML

Thank you, two please: the key outcomes in 2020 and the £30-40 billion opportunity. Is that how much your deposits go up by, by the end of 2020? And number 2, how many of your mortgages today do you sell through your branches? And once you fix your branches as you'd like them, how many mortgages will you sell through your branches?

Answer: Vim Maru

I will do the first one and Jakob will pick up the second. I think the first point is that yes this is an opportunity; it isn't a target for 2020. We see us working our way towards that as part of the 2020 plan and as I have said earlier, this is on both sides of the balance sheet, deposits and asset growth as well that we see in the opportunity here. And I will let Jakob just talk about branches.

Answer: Jakob Pfaudler

On mortgages, it is fair to say our primary channel for mortgages is the intermediary channel at the moment, just like the entire market mix. We resemble the market mix – so about two-thirds of our mortgages go through the intermediary channel. Having said this, we are very keen to make the best use of our branches and we do believe that we have a real opportunity in our branch channel. So if anything we would like to grow the weight on the branch channel.

Session 2

Question 1

Ed Firth, KBW

I have a couple of questions. The first one is about the Open Banking marketplace product, which I think is a very exciting shift we are seeing in the market. Can you just clarify when are you actually launching that?

And secondly, what are your thoughts about pricing in that environment? When customers can actually see on one sheet what their balance with Lloyds is paying is 0% and their one at Atom is paying 1%. Are you concerned that this is going to result in much greater sort of fluidity in terms of fund flow and people optimising pricing?

Answer: Vim Maru

I think I will deal with your first one and then I will come back to your second one. So from an Open Banking launch perspective, there isn't a Big Bang. We will be launching enhancements to our proposition throughout this year and next year. So there isn't a Big Bang, in the same way as you will hear about digital and Agile. We are not trying to do one Big Bang. So we will see progressive improvements to this proposition over time.

So if I think about the aggregation services, today the APIs enable you to aggregate current accounts. So those are the only APIs that exist in the market today. That was what was launched on 13th January. Therefore as the APIs come for savings and credit cards, that will add further opportunity. And one of the things we discussed in a previous session was, and I am sure you will hear about this from Antonio Lorenzo as well, that the other opportunity we have is actually to aggregate and have a Single Customer View within our own organisation; so bringing Scottish Widows. You saw hopefully in the video, Scottish Widows being integrated into that app as well, so you can see all of your financial needs in one place. And that is actually a here and now opportunity before the APIs are ready in other products over time as well.

And then if I think about your pricing point. I think firstly we see this as an exciting opportunity for us to serve our customers what they want and need. The second thing is that actually I think we have always embraced competition. Whenever competition has come, we have welcomed it and embraced it. If I look back a few years, you know, people thought the ISA transfer process would materially change that market. We have competed well, we launched the ISA promise, the savers prize draw and that has allowed us to compete well. The current account switching service: the 7 day switch. We have embraced that. Halifax has done really well through that switching process and service, so we have always embraced competition and raised our game whenever new developments come. Which is why we are embracing Open Banking and we want to make sure we serve our customers really well.

Question 2

Robert Sage, Macquarie

[Inaudible – question relating to £30-40 billion balance opportunity]

Answer: Vim Maru

I will repeat the question. So what are the £30-40 billion balances? So they are balances on both sides of the balance sheet, they are deposits, so assets and liabilities. And obviously across that 10 million customer base where we see ourselves under-represented, there are different components in that. Some people are asset rich, some people are liability rich. And so actually the approach for this is going to be different for each sub-segment of those customers but we see opportunities on both sides of the balance sheet here when you look at that. They would be balance sheet, yes.

Question 3

Fahed Kunwar, Redburn

I just wanted to follow on from Ed's question. As far as I can see, everyone is a price taker on the asset side of the balance sheet, on loans, I don't see much evidence that brands seem to give you the ability to charge more to mortgage / credit card customers, correct me if I am wrong. So Open Banking I guess doesn't enhance the ability to charge more. One of the things the big banks have is a funding cost advantage quite clearly. I am still, not sure I really understand how Open Banking will enhance that funding cost advantage and your examples are very good. PCA switching seemed to be something that would do that. But the truth is no one switches, no one uses it and that's why it hasn't broken that funding cost advantage. So why won't Open Banking reduce that funding cost advantage big banks have?

Answer: Vim Maru

If I just deal with that one particular point about nobody switches. I think people don't want to switch from us because we provide them with a great service and things like Open Banking are embracing services that the customers want and need and are now available. And that is what we think about, which is how do we provide a leading customer experience so that people want to stay with us and stay with us longer because they want to – not because they have to. I think that service proposition and the multi-brand strategy to your earlier point, I think helps us massively to be able to use all of our different brands, in different ways, in different markets to do that. That requires significant capability to manage a business like that. But I think we have shown over the past few years that we do have that capability to manage that and we will continue to do so in the future. I think you are right to say for example, on the asset side, the market is competitive. But we have always looked at both sides of the balance sheet. António I think went through that earlier, which is that we look at both sides of the balance sheet holistically at a very senior level every week to make sure that we manage that.

Further question:
OK, so in your view Open Banking will mean your funding cost advantage, big banks' funding cost advantage will stay intact? Because Virgin Money seems to think that is an opportunity to tap that.

Answer: Vim Maru
I see Open Banking as a great opportunity for us to serve our customers well. It is not a: I can change the funding costs etc here. And if we serve our customers well, they will want to stay with us and they will want to stay with us longer. That is the way I see it.

<u>Question 4</u>
Jason Napier, UBS
I just wonder if you can talk a little bit about how GSR3 is different from GSR2, the budget that you have, the focus on front versus back book, the functions and so on. Does this represent a sort of series break in the life of the business you run, or is it an evolution from what people have observed over the last 3 years?

Answer: Vim Maru
I think it is a great question, and probably one that we should come back to with António and George when we get back into plenary, to talk about why is GSR3 different to GSR2. I think it is a great question, which we will come back to and most definitely answer – and Douglas, if I could just log that question with you, to make sure that we do that.

Session 3

<u>Question 1</u>
John Cronin, Goodbody
The open API video that you showed gives an opportunity that Lloyds sees in that context but I suppose the question is on competition and your market share targets. How do you think about the threat that that also poses in terms of other operators' opportunity to penetrate some of your customer base, and I appreciate that is a long question.

Answer: Vim Maru
So I think I'd say two things. Firstly for us, Open Banking plays to our strengths. I think I have set that out in terms of our position and what our customers are expecting of us so it is about delivering for our customers. They expect us to be able to enhance the proposition for them and provide more of these services. And so I think it is a customer led strategy.

The second thing is we have always embraced competition and transparency. So if you look back, you know when ISA switching starting a few years back, everyone said that would be the end. We embraced that, we had the ISA promise out, the saver's prize draw out and we embraced competition and actually grew our business. Similarly with the 7 day switching in current accounts, again we embraced that and we have actually seen us do really well. And that is the power of multi-brand, multi-channel and the ability to make sure we stay customer focused, and that is why we see it as an exciting opportunity.

<u>Question 2</u>
Raul Sinha, JP Morgan
Under the new divisional structure, you obviously merged consumer finance and retail together. If you look at the loan to deposit ratio, there is obviously quite a big gap between deposits and loans, 134%, I think, within Retail. And then you have got a big surplus in the commercial business that obviously makes up for some of the gap. This £30-40bn, am I right in thinking that you are actually looking to prioritise deposit growth in Retail? And do you have a sense of where the 134% would go?

Answer: Vim Maru
So the question is more loan to deposit ratio in the new retail business and how we think about assets and liabilities there. So I guess the first thing is, I think as António answered, we think about assets and liabilities holistically. And certainly when we think about funding we look at it holistically and you have seen our experience over the past couple of years where we have looked at commercial deposits versus retail deposits. And we optimise accordingly to that. So I would not say this is a shift in anything from a Group strategy perspective. The £30-40 billion opportunity we see here is across both sides of the balance sheet: assets and liabilities. And here it is more about making sure we serve all of our customer needs rather than it being a balance sheet driven approach.

<u>Question 3</u>

Ian Gordon, Investec

First a pedantic question, in terms of your 21% branch market share, are we going to say a micro-branch is a branch? And then the real question – in terms of the absolute cost reduction from that transitional exercise, is the majority of the activity related to headcount rather than the Group structure and of that, are you willing to give us a pounds shillings and pence target, or should we just back it out of what you have said on the slide?

Answer: Jakob Pfaudler

OK, so let me answer the last one, we are not going to give you a pounds, shillings and pence answer, you wouldn't have expected that, I think. So the pedantic answer, yes micro branch is a branch. Wherever we have a physical outlet that is a branch and that in our view counts towards the branch market share.

The middle part of your question is: it is a combination. So the property aspect of our branch footprint is less than a third of the cost. So the cost drivers therefore are multiple ones. There is productivity gains, the number also includes our telephony service. So we do see further productivity gains and technology driven efficiency there. I don't want you to do a read across a 15 per cent into anything really.

Answer: Vim Maru

And I think there is also as we said, there is an opportunity to refocus as well. So the 30 per cent more in complex needs is in effect a reinvestment where we see opportunities for growth, whether that be in insurance, business banking etc.

<u>Question 4</u>

Just to clarify what I am hearing, it sounds like you are actually playing to the top line and not to the cost line. That repurposing the branches is a more costly endeavour, higher salaries. You are playing to the top line growth and not on savings. Is that fair?

Answer: Jakob Pfaudler

I don't think that is fair, it is a mix across all the different levers. And the trick here is, as we said earlier, to transform quite a few of the branches into smaller cost effective ones, but maintaining the reach on the high street and providing access to advice via remote advice. And then reinvesting some of that gain back into the larger branches to be able to serve complex needs better. So it plays on both levers.

Further answer: Vim Maru

And I think the other important point just to build on that is that we are very much customer led. So if customer behaviour changes, then we will adapt and adjust the approach that we have. So that is I think a really important consideration for us, we will continue to watch, follow. As you have seen in GSR2, the shift to digital has been at the top end of the 50–70 per cent range that we were expecting on simple needs. And so we will continue to adjust accordingly.

<u>Question 5</u>

In terms of the £30-40 billion, how do you think about deposit costs? Do you anticipate continued savings to [….] change in mix? Or actually with the rate outlook, do you see that potentially flat-line or even going up?

