

Context

The context for this agreement is the creation of an accord between the UK Government and the major UK banks – specifically Barclays, HSBC, LBG and RBS, and, in the context of lending, Santander. In entering this agreement, the banks explicitly recognise their responsibility to support economic recovery. The components of the agreement are lending, tax, pay and other economic contributions beyond those. The banks expect, in the light of the statements contained within this document, a commitment by the Government to the stabilisation and improvement of the relationship between the Government and the banks; to the creation of a level playing field internationally for UK banks (in particular consistent with G20 commitments); and, subject to increasing shareholder engagement, the acceptance of the right of self-determination by bank boards.

Commitments from the four banks

1. Lending to UK businesses engaged in real economy activity

- 1.1 A statement by the four banks and Santander re-emphasising their commitment to, and delivery per the agreed timetable of, the recommendations of the UK Business Finance Taskforce (which also comprises Standard Chartered) – in particular the following;
 - 1.1.1 Support a network of mentors from the banks, attached to existing mentoring organisations, to deliver a free finance service to small and medium sized businesses across the UK;
 - 1.1.2 Improve service levels to micro enterprises through a new Lending Code;
 - 1.1.3 Publish lending principles which clearly set out the minimum standards for medium-sized and larger businesses;
 - 1.1.4 Establish transparent appeals processes for when loan applications are declined, with processes independently monitored by a senior independent reviewer, who will publish the results of their review;
 - 1.1.5 Initiate a pre re-financing dialogue 12 months’ ahead of any term loan coming to an end;
 - 1.1.6 Establish and invest in a new £1.5 billion Business Growth Fund (built over a number of years);
 - 1.1.7 Support the Enterprise Finance Guarantee Scheme;
 - 1.1.8 Help mid-sized businesses access syndicated debt markets;
 - 1.1.9 Improve access to trade finance;
 - 1.1.10 Signpost alternative sources of finance;
 - 1.1.11 Fund and publish a regular independent survey on business finance demand and lending supply;
 - 1.1.12 Enhance the cross-industry lending dataset by broadening the statistics on (among other things) lending to deprived areas and national and regional data on the provision of bank support to business start-ups
 - 1.1.13 Hold regional outreach events throughout 2011;
 - 1.1.14 Improve customer information including a review of literature and other materials (e.g., loan applications); and

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1.1.15 Establish a Business Finance Round Table.

- 1.2 A clear statement of their desire to see the banks’ net lending balances to UK businesses increase responsibly (especially with respect to small and medium sized businesses and the non real estate and construction sectors), recognising the actual outcome will be based on decisions by customers.
- 1.3 An unprecedented agreement to publish forward lending expectations and capacity for 2011 across the four banks and Santander, subject to the conditions set out in 1.5, and based on a definition of gross new lending that is broadly consistent with that used between RBS / LBG and HMT / BIS to define their recent business lending commitments, with the inclusion of refinancing activities.

1.3.1 These five banks’ 2011 lending expectations take account of expected economic growth in 2011; reflect the actual muted patterns of customer demand at present, evidenced by lower net lending balances than a year ago; and anticipate the further impact on demand of the higher cost of lending arising from increasing capital and liquidity requirements.

1.3.2 With respect to UK small and medium sized businesses, the banks’ original expectations were that demand would be lower in 2011 than in 2010 because of the points above. However, taking account of the dialogue which has brought about this agreement, which has at its core a shared objective to support economic recovery in the UK, these five banks have agreed to aim to foster more demand, such that their intention for gross new lending in 2011 is now higher than what was actually delivered in 2010, recognising that this will involve extensive work to overcome the challenges noted above.

1.3.3 Beyond the above, and again as a consequence of the dialogue which has brought about this agreement, the five banks have agreed to make available the appropriate capital and resources to support gross new lending to UK small and medium sized businesses that is 15% higher than what was delivered in 2010 should their efforts to foster demand succeed above and beyond their current expectations. That will put in place for 2011 new committed lending capacity of £76 billion for UK small and medium sized businesses, which is materially higher than both the actual gross new lending delivered by the five banks in 2010 of £66 billion and the banks’ revised expectations for 2011.

1.3.4 In addition, again in light of the dialogue, the five banks have agreed to make available the appropriate capital and resources to support gross new lending to UK businesses, including the capacity noted above for UK small and medium sized businesses, of £190 billion, should sufficient demand materialise. This compares with the actual gross new lending delivered in 2010 of £179 billion and the banks’ revised expectations for 2011 of a decline in the demand for gross new lending outside of the small

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and medium sized business sector due to active refinancing activity by large companies in 2010.

- 1.3.5 Finally, the five banks’ boards have also confirmed that they have the willingness to lend still more, including creating the balance sheet capacity necessary to do so, to UK businesses, especially those of small and medium size, if even more demand materialises.
- 1.4 The above statements will be transmitted to the five banks’ UK relationship managers indicating the banks’ desire and intention to increase lending to viable borrowers and to deliver increases in both gross and net lending.
- 1.5 Each bank’s lending expectations, capacity and willingness, as set out above, will be subject to its normal commercial objectives, credit standards and processes and regulatory obligations, as well as the availability of the required funding.
- 1.6 The expectations, capacity and willingness relating to lending to small and medium sized businesses set out here will be given more weight in the performance metrics of the Chief Executives of each bank for 2011, as well as the leaders responsible for the relevant business areas, than the SME lending share of each bank’s profits might otherwise imply. Further, the collective gross new lending results of the five banks will be tracked, on a quarterly basis, and the data will be made available to the Bank of England so that they may publicly report it.

