

COMMERCIAL BANKING

Business Leaders Survey 2017

Helping Britain Prosper
Globally

Monday 6th February

#LloydsBankBLS

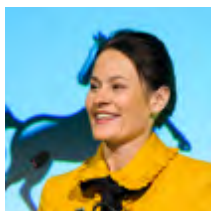


LLOYDS BANK

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Foreword



Clare Francis

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Given the scale of change and uncertainty we currently face, it is not surprising that the question business leaders are trying to answer is how to lead in complicated times. Political, economic, digital and demographic shifts are reshaping the world. The events of the past year highlight just how difficult it is to predict the future and plan for whatever may be coming around the corner.

Dealing with disruption and unpredictability is challenging enough, yet today's C-suite must be able to run the business of today while creating the business of tomorrow. As we face urgent challenges, we need to ensure that the broader strategic issues do not slip down our list of priorities: building agile and sustainable businesses that face the challenges of disruption while nurturing talent and diversity. Responsive, responsible and collaborative business leadership has never been more important.

Our Lloyds Bank Business Leaders Survey allows C-suite executives to share the topics at the front of their minds.

It has enabled us to build a snapshot of evolving business sentiment on a variety of issues over time. Our sincere thanks go to the many business leaders who gave up their valuable time this year to share their candid views and observations with us, both by completing the online Survey and granting us meetings to hold more extensive and deeper conversations face-to-face to give added context.

Your responses have provided us with invaluable insights into today's business challenges as well as the trends and issues shaping decision-making tomorrow. They deliver a statement on the prospects for UK business and on strategies for prosperity in the new political and economic landscape. Above all, they inform our discussions at this our 2017 Lloyds Bank Business Leaders Summit.

This time last year we gathered against a backdrop of market volatility and geopolitical uncertainty. Change, agility and resilience were top of mind.

As we gather this year, our Survey shows that nearly half of you now expect global economic conditions to deteriorate over the next 12 months – only a third of you were as pessimistic last year. However, you remain resilient in your longer-term outlook. In terms of strategic focus, you're still targeting growth while keeping a firm eye on managing risk. You're looking at integrating sustainability into your businesses and are concerned about digital infrastructure.

Here at Lloyds Bank we have supported our valued corporate clients through changing economic conditions, disruption and challenge for more than 250 years. Lloyds Banking Group is the UK's largest retail and commercial bank and we take seriously our responsibility to Help Britain Prosper in the global economy. We hope that this report will provide information and insight to support this goal.

Executive Summary

Between November 2016 and January 2017, Lloyds Bank conducted its third annual Business Leaders Survey – with field work carried out by Ipsos MORI – among leadership teams of larger companies operating from the United Kingdom. We asked business leaders for their views on the business environment and the risks they face, as well as exploring how they will be responding to the challenge of growth in the face of unpredictability and change in 2017. This is a snapshot of what's on their minds this year.

In 2017 business leaders:

- feel more pessimistic about global economic conditions with almost half expecting them to deteriorate
- remain concerned about geopolitical uncertainty and slow or volatile economic growth
- are increasingly nervous about volatile financial markets
- are not convinced that interests of British business will be protected and promoted in negotiations surrounding the UK's exit from the EU
- believe the UK's infrastructure lags behind its competition and that investment, particularly in digital infrastructure, is needed to support business through post-Referendum uncertainty
- but are nonetheless confident about their own business growth and have switched their focus to growth from managing risk

Against this background, business leaders are:

- increasing their focus on organisational agility to equip them to adapt and respond to fast-changing circumstances and foster innovation - although they see building and sustaining an agile culture as a significant challenge
 - urging the UK Government to give priority to international trade and retaining access to skilled workers from overseas in negotiations to leave the EU
 - in a much higher state of alert about cybercrime and increasing their planning beyond technology fixes to look at people and process solutions
 - taking action to integrate sustainability into their businesses, particularly into their supply chain management
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The global economy

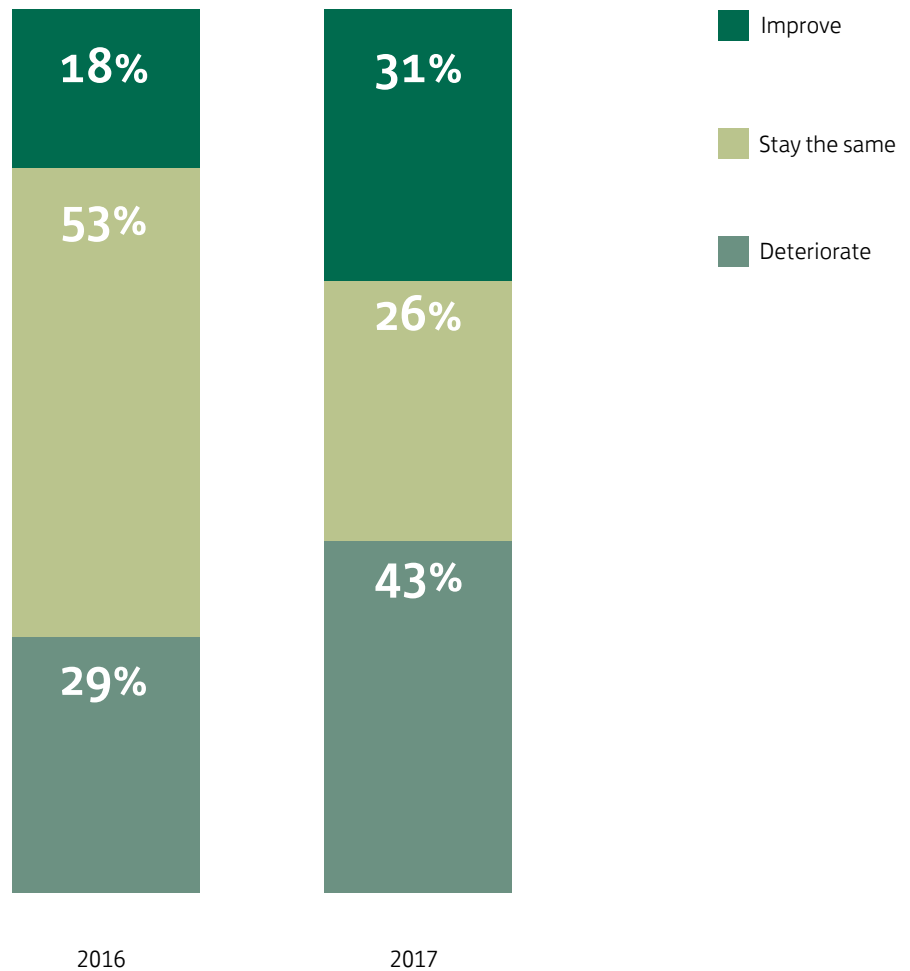
Less optimistic about the global economic outlook compared with 12 months ago

Following a tumultuous year of shocks and surprises, sweeping political changes and economic challenges, uncertainty about global economic conditions has increased.

Nearly half of business leaders (43%) feel less confident about global economic conditions and expect them to deteriorate over the next 12 months. This is a noticeable increase on the nearly one third (29%) who predicted the same last year.

The minority that anticipated an improvement in economic conditions increased to 31% from 18% last year.

Over the next 12 months, do you expect global economic conditions to improve, deteriorate or stay the same?