Answer: Vim Maru

So I think George answered it to some extent earlier that if we look at the 2018 horizon then I think we see still some opportunities in deposits where there are certain parts of our book where we are priced above the market and so we still see some opportunities. That is clearly part of how we balance the competitive pressures in the mortgage market at the moment which is why you know our NIM guidance is what it is. The longer term outlook and looking at this £30–40 billion. I think as you would expect, we are going to be disciplined about this. This is not going at growth with no eye on margins and so on. And as we have always done, we have always considered very carefully volume and margins. But we see some opportunities here for us to be more targeted and more segmented, for us to try and grow without having to see a big move in the deposit cost as a result of our approach here.

Question 6

Can you say about the key areas where you see that £30-40 billion opportunity? A bit of a cheeky question, but presumably there are some areas where you are perhaps over represented and therefore actually API could be a threat to you in taking some of your customers away.

Answer: Vim Maru

You are right, when you look at natural market shares and you look at micro segmentations, there will be some where you are above and some where you are below. In fact, we need to make sure that we continue to hold the shares in other segments where we are above our natural market share. And actually I guess when I look back at time, we have got a pretty good track record of doing that. But when we have done this we have seen opportunities across the whole of the balance sheet, Justin. It is mortgages, it is deposits, it is current accounts, it is consumer lending. It is right across the piece. And if you look at it over a longer period of time, there will be customers who might start in consumer lending who move to deposits, through to mortgages as they move through that cycle. And actually one of the key elements of our proposition is to think about that holistically for customers. So you think about it, how do I help you over the 3–5 year cycle that gets you to your final aspiration? And that is why the mix will shift over time at a customer by customer level.

LLOYDS BANKING GROUP PLC – 2018 STRATEGIC UPDATE PRESENTATION – BREAKOUTS

DIGITISING THE GROUP & TRANSFORMING WAYS OF WORKING – ZAK MIAN & JEN TIPPIN

WEDNESDAY 21 FEBRUARY 2018

Zak Mian, Group Director, Transformation
Right, so good morning everybody and welcome to the breakout session on digitising the Group and transforming our ways of working. My name is Zak Mian and I am the Group Transformation Director. I am joined by Jen Tippin, our Group People and Productivity Director. Over the next 20 minutes or so we are going to talk about the key priorities of this important pillar of the new strategy and then it will be time for some questions.

First, I would like to kick off by just going through four key priorities of this important strategy. The first of those is to digitise more customer journeys end-to-end and scale up the transformation of our central functions. And customer journey transformation is really where we have taken key processes that we do on behalf of customers, like helping them take out a mortgage. We have looked at the friction points and we have really transformed that customer experience. We have looked at the complexity, we have stripped that out and we have increased the operational efficiency. And those two things in combination are what we describe as customer journey transformation. So going forward our intention is now to broaden the range of journeys covered and we will also include and apply that same approach to our central function journeys, helping colleagues on-board and join the organisation is a good example.

Secondly, we are going to talk about progressive modernisation of our IT architecture. And this is really around investments, making key targeted investments in new technologies like applied sciences, cloud, big data to really help deliver new innovative services to customers, reduce our cost of ownership and improve our flexibility.

Thirdly, it's about changing our ways of working, really looking at the way we deliver projects and this is really around saying, if we are going to have this huge level of investment that we are making in the business, how do we make every pound of that investment count for more? So we're going to be shifting away from waterfall-based development, kind of traditional ways of delivering projects to a more agile set of techniques. And these are the ones we have been trying out over the last few years in our digital unit. It allows us to test and learn with customers, deliver value incrementally and shorten our time to market.

Lastly and most importantly, we are going to make a huge investment in our colleagues and this is about upskilling and training, but also introducing new skills into the organisation. Things like data science, things like software engineering skills. And this is where we really think these are going to become the new strategic competencies of the organisation going forward given the digital future.

So some of the outcomes. In journey transformation that is around broadening the scope of up to 70 per cent of the cost base. In terms of efficiency of delivering projects, that is about 30% improvement. And in terms of a ramp up in our investment in people and training, that is a massive 50 per cent increase.

So before I go onto the specifics of the new strategy I think it would be useful perhaps just to look at how we got here. So this has been a 6 year journey. And the beginning of that really kicked off in 2011, and now we have got the largest digital franchise in the UK. So we started, this was about building a new digital platform for consumer customers, regardless of the brand. So we had one platform supporting all three of our core brands, supporting the desktop solutions and the mobile solutions. And that is where we started.

Three years ago, in 2014, we announced an ambitious strategy to build out that platform and deepen its functionality, begin to build the best digital bank in the UK. So where are we now? We have 13 million desktop users using internet. We have 9 million on mobile. We are ranked in terms of account opening on mobile, we are the number one journey in the industry. We have reduced complaints from digital year-on-year. We have driven up advocacy in terms of measured by net promoter score every year. And as you can see the scale now, this platform is that we support 3 billion logins per year. Technically what does it take to kind of scale like that? On a peak day, at a peak time that is seeing 16,000 logins every minute. That is only possible by having a scalable infrastructure that is very resilient.

So going forward, we really see a continued use of this platform, broadening its role across the architecture and delivering great value for customers. And before I move on I would just like to show a quick video about some of the work that we have done.

[Video]

So I hope you can see there are already some big deliveries, some big business outcomes and some great customer improvements. So the next stage is, we talked about customer journeys, is now by going broader and deeper. So what do we mean by that? So in terms of end-to-end transformation on the left there, this is about looking more end-to-end in the process. Looking at the control functions and the back office operations making sure no stone is unturned and we make sure we iron out all of the opportunities for customer improvement.

It is also about broadening the scope of the customer journeys. In the last phase we only really looked at 16, we picked 16 key customer journeys to transform, but there are many more to go after. So think about general insurance claims, how do we help the customer do that? How do we use digital technology to make that simple, quick and easy? Financial planning and retirement, a huge opportunity that you will hear more about in one of the other breakout sessions.

But then we also have a lot of central function activity. HR, risk, finance, run a whole set of processes, they are still far too labour intensive. So how do we begin to apply digitisation to those things as well? And this is really the scope of the transformation and that really gets us to this from 12 per cent of the cost base being covered up to 70 per cent. In terms of the scope of the journeys from 16 to 50. And this is really all part of this big major investment kick-up from up 40 per cent to more than £3 billion of strategic investment to help us deliver these outcomes.

In the middle here, some of the things we are also bringing to the toolkit. So in the first phase of transformation of journeys we looked at simplifying processes using digital technologies, process and product simplification changes, procedural changes. But we are now, the world continues to move on, so we now have an API channel that we will cover in a bit more time. Upgraded data and applied science technologies using machine learning is part of the toolkit. Using cloud and simplified infrastructure, how can we leverage that as part of the transformation? And accelerated innovation through fintech, how do we bring all of those things to the party to make sure that transformation is deep but also really makes the most of the things that are now possible that weren't possible before.

So let me give you an example of one part of a journey in a particular channel. This is about our telephony operations. And the key really here is as part of the journey transformation philosophy, making improvements to customer experience, but also below this waterline here, improvements to operational efficiency and we think this is the virtuous circle that we need that we can deliver to create the capacity to invest more and then reinvest those savings in more improvement. So in this example, in telephony, we use biometrics and integrate the mobile app with a telephony infrastructure to save the time for a customer to authenticate themselves.

We are introducing new solutions on the mobile app to allow customers to interact with things they are more familiar with using social media type structures. It is a bit like having a WhatsApp chat with your bank, and we think that could improve customer satisfaction.

From the bank side though, we think leveraging those sometimes similar technologies like chatbots, artificial intelligence and machine learning could save, could create capacity in our telephony operations of up to a third.

Using machine learning smart, we think, we can provide coaching prompts to colleagues so that every colleague is armed with the best things to say to the customer by having that machine learning solution look at all the conversations we are having with customers and provide prompts to that colleague. And that is a massive opportunity for us.

But we also have, inevitably, compliance checking to do, outcome testing to do. Again, right for automation and improvement and we think we can drive a 20 per cent improvement there as well.

And we really think this formula of driving systematic improvement in customer experience and significant operational efficiency through this end-to-end journey approach, is the key to delivering sustainable but deep transformation. And if we can build these organisational muscles as new technologies arrive, new opportunities arrive, we can continue to reinvest it and deliver further and further improvement.

So none of those things ultimately are possible unless we have got a scalable, resilient and modern IT architecture and this is a big and complicated architecture, but it is one that we have progressively built over the last few years and this is the same architecture that already delivers those 3 billion logins per year for our mobile banking service and our desktop service. The challenge though is how do we maintain it? What are our choices about upgrading it? And we think the key really is a progressive modernisation. What is the alternative? The alternative is to do a 'big bang'. Let's take a few billion pounds. Let's take 4 or 5 years out, let's create a change freeze, let's stop delivering value for customers and rip out huge amounts of this.

Given the pace of technology change, we think that would be a fundamentally the wrong thing to do. Instead have a progressive modernisation approach. What that allows us to do as we have shown over the last 6 years is to look at which parts of the architecture you need to improve, where do we modernise, where do we simplify, where do we leverage new technologies?

So let me just step you through some of these pieces. So at the top there, the hard shell, the cyber defences. Really important, we keep customers safe and confident in transacting with us. Next in the channels, branch, telephony and digital, we will continue to build out through those customer journeys improvements to the service and getting slick, multi-channel things in place for customers. But we also see the appearance of a new channel, the API channel, and this has come about as a consequence of the Open Banking regulation. It is still early days for that channel, but we think it holds huge opportunity for us. And the reason I think that is the stars are now aligning around fintech because up to now fintech I think has had challenges in integrating with banks, really at a production level. Now with data standardisation that has come with Open Banking, with public cloud becoming more mature, we think those things allow us a great opportunity to leverage fintech innovation in our system value chains, effectively, quickly and delivering value for customers.

I talked earlier in the telephony example, about the introduction of AI and machine learning. That relies on a big investment in data. Getting all of that data, a real time data set in place, joining up all the data around the Group. And an example of that, we would feed into that would be the single customer view. We have had our single customer view for many years in the organisation, it already serves the core banking solutions and joined up savings, loans, mortgages. We would now be augmenting that to add insurance and you will hear more about that within the Financial Planning and Retirement update. But it really allows us with all that information, to turbo charge through the use of applied sciences, customer interactions and that we see as a huge lever as we go forward.

