



# Strategic Review 2021

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# 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**

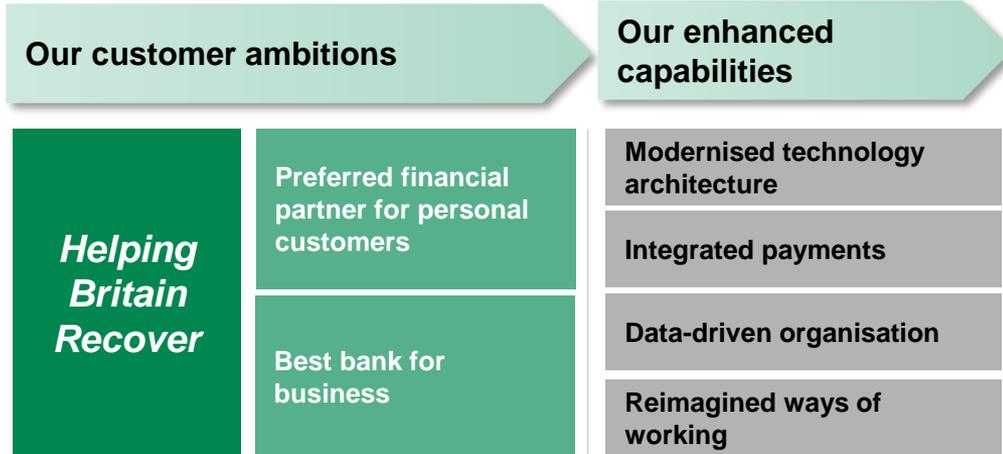
**Deepening customer relationships and delivering step change in efficiency** through technology

**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*

**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*

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 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.

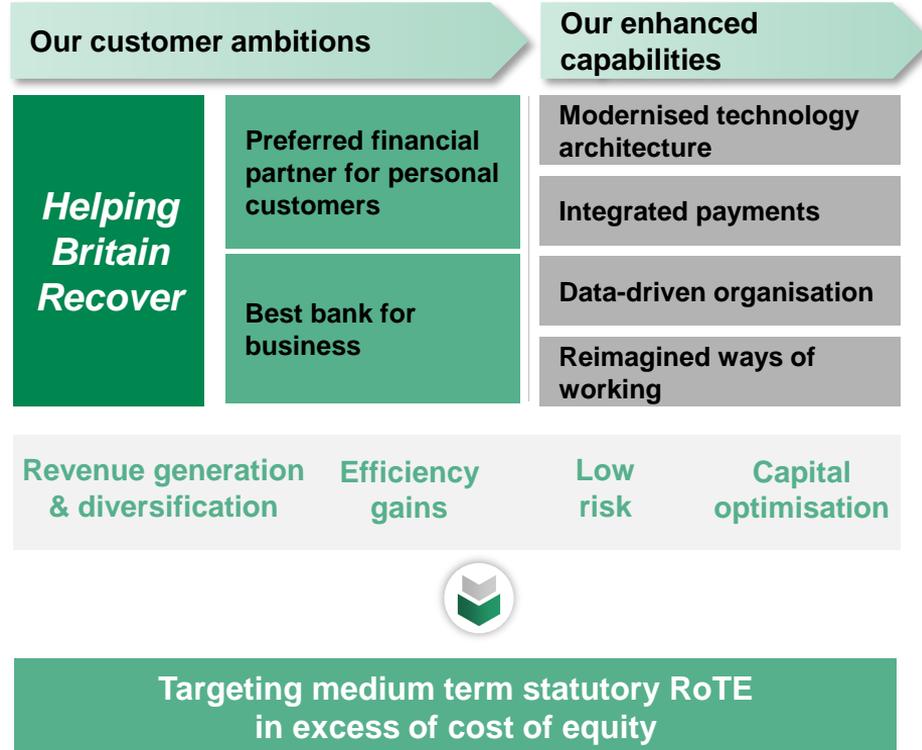
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## Clear execution in 2021

- 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**

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