Risk

Geopolitics and slow growth lead the risks to business

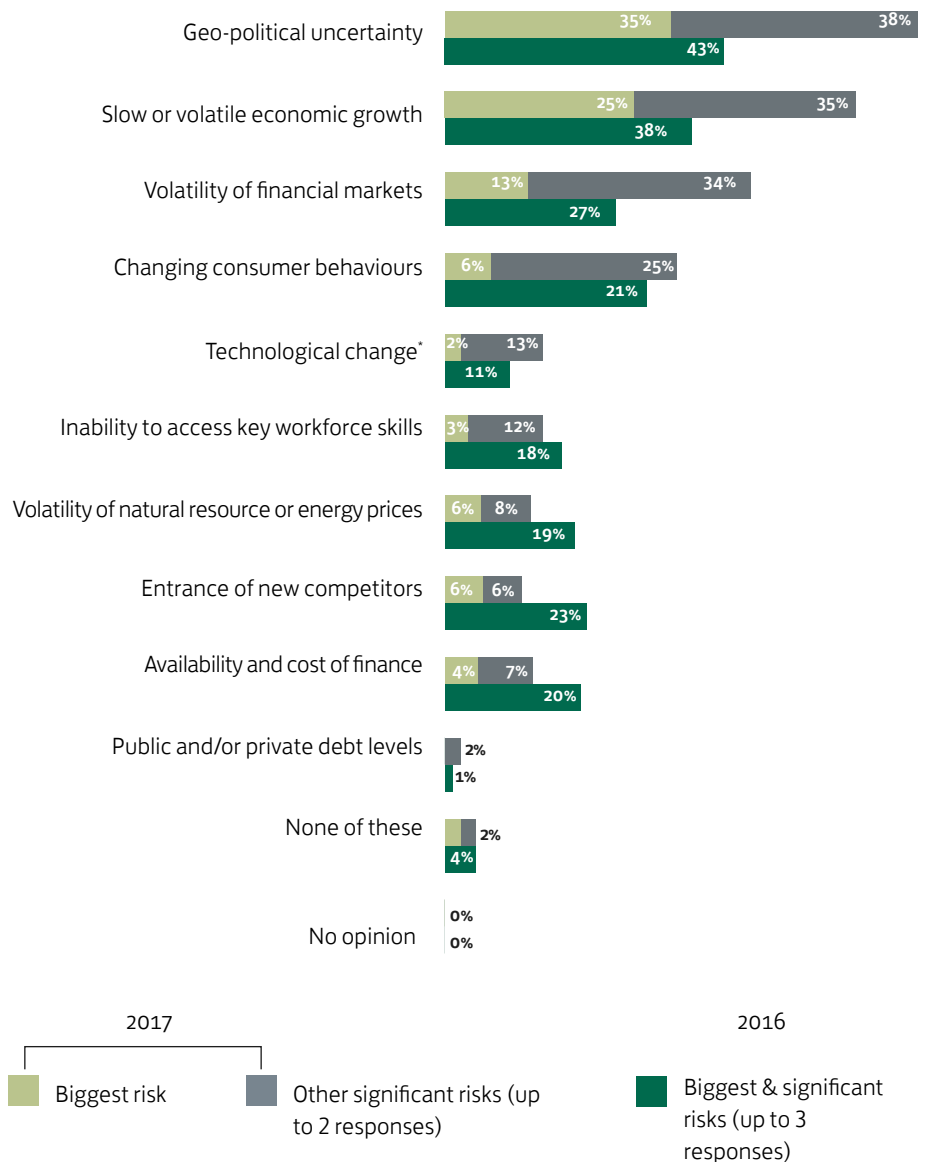
Geopolitical uncertainty and slow or volatile economic growth remain the top-ranked concerns for business leaders, consistent with last year's report.

However, their focus on the risk associated with geopolitical uncertainty has risen significantly from 43% to 73% and concern about the risk of slow or volatile economic growth has also risen, from 38% to 60%. Nervousness about the risk of volatile financial markets has increased from 27% to 47% and changing consumer behaviours from 21% to 31%.

Business leaders also remain concerned about technological change, which was cited by 15%.

Concern has fallen in relation to volatility of natural resources and energy prices, availability and cost of finance, entrance of new competitors and inability to access key workforce skills.

Which, if any, of the following do you think are the risks to your business performance in the coming 12 months? (Biggest risk/other significant risks)



*In 2016 this was worded as 'speed' of technological change

Base: All respondents 2016 (87) and 2017 (77) Lloyds Bank Business Leaders Survey 2016 and 2017
Net percentages (i.e. where responses are combined) may differ to manual sums due to rounding

Business priorities and growth

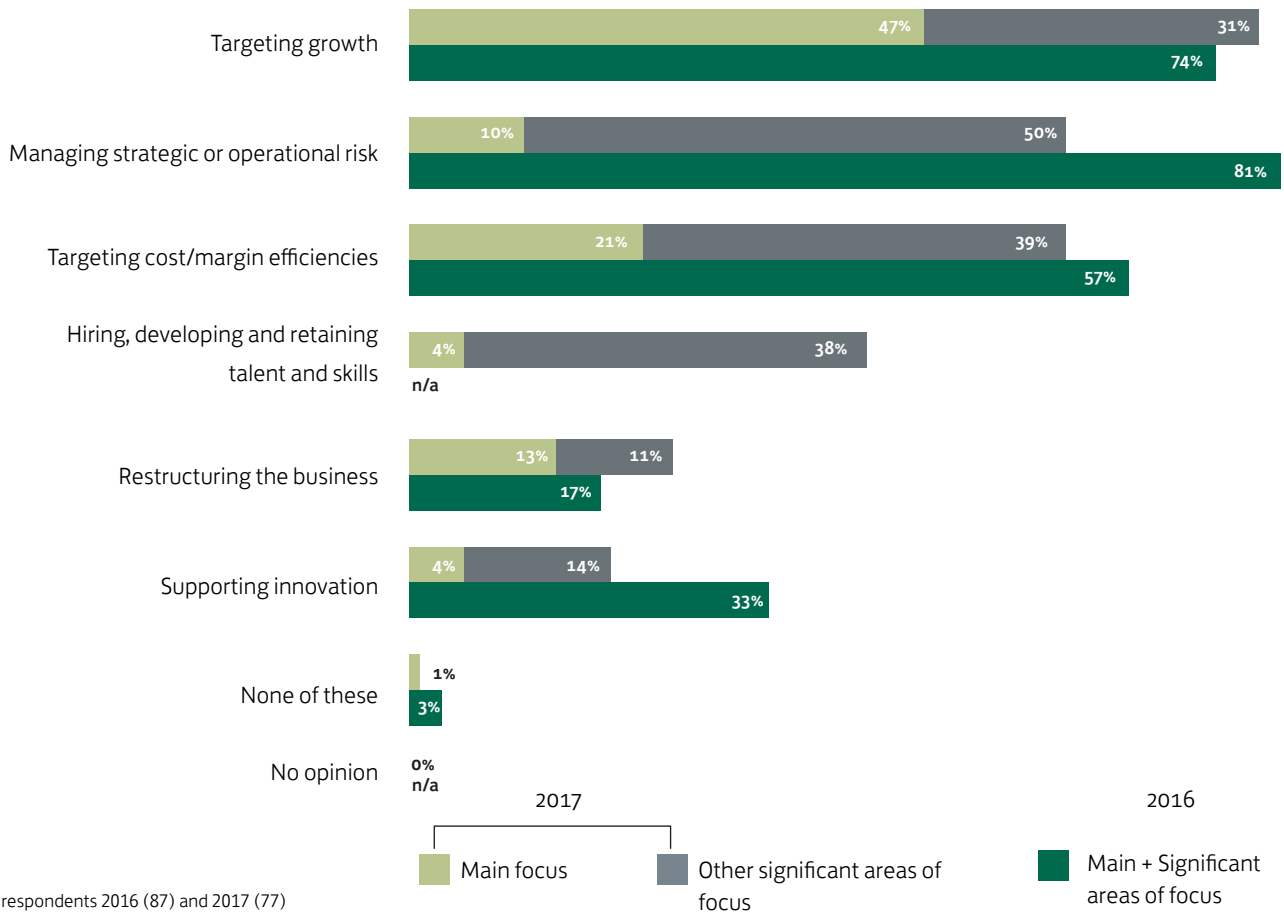
Business leaders are focused on growth despite concern about the global economy.

Business leaders' concern about the global economy is in contrast to their views about their own company's growth prospects. Asked about their significant areas of strategic focus, 78% said they were targeting growth, up from 74% last year. Almost half (47%) nominated it their number one priority.

Tellingly, business leaders have switched their focus to growth from managing strategic or operational risk. This year, 60% said managing risk was a significant focus compared to 81% last year and only 10% said it was their main focus.

Adjusting cost structures remains a focus, and was identified by 60%, but it seems it is not all about cost-cutting. Business leaders plan to hire and develop their personnel (43%) and support innovation (18%).

Which, if any, of the following do you think is a strategic focus in your organisation at this time?



