Strategic Review 2021

William Chalmers
Chief Financial Officer
24 February 2021
Today’s environment brings new challenges and opportunities

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<th>Our core capabilities</th>
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<td>Restoring personal and business finances to health</td>
<td>Taking a transformational and leading role in Helping Britain Recover</td>
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<td>Differentiated and sustainable franchise</td>
<td>Increasing societal expectations</td>
<td>Repositioning and delivering revenue growth and diversification</td>
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<td>Digital leadership</td>
<td>Macro environment to remain challenging</td>
<td>Deepening customer relationships and delivering step change in efficiency through technology</td>
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<td>Efficiency and investment focused</td>
<td>Accelerated shift to digital and new technology capabilities, with increased competition</td>
<td>Investing in people to support transformation and deliver a more inclusive organisation</td>
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<td>Low risk business</td>
<td>Lasting changes to ways of working</td>
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Our strategy – Building the UK’s preferred financial partner

**Our customer ambitions**
- Preferred financial partner for personal customers
- Best bank for business

**Helping Britain Recover**

**Our enhanced capabilities**
- Modernised technology architecture
- Integrated payments
- Data-driven organisation
- Reimagined ways of working

**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\(^1\) 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

1 – First Time Buyers.
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\(^1\)
- 17.4m Largest UK digital bank
- 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\(^2\)

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\(^3\) to deliver £25bn increase by 2023

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\(^1\) All primary & secondary active customers, core Retail only.  
\(^2\) LBG customer outflows to categories: ISA, Stocks & Shares and Other investment to major providers. Gross basis.  
\(^3\) Across pensions, wealth & investments (open book). Excludes market movements.
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 active1

10th  Modest ranking across core Markets areas2 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 20233

Profitably improve share in Markets products for core clients in 2021

1 – Based on Retail Business Banking and SME clients.  2 – Combined Tradeweb and Bloomberg GBP IRS ranking Q1 20.  3 – SME includes Retail Business Banking
Modernised technology architecture

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

Long term vision

**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\(^1\)
- 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

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1 – 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

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

- **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

Seizing the payments growth opportunity in our customers’ channel of choice

Capability and opportunity

Strong foundations

#1
Largest UK card issuer

>20%
Card spend market share\(^1\)

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

1 – Weighted average debit and credit card spend shares.
## Data-driven organisation

### Long term vision

Leveraging our data proposition to create value for all stakeholders

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<th>Capability and opportunity</th>
<th>2021 investment focus</th>
<th>Measures of success</th>
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<td>Investment has created strong data capabilities</td>
<td>Expand use of data to enable more personalised customer and business propositions</td>
<td>Increase personal customer needs met using data and advanced analytics (e.g. 20% increase in home insurance needs met)</td>
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<tr>
<td><strong>c.14bn</strong> Customer transactions and interactions in 2020</td>
<td>Extend machine learning capabilities to drive faster and more accurate pricing and risk decisions</td>
<td>&gt;10% increase in fraud detection rates from expansion of machine learning</td>
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<tr>
<td><strong>20%</strong> Customer needs met today driven by data-led marketing</td>
<td>Deliver organisational reform of data strategy and management, supporting collaboration</td>
<td>50% return on investment in year 1 from investment in advanced analytics</td>
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<tr>
<td>Further opportunities to create value in 2021</td>
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<tr>
<td><strong>50%</strong> Increase in the number of highly personalised customer interactions</td>
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<tr>
<td><strong>&gt;50%</strong> Customer transactions to be covered by machine learning</td>
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1 – Through direct channels.
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 high1

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 future2

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.
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

- **Our customer ambitions**
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- **Our enhanced capabilities**
  - Modernised technology architecture
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  - Reimagined ways of working

- **Revenue generation & diversification**
- **Efficiency gains**
- **Low risk**
- **Capital optimisation**

**Helping Britain Recover**

**Targeting medium term statutory RoTE in excess of cost of equity**
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
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