On the bottom there you see infrastructure. And this again, we already have a very mature in-house hosting solution where our mainframe, mid-tier applications sit. We already use on the left there software as a service. And there will be times when we can buy a commodity application like a new HR system that gives us a competitive solution in an area we can consume as a service from a third party or continue to do that when the opportunities arrive. But we also see now the maturing of cloud. There are many different types. There is private cloud, there is public cloud and we will have a hybrid strategy that makes best use of both.

So in summary, API enablement to leverage fintech and exploit Open Banking and give great services to customers. Insight powered customer experiences by leveraging the mass of information we have and using applied sciences. A selective but progressive upgrade of our core systems on an as needed basis, but avoiding a ‘big bang’ solution.

Then transforming our software development processes with greater automation by using some of these new cloud technologies and helping the developer to be more productive.

And finally, all of those coming together to deliver great outcome for customers and huge cost efficiencies for the organisation.

So I would now like to hand over to Jen who will talk more broadly about agility and transforming ways of working.

Jen Tippin, Group People & Productivity Director

Thank you very much indeed Zak. So Zak has already highlighted, the success of this transformation is really going to depend, yes on technology but also importantly on the skills and capabilities of our people and to that end, GSR3 marks the largest ever investment that we are going to be making in our people.

Now we have mentioned agile a few times during this presentation. So let me just try and define it for you. Applying agile within our transformation function will allow us to build cross-functional teams, bringing together specialist skills such as data scientists for example, or user-experience engineers, digital engineers together with our subject matter experts in our business divisions. And by co-locating our teams, we’ll further improve collaboration and efficiency.

Now when you do change in an agile way, what this means is that you adopt a continuous test and learn mindset with short development sprints, enabling us to integrate feedback from our customers at pace and increase our speed to market as well as optimising the solution for our customers.

Now this move towards agile will really change the culture of the organisation, moving away from teams staffed with temporary people working on fixed initiatives to really teams coming together for the long-term, really aiming to build the very best in customer outcomes.

Now this move to agile is not motivated by a financial imperative to save costs. But it is motivated by a desire to be responsive to our customers going forward, to improve our employee engagement and also to improve productivity. We are going to be deploying agile based techniques to more than 50% of our change activity going forward to really increase our speed of execution and drive greater efficiencies in the usage of our resource.

Now Zak has already mentioned, we have already seen the benefits of agile, through our Customer Journey methodologies over the last 6 years. And ultimately we expect to be able to deliver the same amount of change with 30 per cent fewer resources going forward.

We also have a proven track record of delivering change through the more traditional waterfall projects and that will remain relevant, particularly for complex regulatory projects with very fixed outcomes.

Now to deliver this transformation of the Group and to create real lasting competitive advantage, we are going to be making, as I said before, our largest ever investment in our people, really to both equip them with the right skills and capabilities but also to transform how we work to enable us to succeed in a digital world.

Now as part of this approach, we will be creating a number of colleague academies, with tailored curricula to really develop specific skills for specialist roles such as digital experience engineers for example or scrum masters.

We will make a number of improvements to our colleague proposition, including the simplification of our organisational design and we will also introduce a new job-family architecture.

But we recognise that upskilling at scale and this is a scale upskilling of our people we are talking about, increasing our annual training hours by more than 50 per cent to 4.4 million. We recognise that upskilling and retraining is only part of the solution and it's also really important that we're able to retain those skills as well as attract new skills going forward.

In order to achieve that, we are going to be enhancing our approach to recruitment, with specific targeted campaigns to be able to attract specialist skills. And we are also going to be applying our Customer Journey methodology to the core processes that we use every single day during the bank to help make us more efficient.

To further enable our future resourcing needs, we will also work closely with our graduate and apprenticeship programmes, to ensure that those are aligned to our needs going forward.

By building our internal capability further, we expect to see a 30 per cent reduction in our reliance in external change resource. And in addition to the uplifts we are going to see in Agile, we'll also grow our number of specialist roles across the Group, for example we will double the number of digital experience and robotics and AI engineers.

Now as we mentioned at the start of this session, our strategic plan to digitise the Group and transform our ways of working is ambitious but, given our existing capabilities and importantly, our track record, we are confident in our ability to deliver.

Taken together we purposefully believe that this will give us an opportunity to enhance our existing competitive strengths, as well as creating new ones that will sustain us for the future.

As we embark on the next phase of our strategy, the Group already enjoys a market-leading efficiency position as defined by our cost:income ratio within the UK banking sector. And we aim to further improve that over the course of the plan. That will increase our advantage over our existing peers, but it will also develop new strengths to enable us to compete with new players in the market, including disruptors. And as you already heard, we aim to achieve a cost:income ratio by 2020 in the early 40s.

We are very proud to have the largest customer franchise in the UK and we expect to make significant improvements to our customer experience going forward.

Our scale and our heritage and our brands are really important to our customers, they are also really important to our colleagues. And we will reinforce that trust with our planned investments to deliver a modern technology architecture as Zak has outlined, and data platforms.

Now as António mentioned earlier, customer expectations are changing at an unprecedented rate. But by streamlining our processes and transforming the way that we work in the organisation, we will become more agile and responsive to those changes in customer needs, in turn positioning us more strongly against our peers.

I'll hand over to Zak to just conclude.

Zak Mian, Group Director, Transformation

Thanks Jen. So we hope you can see digitising the Group and transforming our ways of working, really do represent a kind of big hairy audacious goal in terms of what we are trying to do. It is a huge opportunity for us and one we are really excited about. But we are actually really confident about as well. Why are we confident? Because organisationally, I think, we have proven through some of our big complex change programmes in the past, like dealing with the merger, dealing with the divestment and the build of TSB and its divestment, that we can do big complicated things. Through the building of the digital bank, which is now the biggest digital bank, I think we have proved we can deliver new technology based improvement for customers and do it at scale.

With the customer journey transformation we think we have proved we can deliver again against new technologies, but on a multi-channel basis, great experiences for customers but also operational efficiency. And doing those two things together gives us that virtuous circle I talked about earlier.

So those things in combination is what gives us our confidence and we really think we can now move onto the final stage of digitising the group and transforming those ways of working.

LLOYDS BANKING GROUP PLC – 2018 STRATEGIC UPDATE PRESENTATION – BREAKOUTS

DIGITISING THE GROUP & TRANSFORMING WAYS OF WORKING – ZAK MIAN & JEN TIPPIN

WEDNESDAY 21 FEBRUARY 2018

Question and Answer Session

Session 1

Question 1
Ian Gordon, Investec
Can I have two please. Firstly, Open Banking. Could you just say a little bit more about how I should think about your proposition versus peers? And then, how do you think in terms of scale, and then threats as well as the opportunity?

And then my second question, and apologies as this is bit of a luddite question relative to the more sophisticated presentation you have given. Ongoing digitisation, simplistically, translates to less foot fall through branches. I know in the main presentation, António referenced change in the way you use branches, but I still struggle to see why there wouldn't be a very very substantial reduction, consistent with what you have outlined.

Answer: Zak Mian
Let me take the second part of the question first. So our philosophy with digital, in building that biggest digital franchise, and the thing we like best about it, is that although we have built that huge digital bank, which has this huge footfall of 3 billion logins a year, we have done it without discouraging customers to use a branch network. We have done it by offering a multi-channel proposition and letting customers choose which channel to use, as they need to. And there will be things that customers want to arrive in the branch to do, there will be things customers want to use via telephony and there will be things we want to do online. We have blended some things, some things like remote adviser, where we can have customers on the web and then video conferencing with colleagues. So we are introducing new capabilities all the time, but our philosophy is very much to follow the behaviour of customers, not just shut branches and give customers no option but to go online. And that will carry on over the next period as well.

In terms of Open Banking, we really see it as a huge opportunity for us. So, by having the biggest digital franchise but one, more importantly, that customers like to use. And evidence of the customer use is complaints are going down, customer net promoter scores going up. But equally if you look at our app store ratings, we have maintained a 4.5 star app store rating on Android and iOS over the last 2 or 3 years. And that gives us confidence that customers like the service that we are offering and they are happy with it.

But not to be complacent about it because we definitely see more competition. The service bar continues to go up, and that is really where we really see the innovation agenda within the transformation work. And that will be about looking at our journeys, looking to see where can we add new features to the mobile app that really help customers. Where can we, with Open Banking, look at a customer's other holdings that he has with other financial providers, bring those into a Single Customer View along with things like insurance from inside the Group and deliver financial planning and retirement. We are really well positioned as an organisation, probably uniquely so, to give customers that very joined up service.

Question 2
Raul Sinha, JP Morgan
Zak, so firstly, the 12 per cent number which is the cost base that is effectively going to move up to 70. Does that mean that 88 per cent of the Group is actually manual processes right now?

Answer: Zak Mian
No, it is less of a reflection of how much is manual versus automated. It is more saying that we took in the last three years the scope of our customer journey transformation, phase one. We picked 16 journeys that were important to customers and tried transforming them on this multi-channel basis. It was about trying these things out, the new ways of working, the new design techniques, and building those new organisational muscles. The success of those journeys has really given us the confidence to say: 'well, now let's look at all of the other things we do with customers over in Insurance, in Commercial, and broaden that agenda; and then further extend it by looking at the head office, central function journeys as well'.

Further question:
How much money do you have to invest to digitise a journey and then how much cost you save if you digitise a journey? Can you give us an indication of the magnitude?

Answer: Zak Mian
So in terms of the cost, that journey transformation is all part of the increase of up to the £3 billion. So I am not going to get into the specifics allocated to the investment. As a yardstick, we typically see from an efficiency perspective a 25 per cent improvement in productivity. Now the reason, sometimes it is variable, is that sometimes the journey is less about becoming more efficient and it is about making things better for customers. Sometimes it is about creating revenue opportunities as opposed to cost. But it is really always about being forensic about what is not working, where are the opportunities, how do we leverage new technologies, making it matter for customers, simplifying life for customers and then creating operational efficiencies at the back.

Further answer: Jen Tippin
And, of course, that reduction in costs is obviously seen in our guidance that we've given this morning around our operating costs being sub £8 billion. Remember that is a net cost reduction as opposed to gross cost savings.

