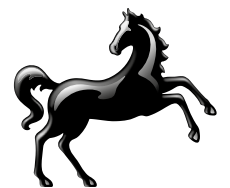


COMMERCIAL BANKING

British business sentiment on a Brexit transition period



LLOYDS BANK

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Introduction



David Lutton
Executive Director
Economic Policy, London First

As we await further details of Britain's exit from the EU, there has been much speculation about a transition period, in which all, or most, of the UK's existing arrangements (e.g. trade, employment and legal) with the EU would be maintained for a period of time. To understand what businesses think about a Brexit transition period, London First and Lloyds Banking Group commissioned YouGov

to undertake a nationwide survey. We asked businesses to tell us how they have adapted their business plans since the EU referendum, and whether a transition deal would help them. The survey ran from 7th - 18th August 2017 and canvassed the views of senior business decision makers from 1,036 British firms with turnover <£1m.



Edward Thurman
Managing Director
Head of Financial Institutions,
Commercial Banking
Group Ambassador for London
Lloyds Banking Group

The findings of the survey reinforce what we already know from conversations with many Commercial Banking clients, small and large, across Lloyds Bank – that a transition period from March 2019 is considered beneficial by many businesses. Firms must engage constructively with government, both in the UK and Brussels, and make their views heard.

The results tell us that clarity on a transition period would help them commit to hiring and investment plans, in turn supporting the UK's economic growth. Lloyds Bank remains committed to supporting our clients as they work through the implications of Brexit, and to Helping Britain Prosper.

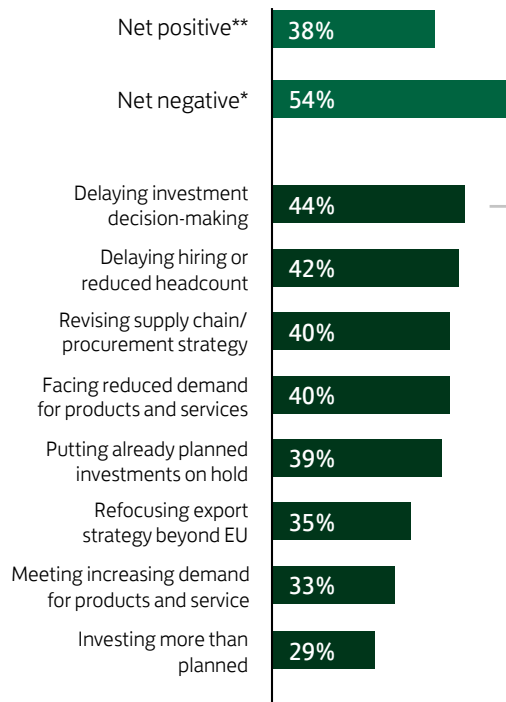
Executive summary

- 54% of respondents felt that Brexit has led businesses to hold on investment and recruitment decisions; revised their supply chains; and has resulted in reduced demand for products and services.
- Awareness of the concept of a transition period amongst businesses is very high - 86% of respondents were aware that this is under debate.
- 40% of UK businesses surveyed believe a transition period would have a positive impact, thus enabling them to unblock investment or recruitment decisions that have been on hold since the UK's decision to leave the EU.
- Only 18% of respondents to the survey felt a transition period would have a negative impact. However, a significant proportion (35%) felt it would have no impact on their ability to make decisions and plan for the future.
- The positive impact of a transition period is likely to be most pronounced for larger businesses and those based in London, the South East and Yorkshire and the Humber.
- The majority of businesses surveyed want a 1 to 3-year transition period. The timeframe in which a transition period is important too. Businesses who were positive about a transition period indicated an agreement would be needed sooner rather than later. 37% of respondents suggested they needed an agreement by the end of the year and 32% by the Summer of 2018.
- A transition period agreement should cover all the elements of the existing EU relationship - freedom of goods, services, capital and talent; a common set of tariffs; and EU legal arrangements – in order to satisfy most businesses.
- For the conclusion of existing UK and EU arrangements, the survey suggests that a transition period is favourable to a 'cliff edge'. The majority of respondents believe that a transition period would be a positive for UK businesses.