Base: All respondents 2016 (87) and 2017 (77)
Lloyds Bank Business Leaders Survey 2016 and 2017
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¹In 2016 this question was worded as 'what is the strategic focus for the board in your organisation at this time?'

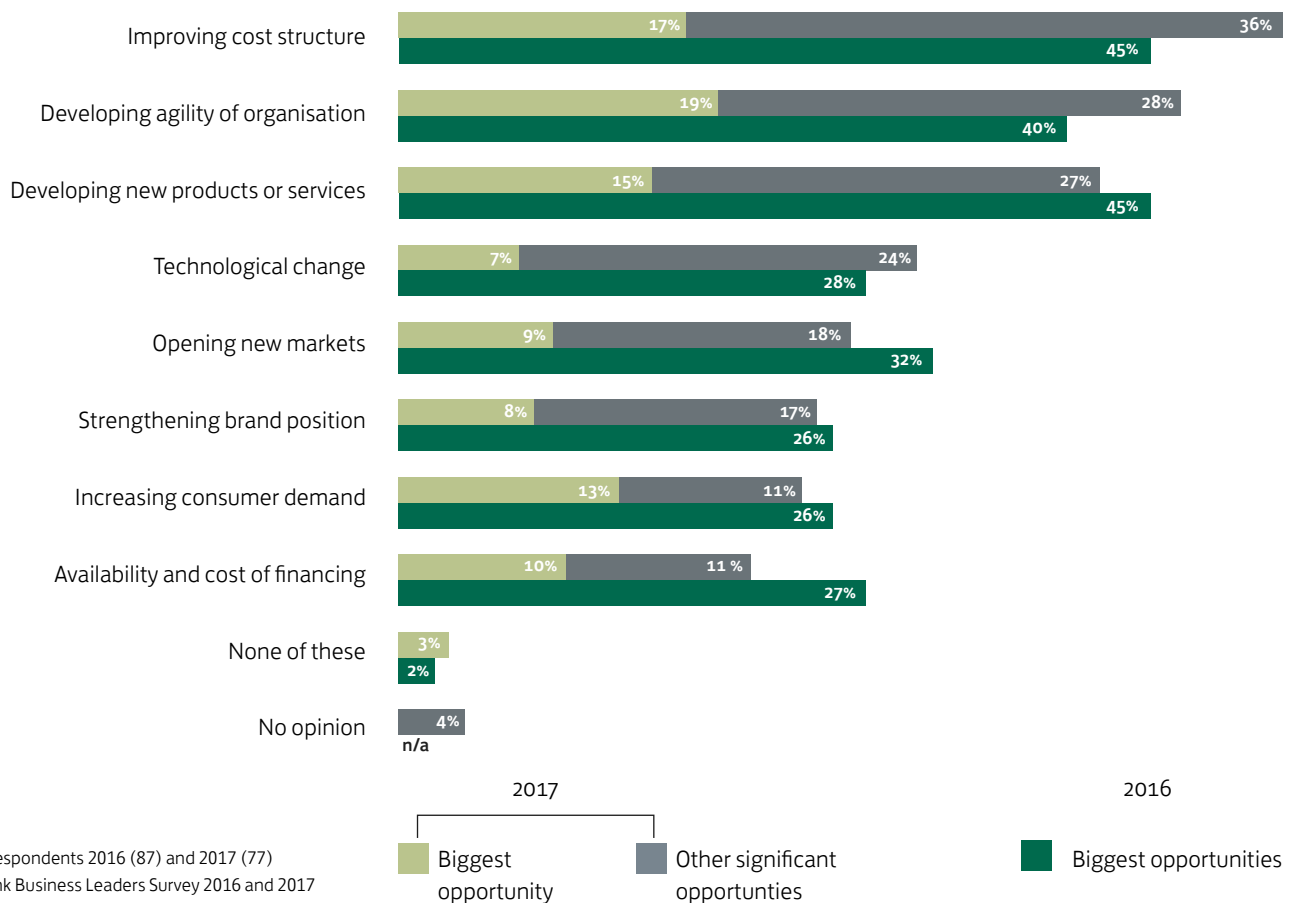
An increased focus on organisational agility is seen as key to performance

Asked what they saw as the significant opportunities to improve business performance in the next 12 months, business leaders ranked improving cost structure (53%), developing organisational agility (47%) and developing new products and services (42%) as their top three.

However, when asked to pick a single biggest opportunity, business leaders recognised the importance of creating flexible organisations that can adapt and respond to fast-changing circumstances – the largest proportion (19%) ranked developing organisational agility first.

Developing new products and services, the traditional driver of growth, which came top in 2016 and 2015, fell behind agility this year. Harnessing technology and opening new markets remained high on the business leaders' agenda, followed by strengthening brand position and increasing consumer demand.

Which of the following, if any, do you think represent opportunities to improve the performance of your business in the coming 12 months?



Leaving the EU

Business leaders would have preferred the UK to retain full internal market participation after leaving the EU but predict a hard Brexit

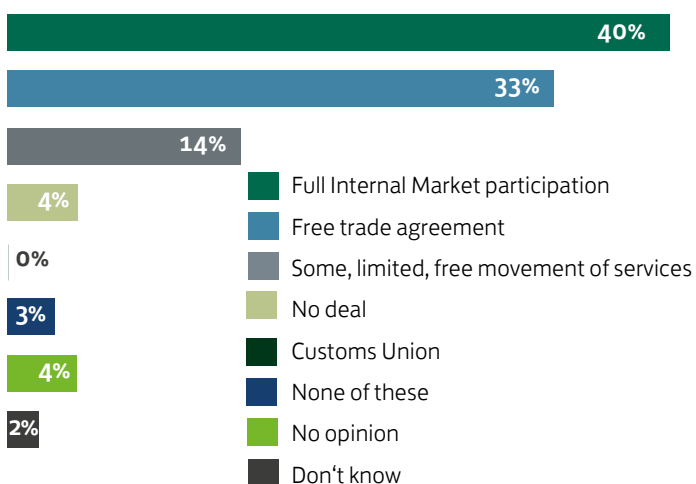
There is a clear contrast in the model that business leaders would prefer the UK to follow when leaving the EU and that which they believe it will follow. The majority of leaders replied to the Survey ahead of Theresa May's 17th January Lancaster House speech, which largely confirmed their predictions. Four in ten stated a clear preference for full internal market participation. However, only 2% expected this to happen.

Source: Brexit and Beyond: How the United Kingdom might leave the European Union, A Report by the Political Studies Association of the UK; November 2016; p25, Annex 2: Options for the UK

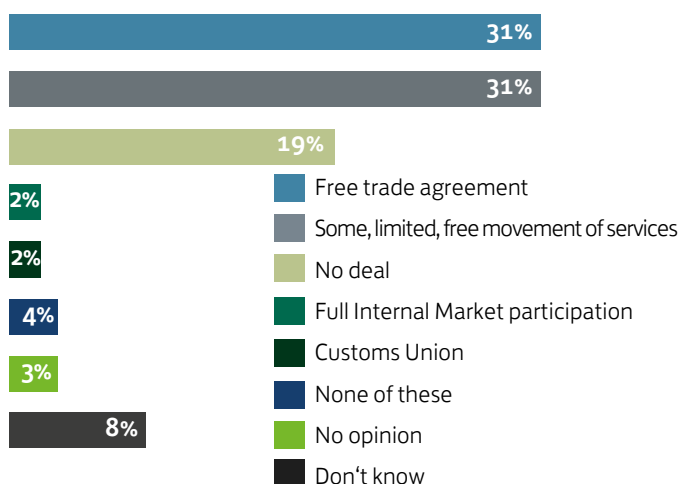
Models that the UK could follow in leaving the EU

Full Internal Market participation (The EEA/Norway model)	<ul style="list-style-type: none"> Full free movement for goods, services, capital and people Substantial financial contributions Application of EU Internal Market rules with little influence and no vote Free to make third-party arrangements
Some, limited, free movement of services (The Switzerland model)	<ul style="list-style-type: none"> No tariff barriers for goods More access for services Financial contributions Free movement for people Free to make third-party arrangements Free trade agreement
Free trade agreement (The Singapore and Hong Kong approach)	<ul style="list-style-type: none"> No tariff barriers for goods Some access for services No free movement for people No financial contributions No blanket application of EU rules Free to make third-party arrangements
Customs Union (The Turkey model)	<ul style="list-style-type: none"> No tariff barriers for goods + common external tariff No free movement for people No financial contributions No blanket application of EU rules Limits on ability to make trade deals with third parties
No deal (World Trade Organisation/WTO option)	<ul style="list-style-type: none"> Non-discriminatory access for goods relative to other WTO members No free movement for people No financial contributions No influence of EU rules Free to make third-party arrangements

What would be your organisation's preferred model for the UK to follow, post EU exit?