Question 3
When you think about Open Banking and PSD2, is one of the inevitable outcomes of that a higher churn both in your deposit base and also your open book mortgages? And I say that because some of the competitive threats that are emerging, less from the other big banks but from start-ups and the like, seem to facilitate switching from customers and become the interface with customers, effectively disintermediating the large banks. So could you talk about how you think about that going forward and how you position in that environment?

And my second question for you would be around the investments you are making in employees. Clearly, employee retention is an important part of that here. Can you tell us about what your employee retention is, and how that is trending?

Answer: Zak Mian
So at one level, we have lived with price comparison sites, easier switching and intermediaries for many, many years. Open Banking kind of introduces further opportunities and challenges like that. But really the key to it, as I said earlier, if we can continue to be obsessional about customer experience design. We are blessed with a huge customer franchise, and one that we know, through the service ratings we are getting on mobile and more broadly across the channels, if we continue to deliver on that customer promise, customers will choose to stay with us. As long as we continue to deliver the great products that we have and the services, execute them brilliantly for customers, they are our best defence and that is our intention.

Further answer: Jen Tippin
Just to answer your question on retention. Our retention rates for colleagues are very good in fact. And attrition rates both in terms of first year attrition and overall across the bank are very low and benchmark competitively. The thing I would say is that and we are in no way complacent on any of this, but we do enjoy very high levels of engagement with our colleagues. Our strategy around being the best bank for customers and our purpose around Helping Britain Prosper resonate extremely strongly with our colleagues. That enables us to retain them. And, indeed, in terms of levels of engagement, we benchmark very well at around 3 points higher than the UK high performing norm. And that really helps us, but we are not complacent in any way. We know that we are going to continue to work hard on that as well as attracting new colleagues to the organisation going forward.

Further question
Could you just clarify when you say it's 3 percentage points higher than the…?

Answer: Jen Tippin
The UK high performing norm. That's in terms of engagement levels. Our engagement levels are 3 points higher than the UK high performing norm.

Question 4
You made a point about the importance of cyber security and protecting customers. How do you see that in an Open Banking context?

Answer: Zak Mian
We think key to it is making sure customers are educated about security. From our perspective, making sure we continue our big investments in cyber and fraud defences. Our belief is that APIs are the most secure way of using Open Banking, and that way we can make sure customers don't need to share credentials, that way they are comfortable, and they can transact safely and securely.

Session 2

<u>Question 1</u>
Claire Kane, Credit Suisse
Two questions please. First, you have little statistic there about freeing up a third of colleagues' time through AI and robots. So some people might consider that to be a potential reduction in staff numbers to that level. And we heard about freeing up capacity for more complex needs. So where do you see these complex needs opportunities arising that are not fulfilled currently? And what kind of opportunity do you see there for pricing to reflect that?

And then secondly, the perception about the incumbent banks is that you have lots of legacy, old technology. I appreciate that it's not perhaps the right thing to try to put in something new there. But how much of this £3 billion spend, or the spend before, is just trying to free up capacity on old systems rather than actually developing something new that is going to reduce costs or open up revenue opportunities?

Answer: Zak Mian
I will take the last question first. That £3 billion is really about strategic investment. That is not the core, keep the lights on funding. This is really about how do we move the business forward, how do we deliver great things for customers.

In terms of the question around use of AI and complex needs. We think by freeing up people time, colleague time by using these technologies, we give the customers the convenience of getting their simple needs, simple queries, answered more quickly, more effectively, in their channel of choice. But absolutely, part of the multi-channel offering we still have the branches and telephony and some customers will absolutely want to go into the branch and get that personal experience, and that is what they are there for. But we really see by enhancing, providing more choice, we then have opportunities to have agents to deal with more complicated or deep needs, more complex inquiries, but also some of these conversations around insurance, long-term planning and retirement. So in the earlier sessions, you may have heard Antonio talk about financial planning and retirement. That is really a classic area of where we see how do we use that capacity and how do we invest it to solve other customer needs more sensibly.

Answer: Jen Tippin
Or it could be in mortgages or protection, anything that is much more complex from a customer's point of view.

<u>Question 2</u>
Chris Cant, Autonomous
Two please. The 70 per cent of the cost base covered by journey transformations. How much of the Group cost base are we talking about digitising here and how much is in scope? Because you specifically mentioned in scope.

Answer: Zak Mian
Yes, so that represents that 70 per cent, frankly. So the first wave of journeys in the last period, we picked 16 key journeys that we did that were really important to us and that represented 12 per cent of the overall cost base. This broadening and deepening, by looking at the other customer journeys like general insurance claims, other things in commercial, and we're then also looking at our central colleague journeys as part of central functions broadens that scope out to 70 per cent of the cost base.

Further question:
So, it is 70 per cent of the total, not 70 per cent of the sub-set of the total?

Answer: Jen Tippin
No, 70 per cent of the total.

Further question
And the other question is on the £3 billion of change spend. It looks from the pie on the slides like you've got about two thirds of the budget towards the digitisation projects. How do you expect that to be spent over the coming years, what is the distribution of spend over time as you see at the moment?

Answer: Zak Mian
Within that digitisation, it is those changes to the architecture, creating those enablers for things like artificial intelligence and machine learning, upgrading data architecture, and then, journey by journey, looking to see what needs to be done, looking for the interventions to do those upgrades of customer experience and drive out those operational efficiencies. So we don't have a kind of granular breakdown of it is this much to this, because really the whole method is about understanding what our customers want from us, where are the opportunities and how do we leverage technology. And that is the overall envelop that we are looking to invest over this plan period.

Further question
So do you have a sense of the distribution of the spend over the planning period as opposed to on specific projects? I understand you might not have a set amount allotted for each specific project you're going to do over time, but how do you expect that amount of money to be spent over time? How much is in 2018 versus 19? In a previous session we heard the deadline of 2019 around the PSD2 technical standards is a big event, so is it all going to be spent ahead of that?

Answer: Zak Mian
We need to do all of this transformation safely and securely. This is about managing our execution risk. This is not around saying we now need to get whole armies of external consultants in to spend all our money in year one because it is just not sustainable. So this is about progressively, consistently over the plan period applying this investment.

<u>Question 3</u>
You said you had one front end platform across all brands, clearly it's very well regarded. In terms of your core banking systems, how many core banking systems do you have across various different brands? That would be my first question. Second question is around the shift towards Agile development. To what extent is the core banking system still a constraint to that? Attached to that - what is your minimum viable product? I guess it's proved [….] still some way to go.

Answer: Zak Mian
For our core retail major brands, so Lloyds, Halifax and Bank of Scotland, we have one core banking system. This also supports our commercial customers, and it is 24/7. It is available all the time, and we run our digital bank on top of that, and over the last six years we have continued to maintain its scalability and resilience. And so it is absolutely fit for the future. Sorry, the second part of the question?

Further question
It was just about how this may be a hindrance to the Agile development? The minimum viable product, so on and so forth.

Answer: Zak Mian
As part of our Agile work, we are also doing an engineering transformation. And this is really looking at each of our core platforms, whether they be channel platforms, or the core banking system, payments platforms, and looking to see how can we develop more automation of our software engineering processes. How do we use DevOps techniques to automate productivity, automate testing where we can, so that way we make those processes simpler. And we are really looking to achieve that 30 per cent improvement that Jen talked about by moving some of these things around and making change deliver faster by platform. Instead of delivering every quarter, making these platforms move onto a monthly cycle. On the digital platform it used to be monthly, we are getting those down to weekly. And those software engineering improvements are all a key part of this shift towards becoming more and more agile.

<u>Question 4</u>
Alvaro Serrano, Morgan Stanley
I am going to ask the same question as previously, but in a slightly different way to try to get a sense of what you are doing versus competition. In terms of the £3 billion spend, if you had to give a flavour of how much of that would be introducing new functionality, customer journeys, something the consumer will benefit from straight away versus back office processes which will lead to better cost efficiency. Could you give us a sense of that £3 billion, is it £1 billion front - a rough idea? I think it is important because some of these challenger banks which are, in theory, using newer systems without legacy costs, are obviously spending money, but probably nowhere near as much as you guys are. So a general flavour on that?

Answer: Zak Mian

It is very hard to break down. We are really looking: these are the journeys, let's look for the opportunities, drive out those customer experience improvements, leverage these new technologies. Part of the reason we are doing the ways of working improvement is, how do we sweat each investment pound better. And this is why we are doing the engineering transformation, the shift towards Agile, make sure we get the most value out of each pound we spend. But making sure we deliver both customer experience improvements as well as operational efficiency.

Session 3

<u>Question 1</u>

Patrick Lee, Santander

In the context of your multi-brand strategy, do you notice any observable difference in terms of customer digital behaviour across different brands? Do you get higher risk customers more ready to use applications than lower risk customer, for example? And going forward do you see this as a way to fine tune your customer base or to attract the right customers? Do you think this is a tool for you in future?

Answer: Zak Mian

Yes, digital really helps with our multi-brand strategy. The power of the multiple brands is that it gives us huge amount of coverage, we can see benefits of having a common platform to serve all the brands, but you do see small differences within each brand. So Halifax as an example, is a challenger brand perhaps. We tend to see a slightly higher level of digital usage within that brand than we do within the Lloyds brand. But overall this all adds up to a massive digital franchise. We think that by having these multiple brands - and now we've now got MBNA within the family of brands which is a more direct and digital brand - they create lots of opportunities for us to be trying new things with different types of customer through these different brands and create an overall great proposition.

<u>Question 2</u>

Robert Sage, Macquarie

I take your points in terms of what you are going to be doing with the workforce in terms of recruitment and the investment. But I was wondering also, in view of the cost targets for 2020, what actually do you expect in terms of staff numbers?

Answer: Jen Tippin

In terms of headcount levels, we are not disclosing any specific targets today. And the reason for that, is not because we are being coy, the reason for that is really in the world in which we are now living, we are seeing shorter planning cycles, we are having to re-prioritise much more. And in a world where the only certainty is uncertainty in fact, and that is definitely the environment in which we are living, we really believe that we need to be led by our customers. And as we see changes in those behaviours then we will adapt accordingly. And that is the reason why we are not setting any public headcount targets at the moment.

And we also fundamentally believe that one of our enduring competitive strengths is around the quality and capability of our people. Which is why we are making this biggest ever investment in our people today, to really make sure that we have the skills and capabilities for the future.