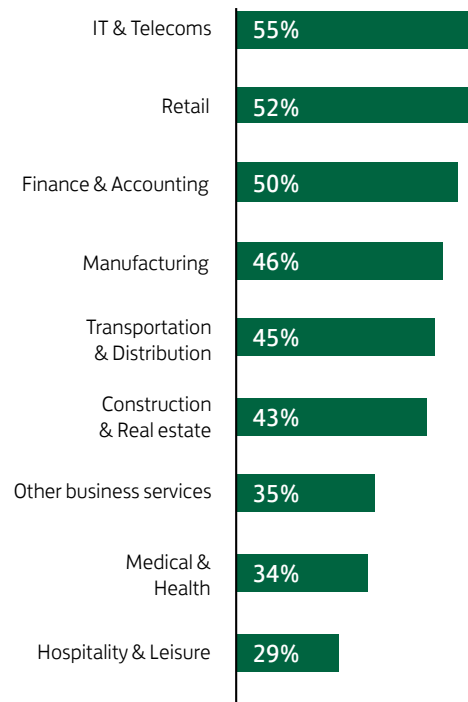


Business response to the EU referendum

Business response to the 2016 EU referendum



Most delayed sectors for investment decision making



Many businesses have put investment or recruitment decisions on hold following the EU referendum. When asked about the impact of the referendum result, over half (54%) said there had been a negative impact on their business. Delaying investment decision-making was the most frequent reported effect (44%), followed by delaying hiring or reducing headcount (42%) and revision of supply chains (40%).

IT, Retail and Finance were the sectors most frequently reporting delays in investment decision making.

Source: YouGov Brexit Transition research, August 2017

Question: How have you/ your business responded to the 2016 EU Referendum in each of the following business areas? (% significantly or partially impacted).

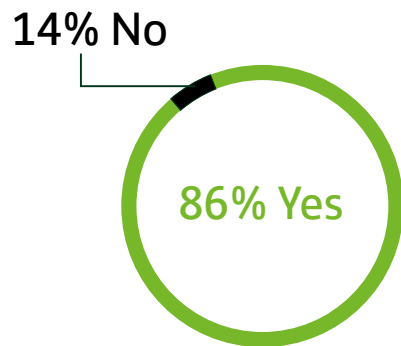
*Negatives: Delaying investment decision-making, Delaying hiring or reduced headcount, Facing reduced demand for products and services, Facing reduced demand for products and services

**Positives: Investing more than planned, Meeting increasing demand for products and service

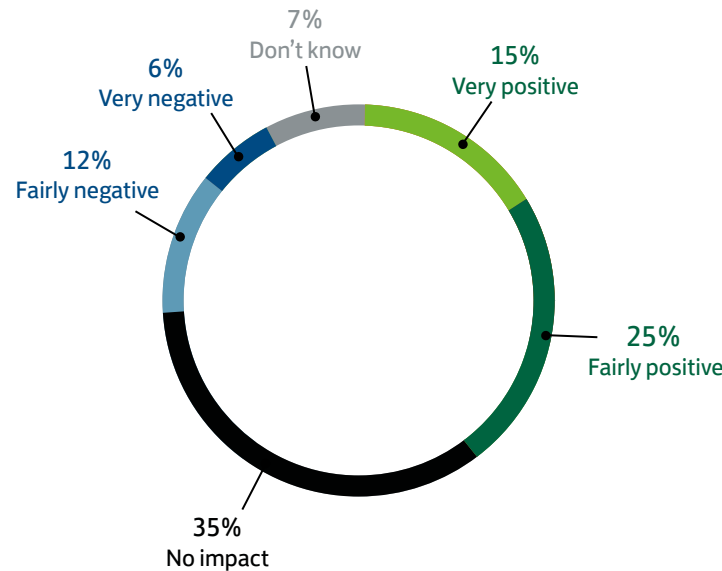
Base: Total 1,036, showing industries with robust base size

Potential impact of a transition period

Awareness of the proposed transition period



Potential business impact of a transition period



40% of businesses believe a transition period will have a positive impact on their business, enabling them to unblock investment or recruitment decisions on hold since the UK's decision to leave the EU. Just 18% of respondents felt it would have a negative impact.

A significant proportion of companies (35%) felt a transition period agreement would have no impact on their ability to make investment decisions and forward plan.