And which model do you think the UK is most likely to follow?

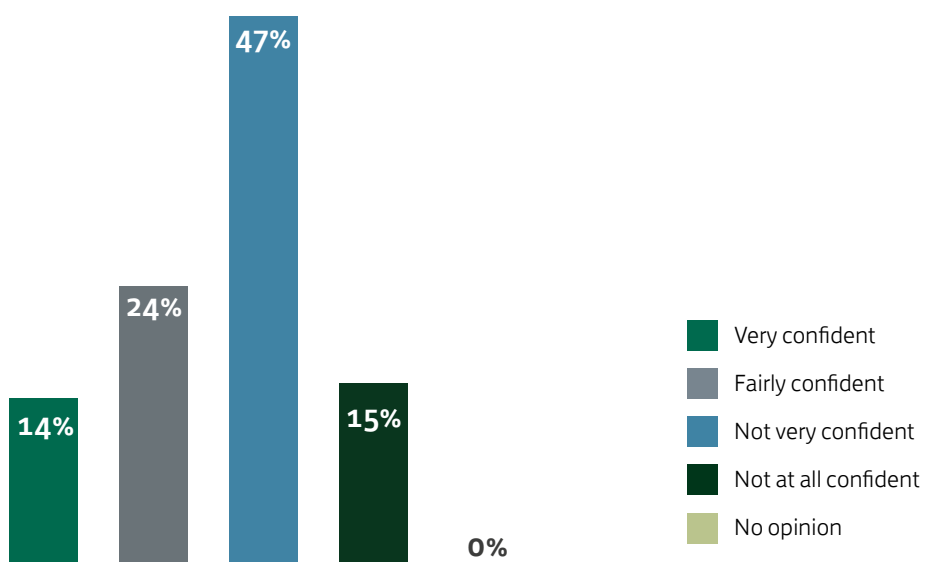


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The Survey indicated that the majority of business leaders (62%) are not confident that the UK Government will protect and promote the interests of British businesses in forthcoming exit negotiations.

How confident are you that the UK government will protect and promote the interests of British businesses in the forthcoming negotiations surrounding the UK's exit from the EU?



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Leaving the EU

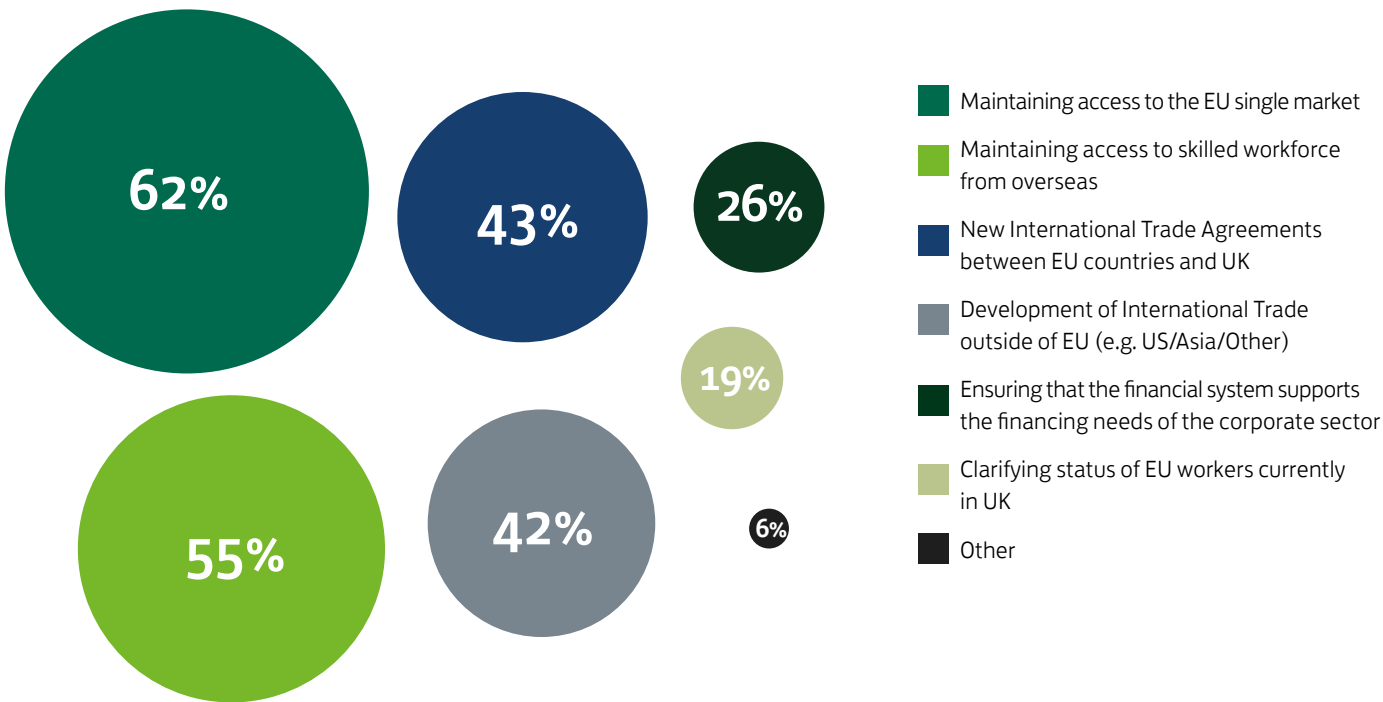
UK government should give priority to trade and international talent in exit negotiations

Two strong themes emerge in terms of the priorities respondents would like to see the UK Government adopt in the negotiations: trade and access to workforce skills. Business leaders ranked maintaining access to the single market (62%) and maintaining access to a skilled workforce from overseas (55%) most highly.

The importance of international trade also came through strongly in the 43% who selected developing trade agreements with EU countries and 42% who selected developing international trade with countries around the world outside the EU.

A quarter were concerned that the financial system should continue to be able to support the financing needs of the corporate sector. This underlines the importance of ensuring that leaving the EU does not disrupt European capital markets in their ability to serve the investment and growth needs of the economy.

Following the EU Referendum in the UK, which, if any, of the following do you think should be the top priorities for the UK government in a negotiation with the EU?