<u>Question 3</u>

If I was to frame it, you are looking to reduce the costs for the Group down to £8 billion by 2020, roughly a delta of £200 million and it is a £3 billion plus investment. I sort of look at that as a return on investment of 6.5 per cent. Is that the right framework?

Answer: Jen Tippin

You are only looking at one side there, obviously looking at the cost side. And clearly as our plans outline, we do expect to grow our income over the plan period as well and achieve a cost:income ratio down in the low 40s. So we believe that delivers a good return for our shareholders and will continue to establish our competitive advantage versus our peers.

Answer: Zak Mian

And unashamedly, some of this is about absolutely driving customer experience improvements. So customer's expectations continue to go up and we need to respond to that by delivering great customer experiences across all our products, our services, and by providing more and more features and capabilities across our channels. And as you can see with things like Open Banking, the landscape doesn't stand still. So new channels arrive, new expectations will come with them and new opportunities for us.

Question 4

Ed Firth, KBW

As you go through this, which obviously is a massive change in the world of banking, what do you see as the biggest two or three risks, as the head of the digital side, that keep you awake at night? And specifically, are you more worried about the delivery of it and, potentially, the system breaking down at some point and customers not getting their money. Or are you more worried that a Facebook, or an Apple, or even an Amazon comes up with something that is pretty much the same, and they obviously have got the fire power to max that. Where are your key one or two concerns?

Answer: Zak Mian

I think, our investment in cyber, is, how much do you spend, how much do you need to do? We need to absolutely get ourselves to the level of investment where we continue to feel comfortable, but that is, if there is anything that keeps me up at night, it is how to respond to the thing you don't know what we don't know. And the threat landscape continues to evolve. So we absolutely continue to stay vigilant on that front.

In terms of the other, this is a massive change execution challenge for us. But as I said earlier, the thing that gives me huge confidence is that we are not putting all our eggs in a single basket. So this is not about taking a particularly huge bet on one particular vendor or one particular technology. It is absolutely dispersed. And we upgrade our architecture on a case by case basis to make the most of these new opportunities.

From a customer perspective, we think we have already got a huge digital franchise where we feel really great about the fact that customers are telling us they like our service. Having a 4.5 star app rating in both Android and the Apple store, gives us confidence people like what we are giving them and this plan is about continuing to do more. And we think that is absolutely what we should focus on, because if customers like what they are getting, it continues to be available, it is a great service, then they will stay as part of our core franchise.

Question 5

James Irvine, Soc Gen

You have got 30 per cent, or up to 30 per cent improvement in efficiency on your slide there, what would the average number be across that 70 per cent of cost base?

Answer: Zak Mian

They are actually slightly different things. So the 30 per cent is in our delivery of projects. We think we can, for the investment pound, we think we can get 30 per cent more effective in the delivery of projects. And that will manifest itself by projects going faster, by using more automation techniques, more agile techniques, getting to the problem faster through test and learn etc.

Then in terms of the 70 per cent, that represents the cost base of the organisation. 70 per cent of it is now within the scope of our end to end journey transformation. And that is our chosen technique, I guess, our secret sauce of how we think we can deliver great customer experience improvements but also get scale improvements in cost efficiency.

LLOYDS BANKING GROUP PLC – 2018 STRATEGIC UPDATE PRESENTATION – BREAKOUTS

MAXIMISING GROUP CAPABILITIES – ANTONIO LORENZO & DAVID OLDFIELD

WEDNESDAY 21 FEBRUARY 2018

Antonio Lorenzo, Chief Executive, Scottish Widows & Group Director, Insurance & Wealth

Good afternoon everyone, my name is Antonio Lorenzo, Chief Executive of Scottish Widows and Group Director of Insurance and Wealth. I am joined on stage this morning, on the floor to be more precise, by David Oldfield, Group Director of Commercial Banking, who will talk about our strategy for that business in a few minutes' time. I am going to speak to you about the exciting opportunity in Financial Planning & Retirement. It is exciting not only because it is a growing market but we are already well positioned to meet our customer needs and to increase our penetration in this market.

We have three main priorities in Financial Planning & Retirement:

- Firstly, to strengthen and expand our Corporate Pensions business in a fast growing market. We have already started with the announced acquisition of Zurich's UK corporate pensions business. This will broaden our participation into the large scheme sector for corporates.
- Secondly, we will create, as part of the Group's IT initiatives, a single customer view which will include for the first time ever, Insurance products, to allow us to better understand our customers and to meet all their banking and insurance needs in a single login. None of our competitors can do this.
- Thirdly, we will use the advantage provided by our distribution model to drive growth across both Intermediary and Relationship channels. No-one else in the market has the access that we have and if you remember from previous presentations, we will have access to all intermediaries in the market at the same time that we will have access to the number one branch and retail banking network in the country and the number one digital bank.

We believe these initiatives will allow us to add over one million new pension customers and over £50 billion of customer assets under administration in our growth books and will create a long-term proposition to meet our customers' needs.

But as a reminder of our business and success so far, we are one of only 3 composite scale insurers in the UK. You can find out who are the other two! During GSR2, we continued to grow the business across 3 strategic areas:

- Firstly, we entered new markets and channels launching Bulk Annuities and Life Insurance through Intermediaries.
- Secondly, we upgraded our platforms, digitising our Corporate Pensions front-end and re-platforming Home insurance.
- And thirdly, we simplified the business and improved our service, as an example we agreed to outsource the servicing of our longstanding products to Diligenta.

We did this, while delivering returns on equity as you have heard from George, ahead of the Group average returns. I firmly believe and my team is committed to deliver this level of returns in the foreseeable future.

Why is Financial Planning so important for us? Mainly for three reasons:

- It is a growth market driven by demographics, structural changes and regulation.
- A large proportion of the UK population remains under-prepared for retirement and there is a growing advice gap.
- And last but not least, we are under penetrated in this market.

Without going into detail on Insurance accounting because George and my finance director here are more prepared than me to deliver that. It is not a threat for you, we won't go through this detail. But it is fair to say that we have new and existing business, and our focus in GSR3, is to grow a double digit pace in new business income in Financial Planning & Retirement products. In essence, we are growing market share in a growing market. Over the medium and long term, this new business income growth, jointly with growth in life insurance and general insurance businesses will more than offset the reduction in our longstanding products.

So let me tell you what are our plans in the Corporate Pensions business. Corporate Pensions, as you can see, is a fast growth area with double digit growth in assets under management expected, and we are well positioned to capitalise on this. We have Zurich's UK Corporate Pensions business acquisition, but at the same time, with David's business in Commercial Banking, we are expecting to continue to expand our fantastic success we have had so far in Mid-Market clients to the large corporates once that we have acquired the capabilities from Zurich. We have presence through your business David, for over 85 per cent of the FTSE 100 companies and no other competitor of David can offer a Corporate Pension proposition. We will also continue to deliver enhancements to our customer journeys, as you have seen from Zak in the previous breakouts.

In summary, in this business we expect to add over one million new pensions customers and grow our market share of new business in the larger market that we are now playing in with the acquisition of Zurich from 10 per cent to 15 per cent and by 2020 and further to 20 per cent by 2025.

Turning now to the opportunity of reaching our customers through a Single Customer View. This is a group wide initiative. We have 13 million retail digital customers with 16 visits per month on average. This is unprecedented in the UK insurance market. In addition, having access to our customers banking data allows us to understand them in a way other peers can't. In doing so, we will be the only provider that can personalise our proposition and meet our customers' needs through banking and insurance products. All these products will be manufactured by ourselves, and we think this is the best way to generate further value for our shareholders.

A broader Single Customer View, including insurance products, will be launched later this year, following a pilot in the first quarter of this year and we will go beyond the requirements of Open Banking and the proposed Pensions Dashboard.

Finally, we will maximise our distribution network and drive growth across both our Intermediary and Relationship channels. Intermediaries are, and will remain, vital distribution partners to our business. Our strategy is to complement, rather than compete with them. I am very proud that these key partners voted for us to be Company of the Year in 2017, at the recent Financial Adviser Awards.

Over GSR3 we have several initiatives to enhance our proposition for Intermediaries, for example we will launch an open market option for annuities. We expect this to increase market share of new business in individual annuities from 10 per cent that we currently are to around 15 per cent by 2020.

In our Relationship channel, as well as launching the Single Customer View, we will provide our customers with a comprehensive choice of execution only, guidance and advice solutions. As you have already heard from Zak, we will integrate Home and Life Insurance propositions into the Retail Customer journeys, and expect to more than double the customer needs we meet through the channel.

Before handing over to David, I will leave you with the summary of our strategic priorities and outcomes over the next three years. I hope you agree with me that Financial Planning & Retirement is a great opportunity, long-term, for Lloyds Banking Group where we are well positioned and more importantly, we are committed to capture.

Over to you, David.

David Oldfield, Group Director, Commercial Banking

Thank you Antonio and good afternoon. Let me tell you what GSR3 then means for Commercial. So we have three main priorities.

- Firstly, we want grow our SME and our Mid Markets business and that is about supporting more of their lending needs and at the same time it is about digitising products.
- Secondly, we want to deepen our relationships with Global Corporates and Financial Institutions clients and that is through upgrading propositions and through insight. This one isn't about growing share in the same way as SME and Mid Markets is, it's about creating value through deeper relationships.
- And then thirdly, I'll talk to you about how we want to make our relationship managers more productive and that is through digitisation of simple needs to free up their time and then provision of data and analytics so they can add more value to our clients.

In doing those things we expect to deliver the £6bn of net lending growth across start ups, SMEs and Mid Markets over the next three years that you have heard Antonio talk about already today. We want more than 70 per cent of our products to be available digitally and we will continue to remain disciplined in terms of delivering market leading returns on Risk Weighted Assets.

So we are differentiated by our simple relationship-led UK-focused model. We have a very simple segmentation from the smallest business banking customers to the largest Global Corporates and FI clients. We have disciplined product participation. And we have those trusted relationship managers, but combined with digital and self-serve capability for those clients with simple needs. And this model has allowed us to deliver those returns on Risk Weighted Assets at 2.8 per cent against a market average of 1.2 and a leading market cost:income ratio.

