



# Strategic Review 2021

William Chalmers  
Chief Financial Officer  
24 February 2021



# Today's environment brings new challenges and opportunities



## Our core capabilities

Purpose driven, customer focused business model

Differentiated and sustainable franchise

Digital leadership

Efficiency and investment focused

Low risk business



## Challenges

Restoring personal and business finances to health

Increasing societal expectations

Macro environment to remain challenging

Accelerated shift to digital and new technology capabilities, with increased competition

Lasting changes to ways of working

## Opportunities

Taking a transformational and leading role in **Helping Britain Recover**

Repositioning and **delivering revenue growth and diversification**

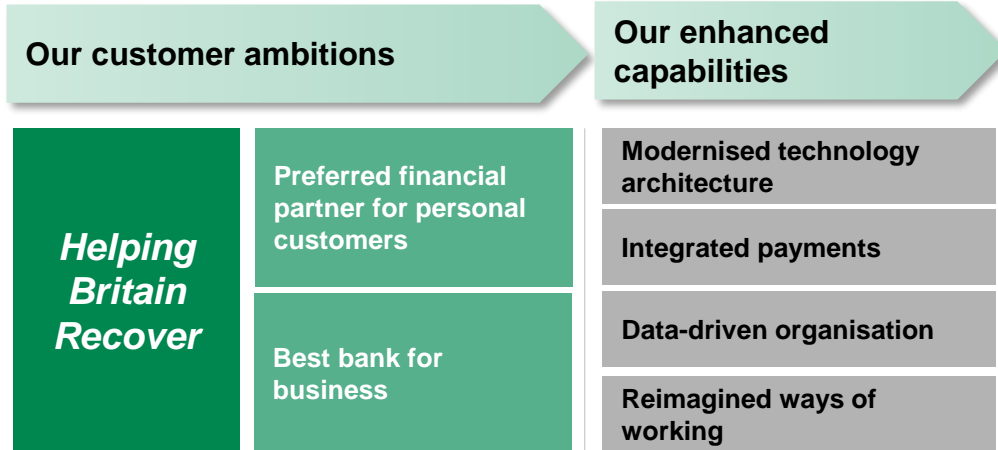
**Deepening customer relationships and delivering step change in efficiency** through technology

**Investing in people** to support transformation and **deliver a more inclusive organisation**

# Strategic Review 2021: The next evolution of our strategy



## Our strategy – Building the UK’s preferred financial partner



## Our business model

*Customer focused, sustainable, efficient and low risk UK financial services leader*

- Core purpose of Helping Britain Prosper, with focus of **Helping Britain Recover** at the heart of our strategy
- Unlocking **coordinated growth opportunities** across our core businesses, supported by our **enhanced capabilities**
- **Clear execution outcomes** for 2021, underpinned by **long term strategic vision**
- Supported by significant levels of **strategic investment**

# Helping Britain Recover: Focused on where we can make a difference, embedded in the business

## Helping Britain Recover priorities



Help rebuild households' financial health and wellbeing



Support businesses to recover, adapt and grow



Expand availability of affordable and quality homes



Accelerate the transition to a low carbon economy



Build an inclusive society and organisation



## Supporting our enhanced ambitions

>6,500 colleagues trained to support customers build their financial resilience

£10bn FTB<sup>1</sup> lending; continuing to support good quality social housing

Supporting UK's transition to a low carbon economy with expanded Group target of net zero by 2050, or sooner:

- Help reduce carbon emissions we finance by >50% by 2030
- Halve the carbon footprint of Scottish Widows investments by 2030
- Own operations carbon emissions net zero by 2030
- Expand funding for green finance initiatives from £3bn to £5bn in 2021

Leadership team reflecting the society we serve; aspiration of 50% women, 3% Black and 13% Black, Asian and Minority Ethnic colleagues in senior roles by 2025

# Preferred financial partner for personal customers

## Long term vision

*Leveraging our unique capabilities to meet more of our customers' needs*

### Capability and opportunity

Largest UK personal customer franchise with multi-brand, multi-channel model

**c.50%** UK adults with LBG relationship<sup>1</sup>

**17.4m** Largest UK digital bank  
*Digital active users*

Opportunity to deepen priority segment relationships

**70%** Priority segment LBG customers with current account relationship

**c.£10bn** LBG customer transfers to other wealth providers in 2020<sup>2</sup>

### 2021 investment focus

Enable financial resilience and wellbeing through dedicated customer assessment and support

Significantly deepen relationships with priority segments through enhanced journeys and new capabilities

Digitise to reduce cost to serve

### Measures of success

*Net open book mortgage growth in 2021*

*Maintain record all channel NPS in 2021 (FY 2020: 68)*

*Increase priority segment customers with needs met by both Retail and Insurance & Wealth*

*Positive annual net new money in Insurance & Wealth<sup>3</sup> to deliver £25bn increase by 2023*