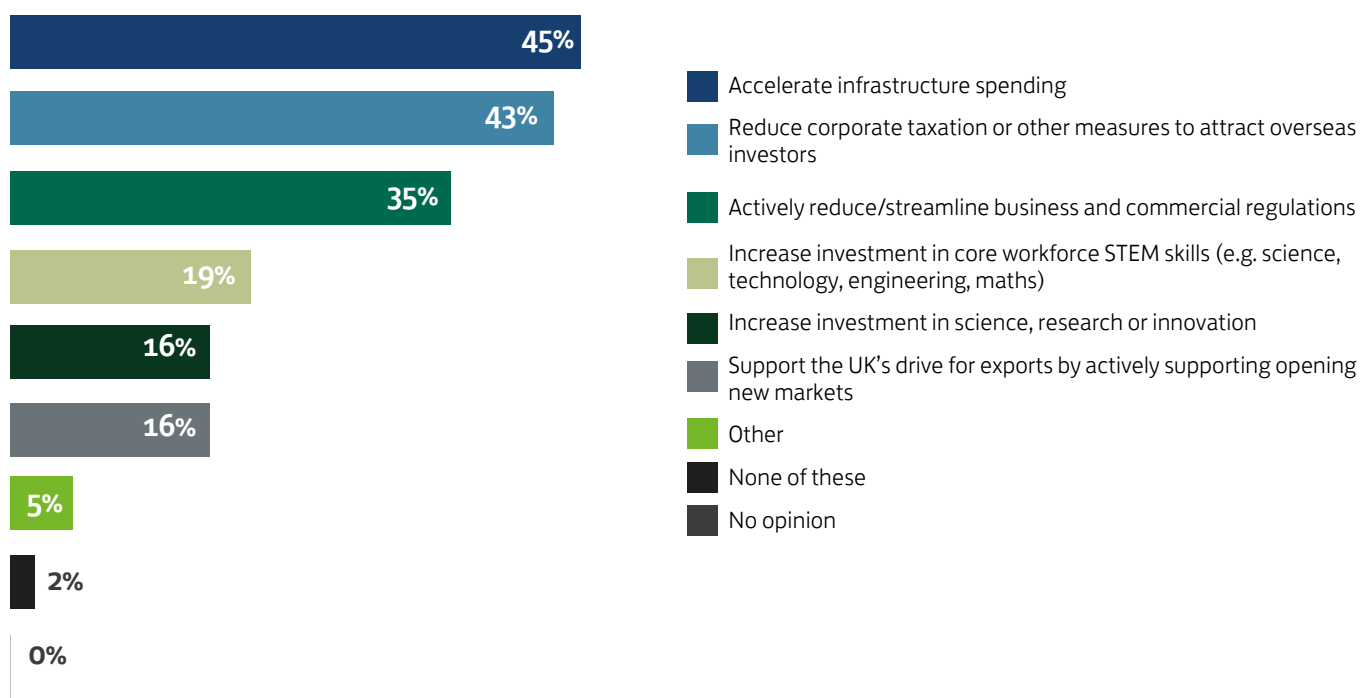
Infrastructure and corporate tax cuts should be top priorities to support UK business through post-Referendum uncertainty

Against a background of UK Government announcements of infrastructure investment in the wake of the EU Referendum, almost half of business leaders (45%) agreed that the Government should accelerate infrastructure spending as a top priority. A similar proportion (43%) felt that a reduction in corporate taxation would be wise to help attract overseas investors.

A third wanted to see a reduction in the regulatory burden and a fifth called for increased investment in core workforce skills.

Interestingly, given the desire of business leaders for a focus on trade in exit negotiations, only 16% thought the UK Government should play an active role in supporting the UK's drive for exports.

Following the EU Referendum in the UK, which, if any, of the following do you think should be the top priorities for the UK government in supporting UK business? Please select up to two answers



Infrastructure

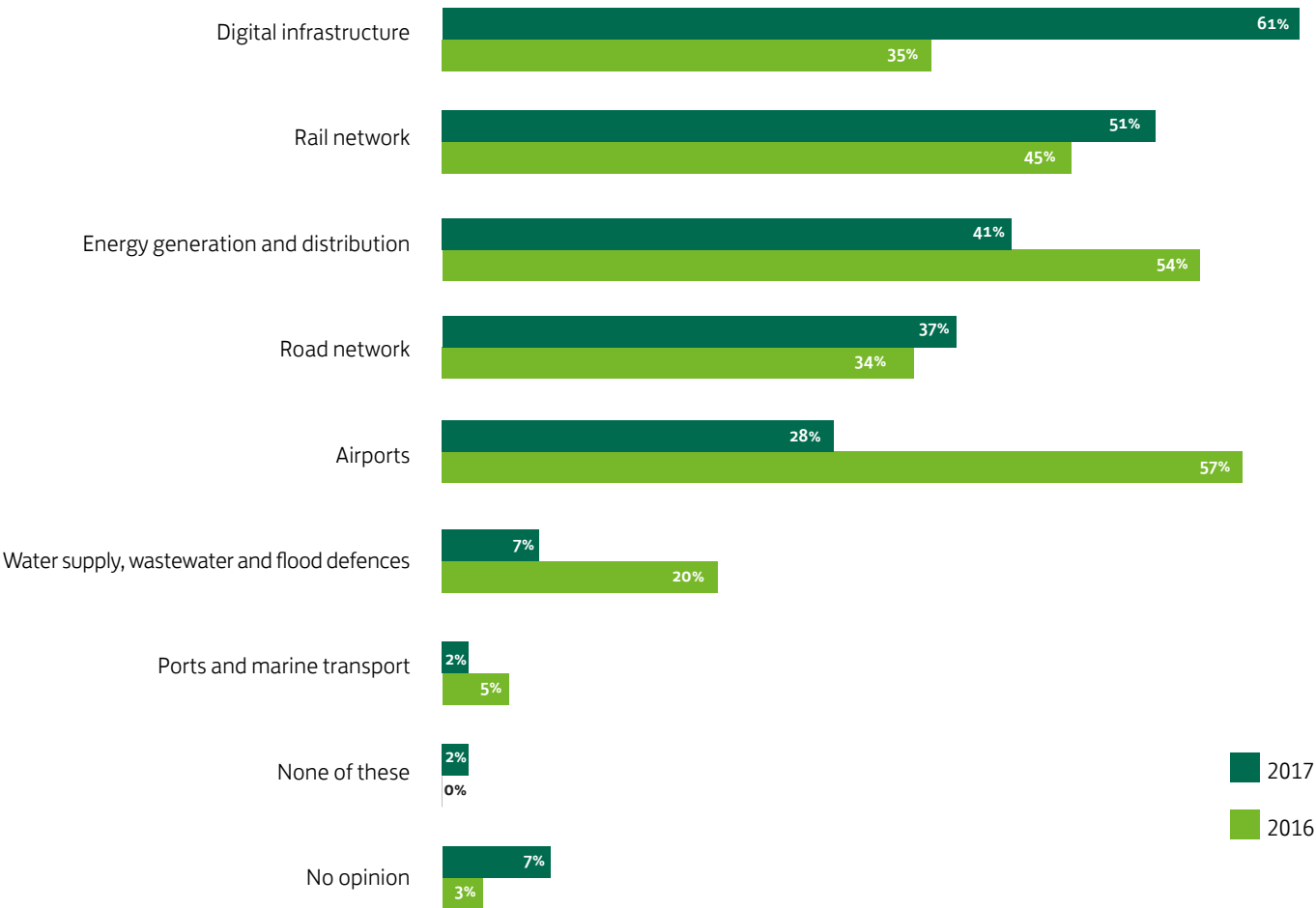
Business leaders want to see smarter UK infrastructure

The infrastructure focus has shifted this year: 61% of business leaders now believe the UK’s digital infrastructure is in most urgent need of upgrade, a significant increase on 35% who chose it last year.

Business leaders still believe upgrading the UK transport sector should be a priority, with 51% selecting the rail network and 37% selecting roads. Airport upgrades are now seen as urgent by only 28% – down from 57% last year when it was the main infrastructure concern – possibly as a result of the third runway at Heathrow being cleared for take off in October.

There is also less concern this year about the need to upgrade energy distribution and generation, which was identified by 41% of business leaders compared with 54% last year.

Which, if any, of the following infrastructure sectors in the UK do you think requires upgrading most urgently? Please choose up to three responses



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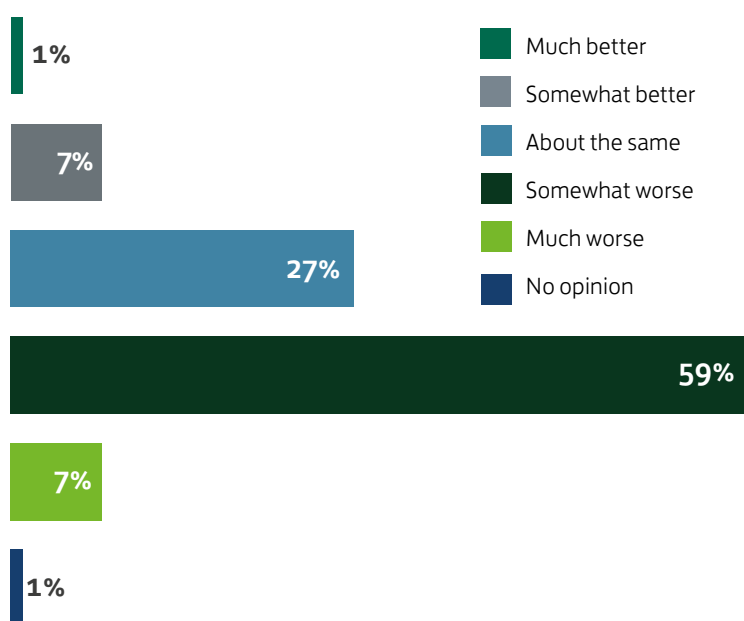
The UK's national infrastructure doesn't measure up ... yet

Two thirds (66%) of those polled perceive the UK's national infrastructure to be 'worse' than that of other developed economies and only 7% think it is better.