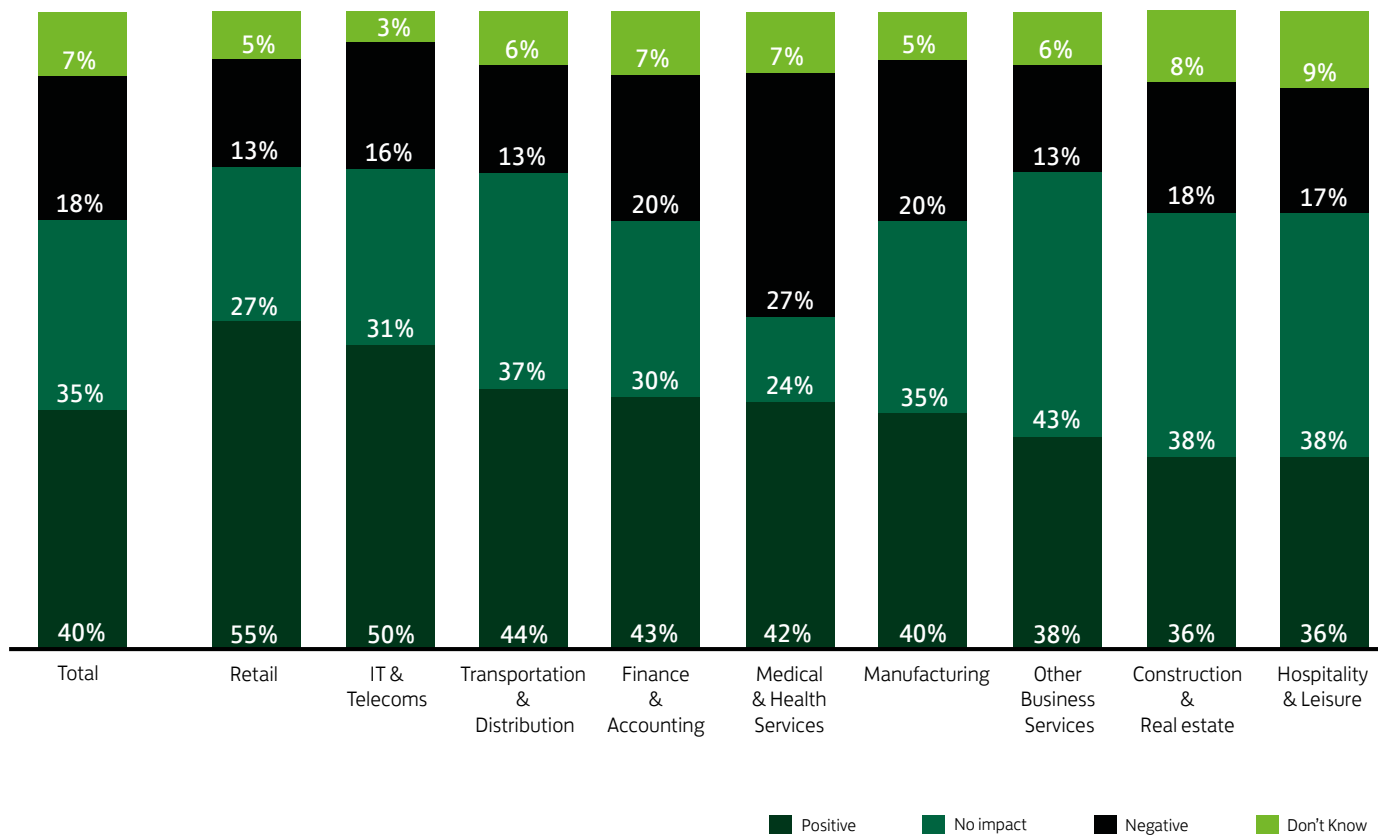
Source: YouGov Brexit Transition research, August 2017

Question: The UK Government and the European Union (EU27) authorities are considering negotiating a transition period following the UK's exit from the EU (i.e. "Brexit"). Before taking this survey, were you aware of this?

Question: For the purposes of this survey, we define a 'transition period' to be a period of at least 12 months that follows on from a UK exit from the EU on 31 March 2019. In general, to what extent, if at all, would a transition period have a **positive** or **negative** impact on your business's ability to make business decisions?

Base: Total 1,036

Impact of a transition period by industry and turnover segments



Retail, IT & Telecoms, and Transportation & Distribution are the industries with the highest proportion of respondents indicating that a transition period would be positive. Medical & Health Services has the highest proportion of respondents indicating a negative impact of a transition period after March 2019.