# Best bank for business



## Long term vision

*Leading digital SME bank; disciplined and strengthened large client proposition*

### Capability and opportunity

**Leading SME franchise, with disciplined large corporate business**

**c.6pp**

Increase in SME lending market share since 2010 to 19%

**>60%**

of FTSE100 have an active relationship with LBG

**Opportunity to add value to client offering**

**2x**

Higher revenue generation for digitally active clients vs. non-digitally active<sup>1</sup>

**10<sup>th</sup>**

Modest ranking across core Markets areas<sup>2</sup> e.g. GBP rates

### 2021 investment focus

**Automate recovery support and finance the green transition**

**Enhance SME channel and service with increased digitisation**

**Strengthen Corporate & Institutional product capabilities**

### Measures of success

*>50% growth in SME products originated via a digital source in 2021*

*5 point increase in SME digital NPS by 2023<sup>3</sup>*

*Profitably improve share in Markets products for core clients in 2021*

# Modernised technology architecture



## Long term vision

*Efficient, scalable and resilient cloud-based architecture, supporting business transformation*

### Capability and opportunity

Technology platform advanced through GSR3

**Intraday** Release cycles for simple digital changes, down from 30 days

**>£4bn** Cumulative technology spend 2018-2020

**Substantial opportunity to deliver further enhancements**

**c.30%** Reduction in time to deliver new features through cloud adoption<sup>1</sup>

**c.60%** Technology applications and services targeted for migration of total estate over long-term

### 2021 investment focus

**Further broaden self service capabilities through digitisation**

**Prove and leverage public cloud to create foundations for future technology architecture**

**Simplify legacy estate through technology optimisation**

### Measures of success

*Mobile app releases to double YoY in 2021*

*Further mobile app enhancement to maintain record mobile-app NPS (FY20: 69)*

*c.30% of technology applications and services migrated and c.20% decommissioned by 2023*

*Deliver new technology architecture pilot*

<sup>1</sup> – Example based on time to deliver new Commercial Banking digital feature.

# Modernised technology architecture: 'R&D' investment to assess potential for step change in customer proposition and efficiency

## Next-gen technology capabilities developed through partnerships



Google Cloud

Strategic partnerships signed in 2020 as part of **multi-cloud strategy**



Microsoft Azure



Thought Machine

Strategic partnership first formed in 2018, utilising capabilities to **accelerate technology transformation**



Stake acquired in **cloud-native payments business** in 2020

### 2021 targeted milestones will determine pace and scale of roll-out

**c.400k customer accounts** safely migrated to pilot of new bank architecture

**c.40% reduction** in applications from legacy architecture in pilot

## Significant opportunities exist



**Innovative customer propositions** with leading functionality



Transformed customer experiences; **increased efficiency and personalisation**



**Highly scalable, resilient and agile** architecture with reduced estate



Improved operational agility, supporting a **transformed cost base**



# Integrated payments

## Long term vision

*Seizing the payments growth opportunity in our customers' channel of choice*

### Capability and opportunity

Strong foundations

**#1**

**>20%**

Largest UK card issuer    Card spend market share<sup>1</sup>

Positioned to benefit from digital acceleration

**46%**

e-commerce mix of debit spend in 2020 (+13pp vs. 2017)

New **cash management & payments** platform with **leading API functionality** developed in GSR3

Significant growth opportunities

**14pp**

Gap between SME relationship and acquiring market shares

### 2021 investment focus

Enhance cards e-commerce & international payments experience to drive increased customer usage

Build capability and integration of new cash management and payments platform

Enhance merchant services proposition with improved distribution capabilities

### Measures of success

*Maintain leading card spend market share in 2021; grow credit card spend market share from 2022*

*3x increase in corporate clients on new cash management & payments platform in 2021*

*15%-20% new client growth per annum in merchant services*

<sup>1</sup> – Weighted average debit and credit card spend shares.

# Data-driven organisation



## Long term vision

*Leveraging our data proposition to create value for all stakeholders*

### Capability and opportunity

Investment has created strong data capabilities

**c.14bn**

Customer transactions and interactions in 2020

**20%**

Customer needs met today driven by data-led marketing

Further opportunities to create value in 2021

**50%**

Increase in the number of highly personalised customer interactions

**>50%**

Customer transactions to be covered by machine learning

### 2021 investment focus

Expand use of data to enable more personalised customer and business propositions

Extend machine learning capabilities to drive faster and more accurate pricing and risk decisions

Deliver organisational reform of data strategy and management, supporting collaboration

### Measures of success

*Increase personal customer needs met using data and advanced analytics (eg. 20% increase in home insurance needs met<sup>1</sup>)*

*>10% increase in fraud detection rates from expansion of machine learning*

*50% return on investment in year 1 from investment in advanced analytics*

# Reimagined ways of working

## Long term vision

*Purpose-led, future ready and inclusive workforce in a transformed workspace*

### Capability and opportunity

**Significant progress during GSR3**

- 81%** Colleague engagement index; up 7pp YoY to all-time high<sup>1</sup>
- 23%** Reduction in property footprint

