

SUPPORTING UK BUSINESSES

LLOYDS BANKING GROUP



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2 per cent

as at the end of September 2011.

OUR LENDING TO SMALL AND MEDIUM SIZED BUSINESS (SMEs)

- Lloyds Banking Group's year-on-year net lending growth in our core Commercial business was over **2 per cent** as at the end of September 2011, which continues to compare favourably with the negative growth in SME lending across the industry reported in the latest available market statistics from the Bank of England.

- We provided **£32 billion** of committed gross

lending to UK businesses during the first nine months of 2011, of which **£9.6 billion** was to SMEs.

- The Group is on track to deliver its full year contribution to the Merlin lending agreement, in which the participating banks agreed to jointly make available gross new lending of **£190 billion** to creditworthy UK businesses, including **£76 billion** for SMEs.

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OUR FINANCIAL SUPPORT TO SMEs

- Approval rates remain consistently high. We **approve eight out of ten loan and overdraft requests** – consistent with our long term average.

- We offer **18 months free** day to day banking for start ups and 6 months free day to day banking for switchers.

- We have **simplified our charges**, by introducing the UK's first range of Monthly PricePlans. Customers can pay a simple, fixed, monthly fee to cover their day-to-day banking transactions.

- We are actively involved in a range of Government schemes, including the **Enterprise Finance Guarantee (EFG)**. We are one of the most active lenders in this scheme and by the end of September 2011 we had offered more than **4,750 EFG loans, worth £354 million** – nearly 30 per cent of all loans granted through the scheme so far.

- Lloyds Banking Group is supporting local communities by helping a growing number of entrepreneurs to use their business know-how for good causes. Recent examples include the provision of finance for **social enterprise**

projects as diverse as rehabilitation centres for soldiers and a shelter for vulnerable and homeless people.

- We are providing other sources of finance for our customers, including Asset Backed lending. Larger businesses continue to take advantage of alternative sources of finance including the bond and equity markets. Our private equity division, **LDC**, is playing a crucial role in supporting SMEs. In the 12 months to September 2011, LDC invested over **£290 million in 14 companies**.

- Lloyds Banking Group is one of four banks that have, together, agreed to provide **£200 million to Big Society Capital**, to create a sustainable social finance model in the UK.

- We are also working closely with the British Business Angels Association, supporting its efforts to help small firms secure equity from private investors.

- Lloyds TSB has also secured a further tranche of funding, worth **£150 million, from the European Investment Bank**, which will provide a further source of finance for customers, at discounted rates.

We approve

eight out of ten

loan and overdraft requests.

Our local managers have the authority to agree lending up to

£500,000

We have supported more than

200,000

start ups since January 2010.

THE ECONOMIC ENVIRONMENT

- Our latest Business in Britain survey (July 2011) showed that, although confidence had improved slightly, businesses were still reluctant to invest.
- The most recent Bank of England 'Trends in Lending' report (October 2011) shows that smaller businesses are reluctant to

hold increased levels of debt given a more uncertain economic outlook and a fall in consumer confidence.

- Our SME customers still have substantial **headroom on overdrafts**. Less than 60 per cent of our borrowing facilities are being drawn upon – unchanged since 2009.

THE COST OF BORROWING

- The **absolute cost of borrowing is still around half that in 2007**. For SMEs, in September 2011, 76 per cent of new term lending by Lloyds TSB and 68 per cent of lending on new or renewed overdraft facilities was at an interest rate margin of less than 4 per cent over Base rate.
- Our **overall lending margin over Base rate** on Lloyds TSB loans and overdrafts to SMEs is around 2.5 per cent and is almost identical to the margin in 2007, despite our increased cost of funding.
- Our **SME Charter** pledges to encourage enterprise, support access to finance, and explain the terms on which we will lend. It includes several **promises on pricing**, for example

that the price of existing loans or renewed overdrafts will reflect our cost of funding and that the margin we charge over our cost of funding will only increase where there has been a material increase in risk. We have also promised that arrangement fees on loans and overdrafts will not be greater than 1.5 per cent of the overall value of the facility.

- Over the past three years we have **not introduced any new fees or charges** and our arrangement fees have not increased.
- Our **credit policy has remained consistent** through the economic cycle. We have not changed our criteria and only seek security where appropriate, on a case by case basis, reflecting risk and type of facility.

OUR BROADER SUPPORT FOR SMEs

- We are one of the banks involved in the **Business Finance Taskforce** and are delivering 17 measures to improve customer relationships, ensure better access to finance and promote a better understanding of the industry. This is in addition to the work we are already doing to support our customers.
- We have led the development of the new industry appeals process, and have introduced our own **Appeals Pledge**, as part of our SME Charter, which goes beyond industry agreed guidelines. We have **pledged to resolve 90 per cent of customer appeals within 15 working days**, and to make a goodwill payment of £150 wherever a decision is overturned in a customer's favour.
- We have been leading the industry's development of the Business Finance Taskforce **mentoring** initiative, including the development of a portal connecting SMEs with mentoring organisations and networks. So far nearly 40 per cent of volunteer mentors from banks have come from Lloyds Banking Group.
- Our SME Charter includes a promise to hold at least 200 business seminars a year on issues that matter to SMEs. In the first nine months of 2011 we held almost **600 customer networking events** – surpassing our annual target.
- In our Charter, we also promised to help 100,000 start ups in each of the three years to the end of 2012. So far this year we have attracted 95,000 start ups, meaning we have **supported more than 200,000 start ups** since the Charter launched in 2010.

- We recognise the increasing need for SMEs to demonstrate their environmental credentials. In conjunction with the University of Cambridge, we have **trained 400 business and environment managers nationwide**, on the science, opportunities and risks of climate change. We are the only UK bank to have launched a sustainability website, offering practical advice to help businesses plan for the future and reduce their costs.
- We are now focusing on helping our customers maximise the opportunities of the **London 2012 Olympic and Paralympic Games**, in order to ensure a lasting legacy for businesses. **One in three contracts** awarded so far for London 2012 have gone to our business customers.
- Lloyds Banking Group's innovative Monthly PricePlans highlight our commitment to delivering **straightforward, fair and transparent pricing**. SME customers can switch between the plans to suit their current business needs and will be given notice when an alternative tariff would better suit their circumstances.
- We have responded to our customers' needs for greater access to business advisers by training **2,500 branch staff** nationwide to open business accounts and support the needs of start ups. We also have a network of **more than 5,000 Commercial staff** nationwide, to help support customers.
- Unlike many other banks, local lending discretion is an important part of the service we offer our customers and our **local managers have the authority to lend up to £500,000**.