And through this simple, UK focused model, we've built up a terrific franchise with real opportunities for growth. So we have a 20 per cent share in the small business market and we opened 30 per cent of new start-ups. We've grown our SME business as you heard, by over 30 per cent since 2011 improving our market share to 19 per cent. We have a 17 per cent of Mid Markets clients and that's where we see a real opportunity as we pivot for growth having done a good job in terms of improving returns. And as Antonio said, we have relationships with over 85 per cent of the FTSE 100. And then we have a well-established and capital-light FI business producing very strong returns.

And we have a strong track record too of delivery in GSR2. So we increased our net lending to SME and Mid Markets clients by £4 billion in that period. But that includes growing SME lending by 15 per cent, well above the 1 per cent growth in the market during that period. So we're now targeting that step up to £6 billion of net lending growth as we pivot for growth particularly in that Mid Market segment.

We launched as well a new Commercial Banking online platform, we now have more than 12,000 of our largest corporate clients active with the remaining corporates being migrated across by the end of this year. We have also improved client experience across a number of customer journeys, so including for instance 16,000 SME accounts opened last year using our new end-to-end on-boarding process. And at the same time we have been disciplined in terms of capital, that is both in terms of new deals but also back book portfolio management and we reduced our core Risk Weighted Assets by £17 billion.

All that said, we recognise that our clients' needs are changing. For simple needs they want multi-channel, they want digital, self-serve and systems that talk to theirs. For more complex needs they want that trusted Relationship Manager, they want customised propositions with real time sector insight relevant to them and their businesses. Both of these are supported by our plans.

So moving then to investing and growing in SME and Mid Markets, this is a key priority to us and ties absolutely back to our helping Britain Prosper ambition, as these businesses are the lifeblood of the UK economy. And we'll do this through digitising the experience, improving the product range and simplifying a further number of journeys.

So in terms of digitisation, this ties into the work across the Group you're hearing about today from Zak and other colleagues. We'll make simple loans available online for instance, that is for both for origination and for servicing and that will improve the time to sanction and time to cash. So as an example the time it will take for a very simple lending decision will reduce from days to a matter of hours.

We'll also digitise FX and Rates, significantly increasing the number of simple Markets products bought online by our SME customers. We'll improve the product range especially liquidity, trade and working capital products, whilst also making the most of the open banking capability that we are building across the Group.

And we'll transform more client journeys, more on-boarding processes through STP and automation, and that drives efficiency for us and an improved client outcome.

Moving on then to deepening relationships in Global Corporates and Financial Institutions, as I said this is not about share it's about breadth and depth. We'll focus on broader cash management and payment solutions, we'll focus on improving our Markets products and we will ensure a seamless client experience anchored around the Relationship Manager at the heart of our model.

We've already invested in a new cash management platform within GSR2 and we'll continue to modernise our capabilities. We've also built a new trade and asset finance system. Again we'll make the most of that through the next three years.

We'll expand our Markets product range so that includes bulk payments capability and we'll improve rates and Repo and we'll simplify our Market Operations with more straight-through-processing driving efficiency for us and an improved experience for our clients. And we'll continue to have that all important Relationship Manager right at the heart of our model, so this is a coverage led model supported by product expertise.

And then by way of outcomes we're looking to improve the number of cash mandates that we win. We want to exceed 90 per cent STP for international payments and we want to significantly increase the electronic volumes for FX and Rates, especially for some of our smaller clients.

Then moving onto the Relationship Manager. Our RMs will remain crucial to us. We know that clients value them for their more complex needs but we want to make them more productive. So clients want frictionless, multichannel, they want customised propositions, they want timely insight that is relevant to them and their businesses.

And we'll make sure that RMs continue to be regarded as trusted partners, proactively engaged with our clients and having those strategic conversations. And by digitising simple transactions we'll free them up to spend 50 per cent more of their time on supporting clients with those more complex needs.

And to enable this we'll create the right supporting infrastructure. So we will automate those simple processes to enable clients to self-serve freeing up the RM time. We'll join our data up across the Group and externally and we will leverage the work that is happening elsewhere across the Group, you are hearing about today, in terms of APIs and applied sciences and robotics to improve our analytics capability.

And then as Antonio just said, we have a terrific opportunity to work across the entire Group to bring joined up solutions for our clients and our customers. So for Commercial especially, with our Relationship Managers, they can act on behalf of the entire organisation to meet our clients' needs.

So we'll continue to work very closely with Vim and Jakob's teams across the Retail and the Community banking businesses, be that Black Horse for car finance, be that Lex Autolease for contract hire or Cardnet for example for Merchant Acquiring.

And then with António and the Insurance and Wealth teams, we've done some great work on corporate pensions particularly for those Mid Market clients, Zurich gives us more opportunities for the larger corporates, as he mentioned. But there is also more we can do on areas like bulk annuities and longer term lending. So as an example, last year we supported a number of longer term infrastructure type deals for our largest clients and these deals suit the profile of the Scottish Widows business very well and that is real competitive advantage for us as Lloyds Banking Group and something that we can make more of.

So let me close just by re-emphasising the three priorities for me in Commercial. It is about continuing that focus on growth and building the momentum in SME and Mid Markets. It is about deepening those all-important relationships in global corporates and FI and it's about making Relationship Managers more productive and more value adding to their clients by investing in systems, data and analytics.

LLOYDS BANKING GROUP PLC – 2018 STRATEGIC UPDATE PRESENTATION – BREAKOUTS

MAXIMISING GROUP CAPABILITIES – ANTONIO LORENZO & DAVID OLDFIELD

WEDNESDAY 21 FEBRUARY 2018

<u>Question and Answer Session</u>

Session 1

<u>Question 1</u>
Just a question on mortgages. You talk about opportunity obviously a lot, your business picked up by 20 per cent in the Other Operating Income line at the Group level and '16/'17 was quite a disappointing result. When you talk about growth, what can we think about revenue growth coming from the Insurance business and the Wealth side of things in particular. And why haven't you considered products like lifetime mortgages, for example, which the FCA is now trying to push and insurers are pushing as well. You seem very well placed for that, considering the interest-only mortgages that Lloyds Group has and retail banking has.

Answer: Antonio Lorenzo
As I said, we are planning to have a double digit growth income in all the Financial Planning & Retirement initiatives with as I said, we have the back books that all the insurers have and the front books and our expectation is to grow double-digit and more than offset the declining book in the back book. This is first. So our expectations are that our income will grow through the plan and we will have positive returns at the high level as you have heard before. The target for the Group is 14-15 per cent. We envisage to keep our returns of tangible equity about 16 per cent. This is the picture.

And in terms of the product you mention, at this point in time you said, the FCAs is having some interaction with us and with the industry, but still they are not fully, well it is very difficult to think that it is difficult to see something is fully committed because it depends on the circumstances of the market. But it is an interesting proposition for us, but we are not on that proposition at this point in time, considering we want to be clear that all the conduct issues are well landed and are well sorted.

Further question
Are you concerned about regulatory rather than capital deployment?

Answer: Antonio Lorenzo
No, capital is not the issue, it is much more the conduct. And it's not the regulation, it is much more about the conduct. How we see that is the right product for our customers.

<u>Question 2</u>
On the Commercial side, I guess the burning question is you had two pretty large profit warnings from two large corporates. The ONS data kind of reclassified in November, just that the kind of the health of the corporates might have overestimated. How do you see the kind of worry, what you see in the UK over the next year in terms of losses? And also corporate activity?

Answer: David Oldfield
Sure. So we have a very good quality corporate business, remembering we are spread from those smallest business banking customers up to the largest Global Corporates and FIs. We have a good, well spread and diversified portfolio. We have been conservative in terms of our risk appetite for a long time now so that doesn't avoid the risk of the old fallen angel and we all know about the kind of Carillion type example. But we have been conservative in terms of our approach to sectors and limits within sectors, hold levels. So we regularly do deep dives in terms of our book and our exposures for anything that we think needs further attention, but we sit here today very comfortable in terms of the level of risk in the book.

Further question
And systemic UK, a wider UK view, are you worried? Your book might be lower risk but one of your peers yesterday talked about doing a study of the second derivative implications of all the profit warnings, what are your views on that?

Answer: David Oldfield
So we do that. I mean clearly by being, we are a significant player in business banking and SMEs, so we are always thoughtful of kind of supply chain exposure and Carillion was a good example where we were the first bank to come out with the support for small business customers - we launched a £50 million fund for small business customers who were impacted by the failure of Carillion. So we are very cognisant of the kind of downstream issues. But again my answer remains the same that we are very comfortable with the risk that we have got in our book. It is well diversified and it is well understood.

<u>Question 3</u>
James Invine, SocGen
A question for Antonio. It was great to hear Antonio that you are going to push up the market share in Corporate Pension, but I think last time Lloyds gave a market share chart, it showed that your stock market share was more like 17 per cent. Are those numbers comparable?

Answer: Antonio Lorenzo
They were not comparable. We were working in what we call the addressable market. For example we were not operating in large corporate. Our proposition came from places of 15 employees to no more 5,000 employees and this is the way that we were measuring at that time. And this was about stock as well and now here we are speaking about flow. So they are not like-for-like. So the stock in that sense could be in lower teens.

Further question:
What sort of revenue margin are you getting on these new assets?

Answer: Antonio Lorenzo
I think the margin here is around 35 basis points, more or less. You know that there is a cap of 75 basis points in the market.

<u>Question 4</u>
Jason Napier, UBS
One for each of you please. On the Commercial Bank. I appreciate you don't target non-SME and Mid-Market loan book performance, but as you look at the balances you have got at the moment, is there anything wrong with the returns on that base, is it the kind of thing that grows with the economy and how do you think about that?

Answer: David Oldfield
The returns are very variable across the smallest to the largest clients, by definition. We have actually made a lot of very good progress in terms of the Global Corporate returns, and that has driven much of the improvement in terms of our overall returns of risk weighted assets. So we did have a tail of relatively low return assets, those have now largely been dealt with, either improved or managed out. So we are absolutely open for supporting our largest clients as well as the smallest, it tends to be pretty episodic in nature, but again we are pretty careful and prudent in terms of the kind of holds that we take and the durations that we hold for. But we are certainly in the business for large corporate support as well.

Further question
So the 4 per cent decline you had last year, that is not a structural thing?

Answer: David Oldfield

Global Corporates are so lumpy it just goes up and down on a few numbers of larger deals. Whereas SME and to some extend Mid-Markets is much more kind of flow business which Global Corporate isn't. It is largely non flow.