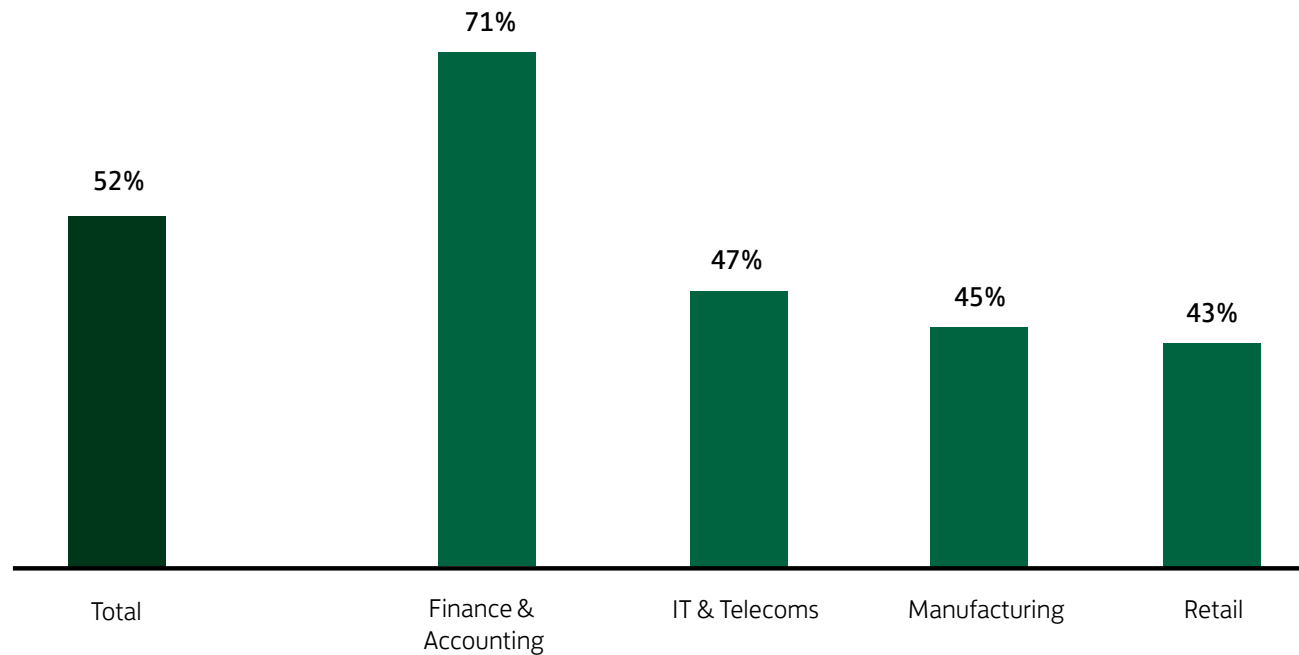
Companies with an annual turnover of £750m or more were the most positive about a proposed transition period, with nearly half (47%) saying it would help their business, compared to 35% amongst smaller businesses.

Source: YouGov Brexit Transition research, August 2017

Question: In general, to what extent, if at all, would a transition period have a **positive** or **negative** impact on your business's ability to make business decisions.

Base: Total 1,036, showing industries with robust base size

Impact of a transition period - implications for recruitment



The poll reveals that a transition period is particularly important for recruitment. Confirmation of a transition period would have key benefits for firms' recruitment and hiring. Of those respondents who indicated that transitional arrangements would have a positive impact, by far the largest proportion indicating benefits for their recruitment sit within the Finance & Accounting industries (71%).

Source: YouGov Brexit Transition research, August 2017

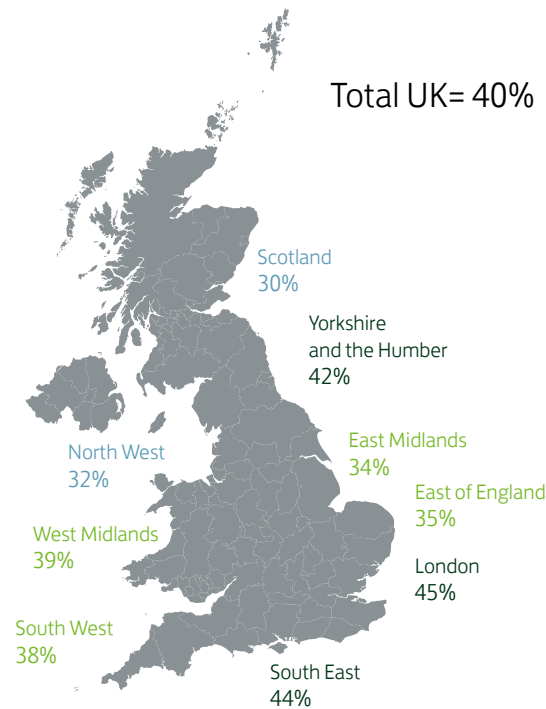
Question: Imagine the transition period was to be finalised and announced sufficiently far in advance of March 2019, and was due to be at least 12 months long. Which, if any, of the following business decisions would this have an impact on? (Please select all that apply. If any of your answers aren't listed below, please type them in the 'other' box. If you don't think it would have an impact on any business decisions, please select the 'Not applicable' option)

Base: Total 413 positive impact of transition, showing industries with robust base size

Results by region

The potential effect of a transition period varies across regions. Businesses based in London, Yorkshire and the Humber and respondents from the South East are most positive about the likely impact of a transition period agreement. Businesses in Scotland were the least positive.