**Pandemic creates new opportunities**

- 77%** Colleagues currently working from home want to continue to do so three or more days per week in the future<sup>2</sup>
- c.45%** Office leases expiring over next 5 years

### 2021 investment focus

**Further build our purpose-led culture through refreshed values and behaviours**

**Deliver sustainable workplace solutions, including reduced office footprint**

**Build career pathways to attract and retain a more diverse, skilled and future ready workforce**



### Measures of success

*Maintain leading Employee Engagement Index score*

*8% reduction in office space in 2021, with c.20% cumulative reductions by 2023*

*Aspiration of 50% women, 3% Black and 13% Black, Asian and Minority Ethnic colleagues in senior roles by 2025*

1 – All time high since measurement began in 2011. 2 – Percentage of colleagues who did not work from home previously, surveyed summer 2020.

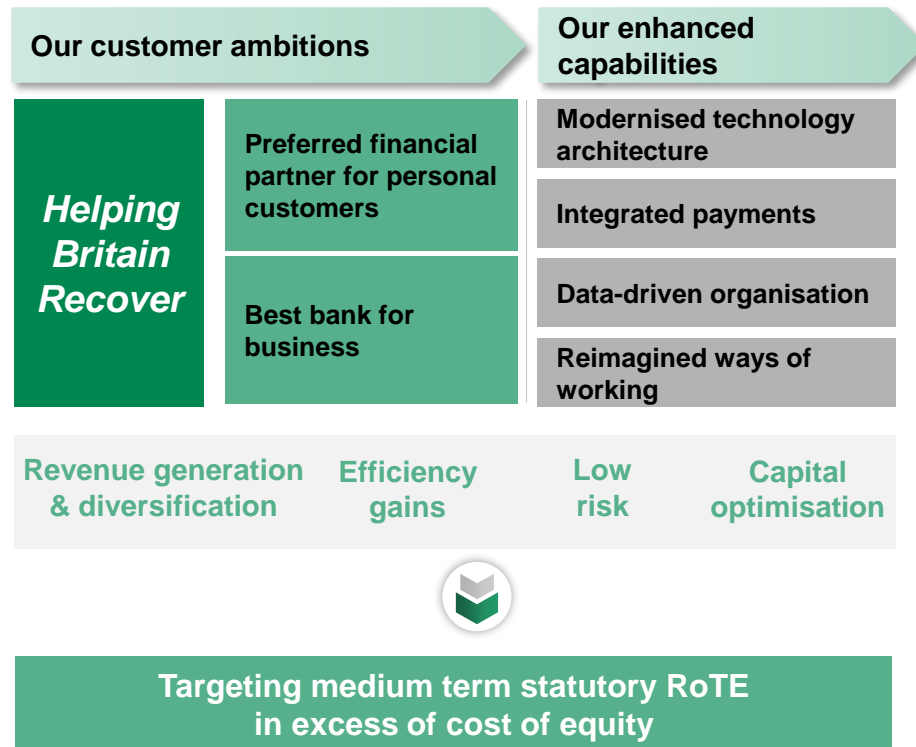
# Strategic Review 2021: The next evolution of our strategy



## Clear execution in 2021

- Guidance based on current economic assumptions:
  - Net interest margin to be **in excess of 240bps**
  - Operating costs to reduce further to **c.£7.5 billion**
  - Net asset quality ratio to be **below 40bps**
  - Improving profitability with **statutory RoTE between 5% and 7%** (new basis)
  - RWAs **broadly stable on 2020**
  - Intention to **accrue dividends** and resume **progressive** and **sustainable** ordinary dividend policy

## Delivering sustainable shareholder value



## Strategic Review 2021: The next evolution of our strategy



**Core purpose of Helping Britain Prosper remains unchanged**



**Focused on Helping Britain Recover, in areas where we can make a difference**

**Unlocking co-ordinated growth opportunities across core business areas**



**Supported by our enhanced capabilities**

**Clear execution outcomes for 2021**



**Underpinned by long term strategic vision**

# Forward looking statements



This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. Examples of such forward looking statements include, but are not limited to, statements or guidance relating to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future.

Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; the Group's ESG targets and/or commitments; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality impacting the recoverability and value of balance sheet assets; concentration of financial exposure; management and monitoring of conduct risk; exposure to counterparty risk (including but not limited to third parties conducting illegal activities without the Group's knowledge); instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU), the EU-UK Trade and Cooperation Agreement, and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic (including but not limited to the COVID-19 pandemic) and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, or other such events; geopolitical unpredictability; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the UK's exit from the EU; changes to regulatory capital or liquidity requirements (including regulatory measures to restrict distributions to address potential capital and liquidity stress) and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key laws, legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.