2. Taxation

- 2.1 The four banks have committed to abide by HMRC’s new UK Code of Practice on Taxation for Banks, requiring compliance with both the spirit and the letter of the tax law.
- 2.2 A public statement of their expectation to contribute a cumulative £8 billion of total tax take (covering direct and indirect sources, including the Bank Levy and VAT) in 2010 and, on the same basis, £10 billion in 2011.
- 2.3 Each bank’s tax payment expectations, as set out above, will be subject to the economic environment and its profitability. The banks expect that their overall tax contribution to HMRC / HMT will grow as performance strengthens and profits grow; as an indication, they expect they could contribute a cumulative total tax take over the 5-year implementation period for the Spending Review actions (spanning the period 2011 to 2015) that is a significant multiple of the 2010 figure noted above.

3. Pay

- 3.1 A public statement by the four banks that they: understand the public mood and have responded to that, including through their engagement with Government on this subject; will show responsibility on pay in 2010 and beyond, in particular

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through greater shareholder engagement than previously, as set out in 3.5; and are compliant with current FSA and FSB guidelines.

- 3.2 Variable compensation will be explicitly linked to performance. For all senior staff, a significant proportion of any bonuses paid will be deferred into shares and be subject to significant vesting periods. Bonuses will also be exposed to claw back in clearly defined circumstances. There will be no reward for failure.
- 3.3 Following these discussions, the four banks confirm that the aggregate 2010 bonus pool (including deferrals) for their UK-based staff will be lower than that of 2009. The quantum and structure of 2010 pay outcomes will reflect the explicit consideration and reflection the banks have given to the public mood and their engagement with the FSA, the Government (including through the Project Merlin discussions) and representatives of their leading shareholders on the subject of pay throughout the year, and reflects their duty to manage pay policy to protect and enhance the long-term interests of their shareholders.
- 3.4 The banks’ pay commitments, as set out above, will be subject to due board and remuneration committee governance processes.
- 3.5 Nothing in this statement derogates from the obligation of the banks, and their boards and remuneration committees, to manage pay policy in a way which protects and enhances the interests of their shareholders.
- 3.6 On top of the industry-leading disclosure that will be required by CRD III, a commitment by the Merlin banks to disclose, from and including 2010 (but not prior years), the remuneration details of the Executive Directors and (on an unnamed basis) the five highest paid “senior executive officers”. For those individuals whose details are not already disclosed, the parameters of this disclosure will be based on the disclosure standard in the FSA Handbook, so that this disclosure is consistent with the aggregate Code Staff disclosures the FSA will require going forward. This will go beyond international practice by disclosing the remuneration details relating to five individuals over and above Executive Directors.
- 3.7 Where their existing governance arrangements do not already do so, a commitment by each bank to have its board remuneration committee review and sign-off the individual arrangements for the ten highest paid staff in each principal business area.
- 3.8 In addition to having its remuneration report voted on by shareholders at its annual general meeting (which is part of the existing legal requirement here in the UK), each bank commits to engage appropriately with its major institutional shareholders on pay policies and practices, each year before the annual payround to ensure that the views and opinions of shareholders are fully understood ahead of each board remuneration committee reaching decisions. Such engagement will include, but not be limited to, discussions on: pay policy; scale and design of incentive structures; performance measurement (versus

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incentive requirements); risk adjustment; variation in remuneration levels and composition across businesses, different staff types, and industry benchmarks.

4. Further Economic and Societal Contributions

- 4.1 The four banks agree to help support economic recovery and stabilisation in four further ways.
- 4.2 First, they will continue to support communities through institution-specific initiatives, through which they currently put over £200 million per annum (in cash or in-kind) to work in the UK and expect and intend to maintain that rate of investment.
- 4.3 Second, they will provide further support to UK small and medium sized businesses through an additional significant contribution, over and above their existing commitments, to the Business Growth Fund that is being established by the UK Business Finance Taskforce. The amount of that further contribution is £1.0 billion of capital (and, thereby, funding).
- 4.4 Recognising that the first viable demand from target companies for equity capital will be met by the existing capital subscription commitments already made by the Taskforce banks, the boards of the four banks undertake, as the Fund requires, and based on draw downs of investments of equity capital in the Fund’s target companies as agreed and governed by the Fund, to allocate that capital for subscription so that it can be made available as soon as is needed. All fund distributions will be subject to the same conditions as the initial contributions to the Fund, particularly with respect to capital treatment (i.e., with each bank’s contribution risk-weighted as a diversified fund – or 190%).
- 4.5 The distribution of that capital to target companies will be actively promoted and marketed by the regional networks of the four banks, thereby facilitating the identification and satisfaction of demand from small and medium sized businesses. The economic impact of the Fund will be increased significantly by the additional debt capacity it will create in the companies that it supports and the direct and indirect investment, employment and spending benefits that triggers.
- 4.6 Third, they will, through their regional networks, actively coordinate with the Regional Growth Fund to support its objectives, in particular by exploring opportunities to lend to entities supported by that fund (on the same conditions as set out in 1.5), as well as, where possible, through the Business Growth Fund.
- 4.7 Fourth, they will support the establishment of the Big Society Bank to act as a sustainable provider of wholesale finance to social investment intermediaries, including, subject to objectives, business plan and structure, the injection, on a commercial basis, of £200 million of capital (and, thereby, funding) over two years, commencing in 2011. This will not affect the operational independence of the Big Society Bank, within its agreed business plan, and is in addition to the

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money provided from dormant accounts, the provision of which the banks also support.