Further question

And then on the insurance side, I am sorry to be dense, but the goal of growing FP&R's new business revenues, just tying that back to the disclosures, is that with trying to grow the 95 million number from last year? Is that right?

Answer: Antonio Lorenzo

When we consider Financial Planning & Retirement, we are including the corporate pensions, we are including the individual pensions and we are including bulk annuities as well. So in a sense in the numbers that you have the life protection, life insurance is not a part of this. And the other part that is not part of this is long-standing customers. But the others are all part of this.

<u>Question 5</u>

On the relationship management side, what do you do with the improvement? Do you cut the number of Relationship Managers and reduce costs or do you improve the service?

Answer: David Oldfield

So in large part, it is about them spending more time on value adding tasks. So we estimate about 50% of an RM's time in the day is typically supporting administration and those sorts of things. So if you can digitise that amount, we are looking to invest that in the main in terms of quality relationships. Now at the same time, of course, we manage to cost:income ratio here so as we go through three years of the next plan, we will be able to toggle that depending on how we get on in terms of business performance. Certainly in the short term, certainly for the larger corporates it is about value add for those clients. At the smaller end, we have clearly got digital and self serve and we will see how our clients deal with us over the next three years in that kind of mix between face-to-face and digital.

<u>Question 6</u>

Nicholas Midgley, Santander Asset Management

On the insurance side, AVIVA believes that it can use its existing customer data to provide, for instance, a home insurance quote, every time its customers logon onto its portal. Given how many visits you have online in a year, is that something you advocate and consider doing?

Answer: Antonio Lorenzo

This is part of the concept, I have said, where we have an unprecedented situation. Because if we compare our framework, our future framework with MyAviva or MyAllianz, I think it is similar, we can compare, but the most important difference is that we can do exactly the same but with probably something between 5-10 times more visits. Very unusual, that's the difference. We need to be capable to deliver all of the information, but obviously you have the banking and insurance.

<u>Question 7</u>

Rohith Chandra-Rajan, Barclays

On Commercial Banking, how much of the new initiatives are based on growing OOI? So you've given us some lending numbers which will drive NII. What do you think that about other operating income?

Answer: David Oldfield

A good chunk is around fee income. So when I talked about transaction banking, things like trade and asset finance, supply chain finance, that typically drives fee income OOI rather than NII so I would expect to see a good number flowing through into that.

Further question
So if I then put that together with the comments about productivity, why don't you see an increase in your return on risk weighted assets?

Answer: David Oldfield
Well we are already miles ahead of the market. So for us now, as we pivot from focusing on returns, to balancing that strong discipline in terms of the book we've got today but also growing, that is why what we are guiding is broadly holding flat at the market leading level we are today.

Session 2

Question 1
John Cronin, Goodbody
There has been a long history in the UK with Bancassurance models and I think looking forward it makes a lot of sense in terms of the wider digital strategy but what makes you think it can work, or that this is what customers will want three years from now in the context of other competing businesses, development platform propositions, where they're able to channel more than just banking and insurance products into a customer base, albeit untested, and unproven at this point?

Answer: Antonio Lorenzo
Well I think that all these things that you have set out are right…

Further question
And maybe just to add to that, do you see optionality, and maybe this is a wider question around where the Group can evolve longer term, in terms of the distribution of other financial products and the customer base perhaps, or other non-financial products.

Answer : Antonio Lorenzo
Let me try to capture all the things you have said. In essence, one of the questions I have came across before was, 'Is this a bancassurance proposition? What happened in the past and what is happening now? Why now and why not in the past?' And obviously it is fair to say in the past we were working in a *push* strategy that people went to the branches and the advisers were there. And now our proposition is broader. We are not in denial at all, we are working a lot with intermediaries because most of these markets are driven through intermediaries. We will have this digital proposition that we will put together with the banking one, for the first time ever, and obviously that is unique for us - an interaction that we may have with the customers. Thirdly, we will know the customers better than before; previously we only had the opportunity to speak to them when they went to the branch. And therefore we will be in front of the customer in whatever channel they want and I would describe this as a *pull* strategy coming from the customer. Because as I have said, people are less prepared than ever for their retirement, because as time goes on defined benefit schemes are less important and people are less protected and need to save more in a low interest rate environment. In essence we see that people need help and we are offering help in an execution only way, advice or guidance. That is the proposition.

We believe that this is more robust than it was before going through our branch where all the things happened there or not. Here there are plenty of opportunities for interaction. Obviously the future will tell us if we are in the right place. But honestly, at this point in time, 75 per cent of the business is coming from intermediaries, there will be a change in the mix, but we will continue to be with intermediaries and as you have read, and I have mentioned, we will invest in a platform for intermediaries, not only to be in off-platform for individual pensions but also on-platform.

<u>Question 2</u>

Raul Sinha, JP Morgan

I just want to understand Antonio, how is your cost base geared to economies of scale given there is such a big intermediary proportion of your revenue? So the way I am thinking about it, if you were to combine with another big competitor and tried to find cost synergies in the insurance business, how much of your cost base actually is scalable, because you are going to be using a lot of intermediaries? So do you actually get efficiency of scale as you get bigger?

Answer: Antonio Lorenzo

I think there is no doubt that there is a big chunk of insurance business that will go and is going through consolidation. The corporate pensions transaction is a consequence of this and we are seeing that only 3 or 4 players can be successful in the corporate pensions arena. Zurich realised that, and others will realise later on. And the same will happen in protection etc. So we are prepared for more scale and we are building and creating platforms. Our expectation in the near future is that there will be less people in these markets. And as I have said: we are only one of the three composites insurers. There were more in the past, but the people are giving up so consolidation is there, synergies are welcome etc. But the opportunities; we need to see what will happen or not. But it is a consolidation market.

<u>Question 3</u>

Could you clarify, is this going to be open architecture or will it all be captive to Zurich and Scottish Widows?

Answer: Antonio Lorenzo

The way that we are working, first of all, it's open architecture in the sense that we are not the asset managers. So we provide funds. Specifically, for example, corporate pensions is a business that we are not in the market as an asset manager in the same way that for example, Standard Life are. It is generally open architecture, normally default funds, low risk in terms because customers are putting their pensions for long-term. The only thing that we are doing in some cases is strategic asset allocation, but obviously in default funds it is nothing magic there.

<u>Question 4</u>

John Cronin, Goodbody

Just in terms of market share gain opportunities in the Commercial business. Just around competition in that market that you're experiencing currently - anything interesting to call out and where are you confident that you can bolster your share?

Answer: David Oldfield

It is highly competitive - be it from business banking right up to Global Corporates. There is no doubting, be it new entrants or incumbents, there is competition. Why we are confident is, because we start from where we are today and not from where we were three years ago or six years ago. So whether you look at business banking at 20 per cent or you look at SMEs at 19 per cent, they are terrific franchises and we can bring the power of the Group to bear on those important relationships. We have been a bit more selective in recent years in terms of Global Corporates and FI but they are still great franchises now producing much stronger returns because of the efforts of the last three years or so. So I think in all of our segments we can win without moving away from what is a relatively low cost and low risk approach to that engagement with our clients. It doesn't mean it is an easy market, because others are pricing very competitively, but equally we are very clear that the business we don't want to do as well as the business that we do want to do.

Question 5

Will the RWAs come down again?

Answer: David Oldfield

Well materially I think we are saying RWAs will stabilise, we've spent the last of 3 to 5 years bringing those down and dealing poor returning assets. As we now pivot for growth particularly in that mid corporate space I think you can expect to see RWAs stabilise and over time slowly tick up. But importantly they will tick-up at what should still be market leading returns.

Question 6

Raul Sinha, JP Morgan

There are some pretty highly leveraged companies in certain sectors in the Mid Market segment and across the SME space and a lot of liquidations recently have caused distress across the SME sector. So every UK bank ended up with exposure to what was extremely high levels of debt and very low margins. What have you learnt from that experience and what gives you the comfort that if you go from £4 billion to £6 billion on net growth, you aren't actually exposing yourself to risk when there is more uncertainty?

Answer: David Oldfield

So we are prudent and we are low risk and we have been for some years. So that the big single name you talk about, we were the first bank to make provision in Q3 last year. We were one of only two banks to provide in Q3 and then we topped up in Q4. We do periodic deep dives in terms of particular sectors or industries. Clearly as some of the bigger names make their own calls in terms of some of the challenges they're facing, we are very quick to understand broader implications and the Carillion one, you will know what we did, we were the first bank to come out with the £50 million fund for the supply chain, the SMEs, the Mid Market customers of Carillion. So we are very attentive to the broader kind of market and segment impacts of some of the challenges that some of the big firms are playing. But we have always been selective in terms of our participation in that business. So if you take real estate, we have never done speculative CRE development, we are not in that at all. So we are, because we have been cautious and thoughtful for a long period of time, we are very confident in terms of the risk we have in our book today and the returns we are getting on it. And it doesn't mean you won't get the odd fallen angel, the Carillion type exposure, but that is the cost of doing business frankly. But the quality of our book is very good and we will continue to make sure it stays good even as we pivot for a bit of growth in that mid corporate space.

Question 7

Antonio, can I ask you about the sustainability of profits in the insurance business. You talked a lot about the growth opportunity and I agree, I think technology is quite exciting actually in allowing banks to steal market share. But about a third of the profits of the Insurance division came from assumption changes and other items. There is obviously a lot of things that go in there, for example the whole industry is benefitting from the fact that we are all living a little bit less longer, according to the stats. But how sustainable is the profitability that we are seeing and is there going to be a drag on profits from growth, i.e. it's a bit of a hockey stick when we think about the P&L?

Answer: Antonio Lorenzo

Well if I try to describe it as we see it. We have this existing book we are running and we make certain assumptions. And we are seeing that income here can go down, but at the same time we are growing in the new business and our view is that we will be sustainable and by 2020 we will see growth in the profits. The question is how quick and how good we are in terms of delivering the performance in terms of new business income. At the same time it depends on different circumstances which can drag on the longstanding customer position. But I think in essence, I believe we have left the worst behind in terms of the decline of several years in new business income and we have started to grow in some areas we will see growth going forward and we will offset this situation. I think we are pretty confident to get that level of returns that we are having and this is more significant.