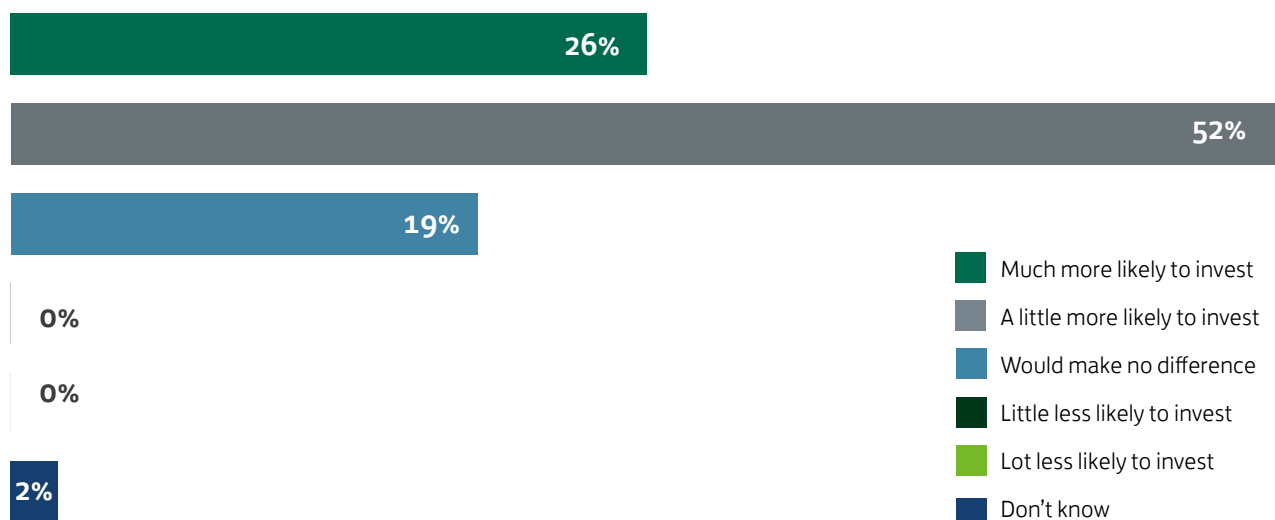
At the same time, 78% of those identifying infrastructure deficiencies believe that a major increase in infrastructure spending would significantly improve the likelihood of investment in the UK.

Base: All respondents 2017 (77)
Lloyds Bank Business Leaders Survey 2017
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Overall, how would you compare the UK's national infrastructure in general against that of its major competitors? Is the UK's national infrastructure ...



If the Government doubled infrastructure spending in the sector(s) that you said needed upgrading most urgently, would it make you more or less likely to invest in Britain?



Base: All respondents identifying infrastructure deficiencies 2017 (72) Lloyds Bank Business Leaders Survey 2017
Net percentages (i.e. where responses are combined) may differ to manual sums due to rounding

Cybercrime

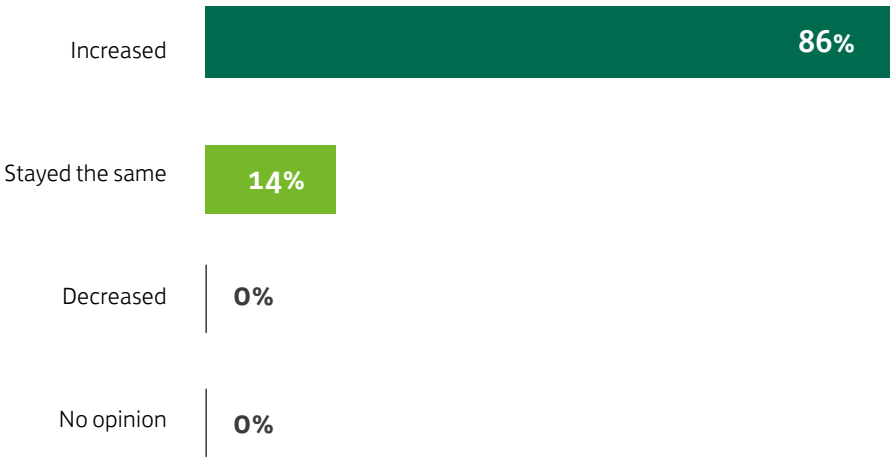
Cybercrime reloaded

In a year of corporate data breaches, service outages and alleged election hacking, it is not surprising that there is a higher state of alert about cybercrime.

The vast majority of business leaders (86%) say they are more concerned about the risk of cybercrime than they were a year ago. In 2016, the cyber threat came low down their risk list. Only 10% of business leaders then picked it from a list of potential business risks.

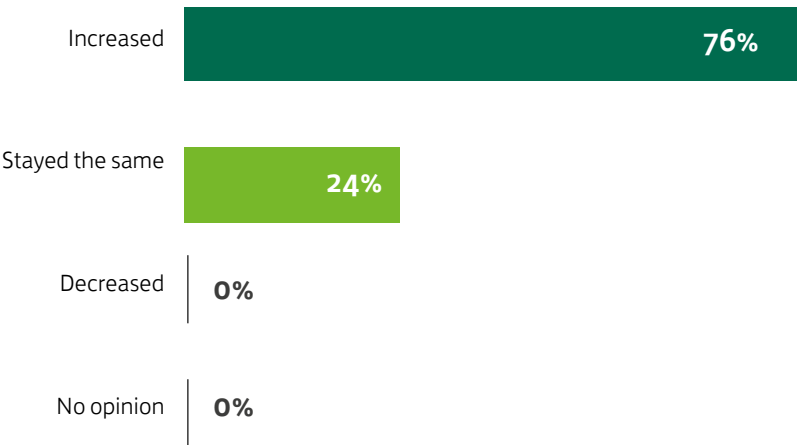
Three-quarters have increased business planning over the last 12 months to mitigate the rising risk of cybercrime.

How, if at all, has your level of concern in relation to the risk of cybercrime to your business changed over the past 12 months?



Base: All respondents 2017 (77) Lloyds Bank Business Leaders Survey 2017
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How, if at all, has your planning in relation to the risk of cybercrime to your business changed over the past 12 months?