Further question
Sorry, should we expect more positive experience variances and assumption changes, i.e. there's inbuilt prudence?

Answer: Antonio Lorenzo
By definition something that we know now should be in the accounts so, therefore, it is our best estimate that we have in the accounts.

<u>Question 8</u>
Can you talk about how your position and what your expectations are for bulk purchase annuity business?

Answer: Antonio Lorenzo
Well I think that it is a market where there is huge competition, but it depends on the market as well to how big the market could be. I think we are seeing some things going on in the market, big numbers and I think our expectations were that the market will grow and the market is growing. And the prices will be in a sensible place - they were not last year and this is the reason that we delivered a lower number of deals. The good news in terms of bulk annuities is, if we don't have the business, obviously we don't have the profits, but at the same time we have the capital and this is kind a win:win, I would like to see. My expectation is that still we will see more growth because there is £1.7tn of assets in defined benefit schemes that need to disappear and being in the hands of the corporates is not the best place to be.

Further question
So you don't see market share growing, per se, it is going to be reacting to the pricing?

Answer: Antonio Lorenzo
Exactly. We have seen last year, prior year we have around 20 per cent and this year we have 7 per cent because the pricing was not there.

Session 3

<u>Question 1</u>
Shane Finemore, Manikay Partners
It seems at first blush that the corporate banking business is the area where there is the lowest risk of mobile platform disintermediation and you have a big scale advantage in your total business in corporate. How do you leverage the fact that it is difficult to do, on mobile banking, to try to defend the other bits of your business that are exposed to those types of disintermediation risks?

Answer: David Oldfield
So I don't think you can view Commercial Banking as one business. We have got these segments from SME up through Mid up to Global and FI, and certainly at the bottom end in Retail Business Banking and in the smaller and more simple end of SME, it faces the same challenges in terms of automation and digitisation which is why we are trying to lead the way and we will use Open Banking and other investments in order to give our smaller business and SME clients that opportunity to do digital with us and self-serve in the way they want to.

Now as you move up the scale into Mid and Global, it is absolutely Relationship Managers that make the difference. But that said, we do need to continue to invest in those tools. It is the analytics, it is the insight. Because whilst clients still value Relationship Managers at that end of the continuum, what they want is that differentiated value-add insight. So that is where we are spending our time and energy in the coming period to make sure that we free up these RMs and the simple transactional activity they are spending much of their time doing today. But when they are sat in front of those larger clients they are bringing that insight to the table to help the strategic conversation.

Question 2

Alvaro Serrano, Morgan Stanley

On the Insurance Business. I realise there are parts of the business that are quite lumpy and we have seen it the second half of '17 that there was a step down. Is that the right level to then assume? You mention double digit growth, is that the right level or is there any business or one offs we should bear in mind there? Also it seems like you are going to bring distribution closer to the bank with the single view. What part of that double-digit growth depends on cross selling more with the bank with a single view because obviously cross selling feels like it's been regulated out of existence?

Answer: Antonio Lorenzo

Well, let me start from your first question about the results, if we have some lumpiness. In the new business income figure we have seen some level of lumpiness is the bulk annuities. And as George mentioned in the other presentation, the bulk annuities is a win-win situation: there are good deals in the market with good returns and if we get them, we will get the profit. But at the same time if we don't have these deals available then we have the capital available. And part of the number that George said – the circa £700 million – came because we were less active in the bulk annuities business.

The rest - part of this is based on the assumptions, economic assumptions where we are seeing some movements. In the recent past these have been positives, because we have seen some positive movements, but this is obviously lumpy and can change. It depends on the situation in the market; longevity or aspects like persistency i.e. customers that are staying longer with us, which is another source of opportunity for us because we have suffered a lot of attrition from our customers.

Other parts of the double-digit growth - there are different sources where can see growth in the income in the foreseeable future. We have seen that the level of bulk annuities that we have had this year is quite low. Secondly, I think without improvement, the view that we have of the business in corporate pensions, which is not a secret, is that we should get increased contributions from pensioners. This is the idea of auto-enrolment, though obviously there are some views in the market about how many people will be putting more money into their pensions with a squeeze in their salaries and wages, but this is the aim of the Government and all of us. And thirdly, there is an aspect of income that is coming from this point that you have mentioned around the single customer view, which is much more "bancassurance", which you might call old-fashioned, though it will not be old-fashioned as we are thinking of this as bancassurance in the 21st century, through the different channels and different sources - guidance or execution only. And we are seeing that growth in double digits as well in the banking side.

And I don't know if you have captured this, but outside of Financial Planning & Retirement, we have said that our expectations for Protection and Home Insurance is to see growth as well in the franchise arena. We are expecting to see double the number of sales in the franchise arena for home insurance and protection. This is quite comprehensive, but we are expecting growth in every single channel, not only one.

Question 3

Claire Kane, Credit Suisse

Hi, I have a question on the £50 billion asset growth target over time. So I think its £8 billion for the first year and then obviously accelerating in the later years. So could you just help us to explain the timing of that, what projects are underway?

Answer: Antonio Lorenzo

This £50 billion has two parts. One is around £20 billion that is coming from the Zurich acquisition because it is still not in our portfolio. And the reason for the £8 billion in the first year and a bigger number in the second year is a big chunk of the business will come with the Part VII and we are not expecting the Part VII to happen until 2019. So therefore of the £50 billion, we will have around £20 billion of inorganic growth and £30 billion of organic growth. So if you multiply by 3, ballpark figure, 3 times 8 is 24 – that's 20, and we expect as we progress and have more information, single customer view, etc. this £8 billion in the future will be bigger and bigger.

Further question
Can I just ask, a lot of the discussion today has been about freeing up time to deal with more complex needs and many of that being in your business. So do you think there is a situation at the moment where you are missing out on a lot of opportunity and revenue growth opportunity because you don't have the capacity currently to deal with it?

Answer: Antonio Lorenzo
I think that at this point in time we are interested in the same as the rest of the Group. For example, at this point in time, to get a mortgage with a mortgage adviser takes around a couple of hours, and if you want to put life insurance on top of that, before the changes that we are going to implement, this would take between 60 and 90 minutes. In due course this will be around 20 minutes. So, as with the mortgage transformation, we will reduce the time to get things done. I think we have enough capacity with the changes that we have to deliver to meet the customers' expectations. But if not, if we don't achieve on time, I think we can bring more people. But we think there is a lot of room to in the things we are doing, gaining productivity to aim to have more time with customer needs.

<u>Question 4</u>
Michael Helsby, BAML
As you mention clearly there's a lot of moving parts so I was just wondering, if everything was a success out to 2020 in your ambition, what does that actually mean for revenues? So you've got £2 billion as a base for 2017 – where do revenues go in 2020 if you deliver on everything? And I have got a follow-up question if you say higher.

Answer: Antonio Lorenzo
As George said, higher. We are putting more focus, as I said, on new business income; new business income this year is around £300 million. I think if we are doing well we should have substantially higher than this number, much higher; hundreds higher.

Further question
And for the sustainability of the back book given, as you mention, experience variances in which there is a revenue recognition change and presumably that drops away?

Answer: Antonio Lorenzo
This is the idea as I said; in the medium, long-term, this new business income will offset the consequences that we can see for the run-off.

Further question
So are the revenues flat or still down or…?

Answer: Antonio Lorenzo
I think we are expecting revenues up because of the combination of the things that will give us a revenue upside. To be fair if you have a look at the last couple of years, I think, we have been holding up very well in terms of the longstanding customers income. But obviously we want to be prudent and we think that the income should go down as is happening with other competitors. For that reason we are putting huge focus on the new business income to more than offset this situation.

Further question
And clearly there is a lot in the press about Standard Life Aberdeen and potential tie-up you were looking to do there. I wonder if you could talk about that and what capabilities you were very interested in bringing to the party, and whether not doing that is a big detriment to…?

Answer: Antonio Lorenzo
I think at this point in time this is not on the table. I cannot speculate on that. At this point in time, as you can imagine, I cannot give you more information because it is not on the table.

<u>Question 5</u>

Chintan Joshi, Abaco

So actually one for you, David. If I think about Other Operating Income in Commercial Banking. This £3 billion spend - how much of that helps you grow that, because it has been quite stagnant over the last few years?

Answer: David Oldfield

So I'm about 70 per cent NII and about 30 per cent OOI give or take. So some of the investment is in the working capital products where we are underweight. So trade finance, supply chain finance, asset finance, HP and leasing, all of that stuff is pretty good for fee income. So I think that is an area of opportunity. Now what you do get in a business like mine is the lumpiness of the kind of non-flow activity in the market space, just depending on what is happening in terms of volatility. So there is a bit of a kind of, it kind of pops up and down a little bit. But certainly as the GSR3 investment, it is very much targeted on those really nice capital light products that would drive fee income we hope.

Further question

So how much of that £3 billion is targeted to Commercial Bank?

Answer: David Oldfield

I won't do the split out now as there is a whole load of stuff that is being built across the Group that I just make use of for free. And then there is the stuff that is specifically targeted in Commercial so I don't know the split, but it is a chunky old number, certainly much more than what was in GSR2.

<u>Question 6</u>

So a follow-up. So if I look at the two slides you provide you split out between SME and Mid-Market and Global Corporate. The SME and Mid-Market – you've got a great track record there and that is more of an NII than an OOI benefit presumably? If you look at the Global Corporate and Financial Institutions, that is where you have actually been giving up and ceding a bit of share.

Answer: David Oldfield

Well we have been selective in terms of our participation. Certainly in Global Corporates, we have been selective.

Further question

So I guess my question there is given your aspiration, particularly on cash management mandates - one in eight to one in three sounds quite a jump. When you think more broadly that is often attached to trade finance to FX rates, so forth. What gives you a unique proposition versus peers? This is one of the few areas where the decision to retrench to just the UK, I imagine, is a hindrance rather than a help?

Answer: David Oldfield

I think we are playing catch-up, is the reality. Through the last three years, pre the investment through GSR2 we really didn't have those modern capabilities around trade and cash and payments which is why we ended up not winning many cash management mandates. Now the last three years has been a story of investing in order to build the platform. The next three years is less action in terms of investing in those specific platforms. It is more about, now more confidently having the RMs going to market and to clients to say that we can do all these things for you. So we have been under weight because of the last three years. I expect us now to catch-up. But all that said, we will continue to be selective around that Global Corporate space.