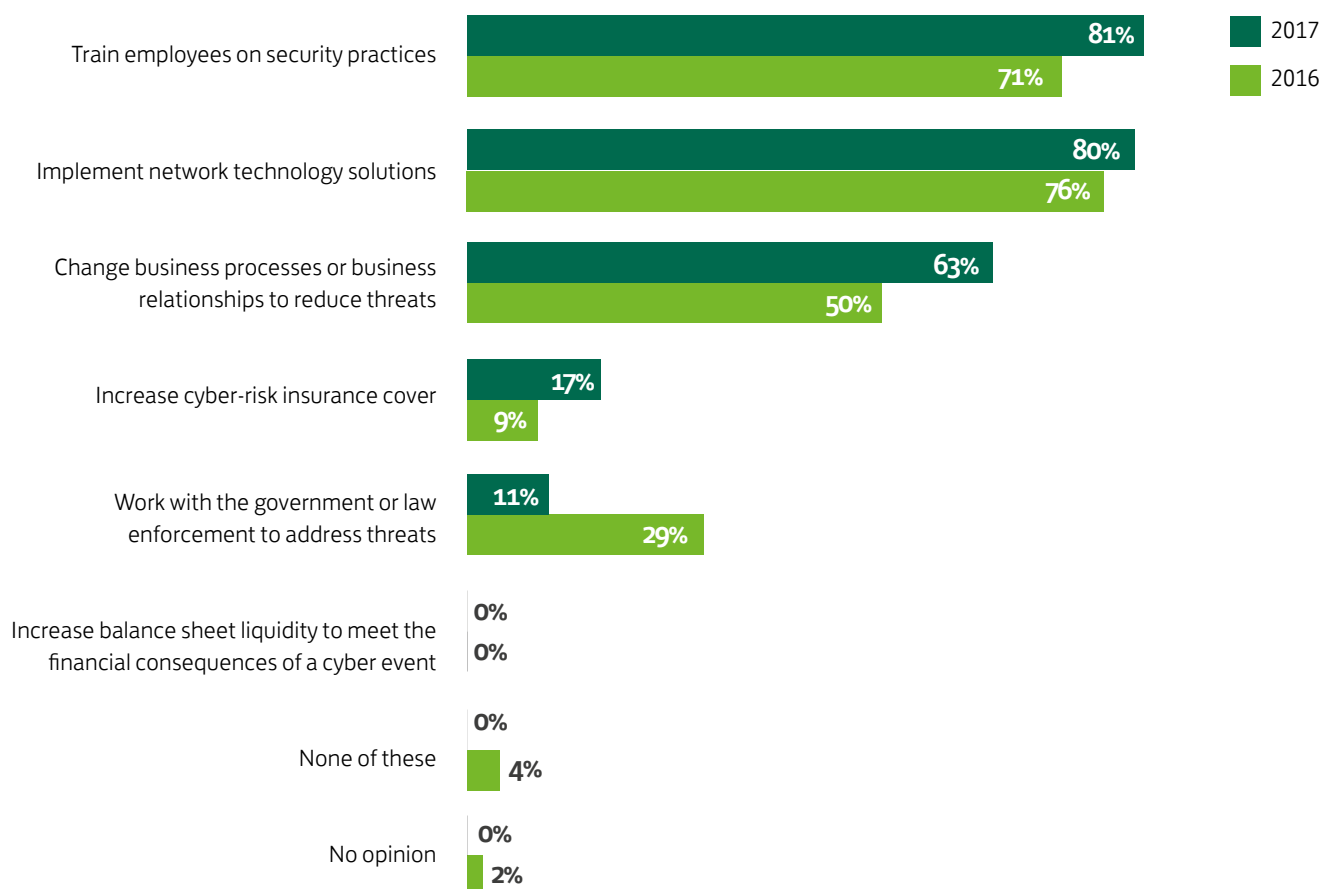
Base: All respondents 2017 (77) Lloyds Bank Business Leaders Survey 2017
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Thinking differently about the solutions to cyber threats

Business is no longer leaving the job of tackling cyber threats to their IT teams, but is now, rightly, looking at people and processes. As was the case last year, businesses are focusing on technology solutions and training employees on security practices. But there has been a shift in the order of

priorities. Network technology solutions were cited as a likely course of action by four in five business leaders, a slight rise on last year. But the proportion saying they were likely to give employees security training in the next 12 months increased by a greater margin from 71% to 81%. Nearly two thirds (63%) also expect to reduce threats by making changes to business processes or relationships (up from 50% last year).

Thinking about the risk of cyber-attacks, which, if any, of the following actions is your company most likely to take in the coming 12 months? Please select up to three answers



Sustainability

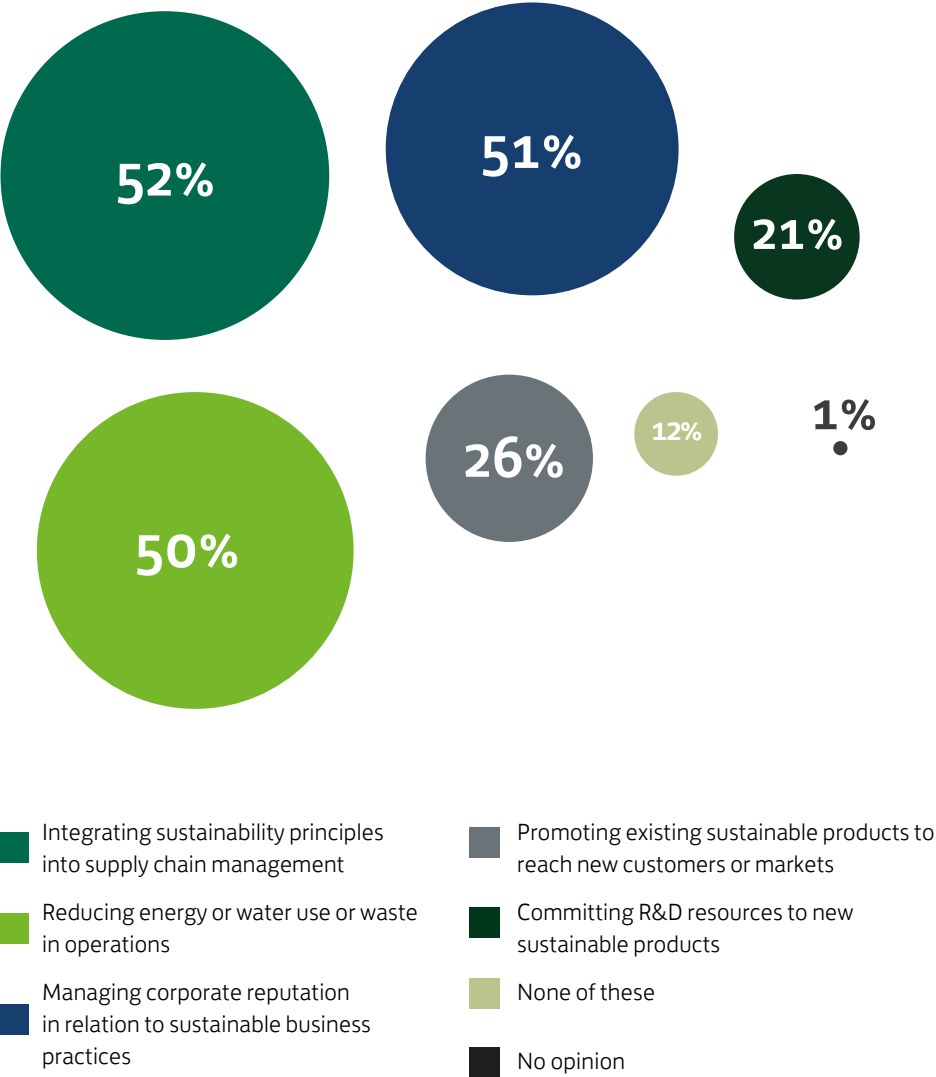
The business of sustainability

With a focus on improving cost structures as key to performance, it's not surprising that business leaders are taking action on sustainability, with 50% doing so by reducing energy or water use and waste in operations.

52% are integrating sustainability principles into supply chain management and a similar proportion are concerned with corporate reputation management around sustainable business practices.

Fewer are promoting existing sustainable products to reach new customers or markets (26%) or committing R&D resources to create new sustainable products (21%), suggesting that business sees sustainability more as an operational issue and not – yet – an opportunity to drive growth.

Which of the following actions, if any, are you taking to integrate sustainability into your business?



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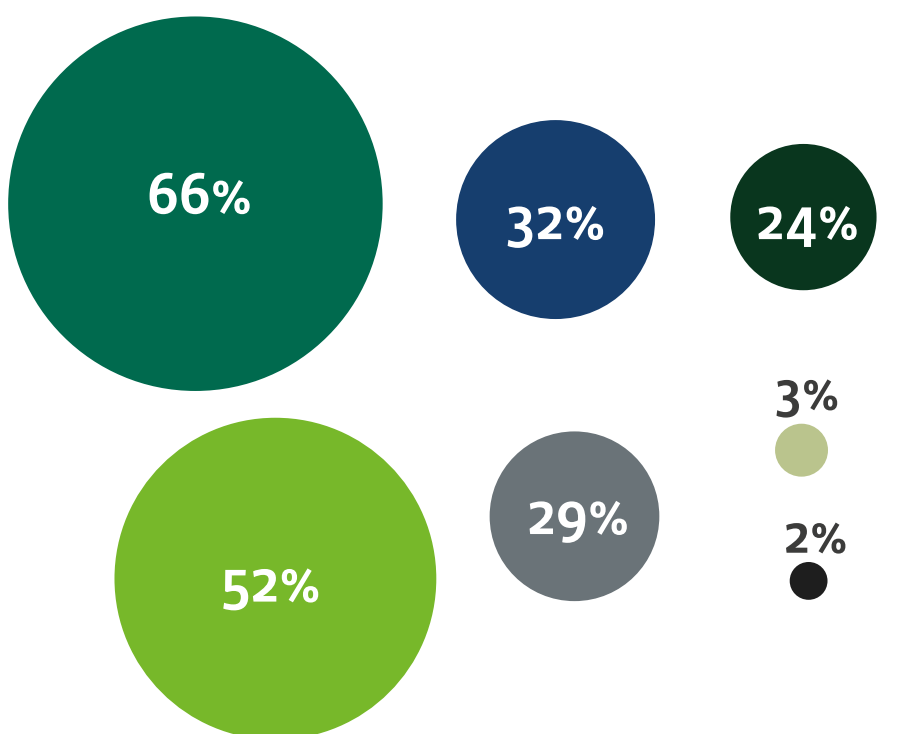
Innovation

Overcoming barriers to innovation

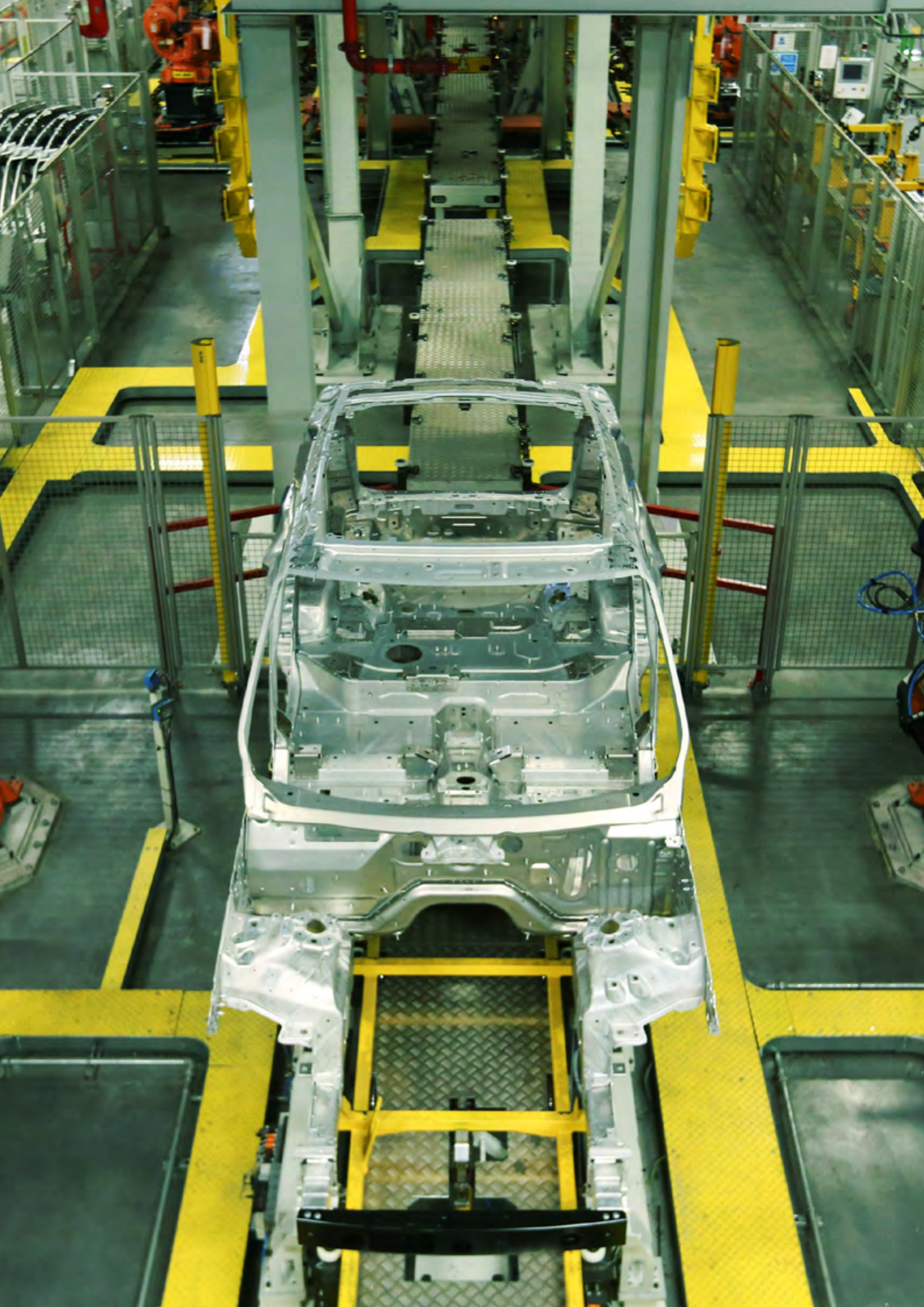
As organisations look to innovation to drive growth and respond to disruption, they face a number of issues. Two thirds of business leaders say building and sustaining an agile culture that fosters innovation is a significant challenge. More than half (52%) are worried about finding or developing the right talent or skills.

Slow decision-making, identified by 29%, also inhibits building and sustaining an innovative organisation. Concern about the likely financial payoff was cited by 24%, highlighting the difficulty in explaining creative and innovative ideas in terms of return on investment.

Organisations can look to innovation to drive growth and respond to disruption. Which of the following, if any, are the most significant innovation-related issues or challenges that you face in your organisation?



- Building and sustaining an agile culture that fosters innovation
- Financial concerns around the likely return on investment from innovation
- Finding the people/talent and building the required competencies to innovate
- None of these
- Driving innovation across the organisation from concept to customer
- No opinion
- Slow decision-making or organisational mobilisation around innovation



About the Business Leaders Survey 2017

The Lloyds Bank Business Leaders Survey 2017 was designed by Lloyds Bank, with data collection managed by Ipsos MORI.

The survey was carried out online and had responses from 77 Lloyds Bank clients of its Global Corporates division. This is made up of large UK companies and UK subsidiaries of major overseas companies.

Lloyds Bank was responsible for providing the sample of 499 potential respondents, who were a mix of CEO, COO, MD, CFO, FD and other Senior Directors, and for sending out the initial invitation.

The respondents:

- 44% Chairman/CEO /Managing Director and 37% CFO/Finance Director

The companies they represent:

- 76% UK companies and 24% with head office outside the UK
- 29% with turnover of £5 billion and over and 19% with turnover between £1 billion and £5 billion
- 12% with 50,000 or more employees and 37% with 5,000 to 49,999 employees

Ipsos MORI was responsible for hosting the online survey, for sending out reminders to those who had not responded and for the production of the computer tables. Fieldwork was conducted between 17th November, 2016, and 27th January, 2017, and four non-response reminders were sent out.

Lloyds Bank was responsible for the questionnaire design, the interpretation of the survey results and the production of the report and corresponding communications materials. To address an imbalance in the profile achieved Ipsos MORI was instructed to weight Real Estate and Construction in line with the gross value added to the UK economy in 2016 (Source: ONS — United Kingdom National Accounts, The Blue Book, 2016 Edition).

About Lloyds Bank Commercial Banking

Lloyds Bank Commercial Banking provides comprehensive expert financial services to businesses of all sizes, from small businesses, through to mid-sized businesses and multinational corporations. These corporate clients range from privately-owned firms to FTSE 100 PLCs, multinational corporations and financial institutions. Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support and advice to its clients.

Lloyds Bank Commercial Banking offers a broad range of finance beyond just term lending and this spans import and export trade finance, securitisation facilities and capital market funding. Its product specialists can work with you to tailor its products and services, including cash management, international trade, treasury and risk management services, to suit your individual needs.

Its heritage means it has a comprehensive understanding of business needs and a proven track record of supporting businesses across the sectors and regions. Taking a relationship approach, it provides support to its clients throughout the economic cycle.

The Lloyds Banking Group includes companies using brands including Lloyds Bank, Halifax and Bank of Scotland and their associated companies. More information on the Lloyds Banking Group can be found on lloydsbankinggroup.com.

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