Positive* business impact of a transition period split by region of respondent



Source: YouGov Brexit Transition research, August 2017

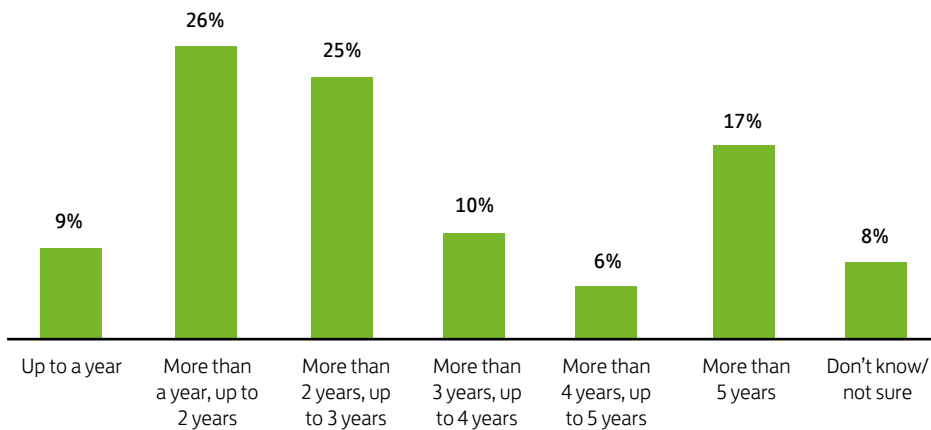
Question: In general, to what extent, if at all, would a transition period have a ****positive**** or ****negative**** impact on your business's ability to make business decisions.

*Total Very Positive and Fairly Positive

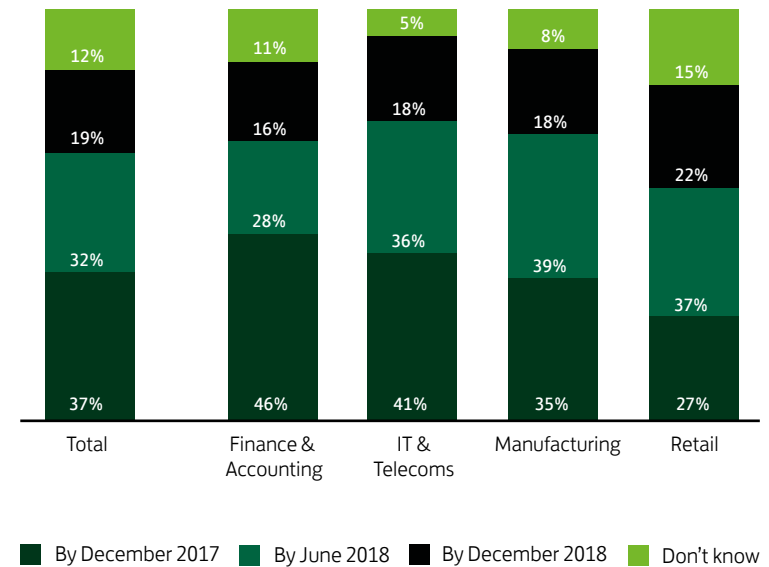
Base: Total 1,036

Requirements of a transition period

Length of the transition period required
(all businesses positive about transition)



Timescales required for confirmation of transition period
(respondents positive about transition)



When asked about the ideal length of a transition period, businesses were clear that it should be between 1 to 3-years after the UK exit from the EU. The timing of the UK and EU27 agreeing the terms of a transition is important too. Businesses who were positive about a transition period indicated

an agreement would be needed sooner rather than later. 37% of respondents suggested they needed an agreement by the end of the year and 32% by the Summer of 2018. Businesses in IT and finance most strongly favour a quick resolution on a transition period.

Conclusion



It's clear that a transition period is better for business than 'no deal'. But to encourage continued economic growth and secure jobs, the Government must act now on a transitional agreement while setting out what the UK's long-term future will look like. Companies need to be able to see ahead to invest in and hire for the future - we can't afford to wait much longer.



Jasmine Whitbread

Chief Executive of London First

The survey results show that uncertainty around Britain's future relationship with the EU is continuing to impact business decisions, specifically delaying investment and recruitment, as well as firms also revising their supply chains and procurement procedures.

While some businesses are positive about the impact of the transition period, a significant number don't think it will help them with business planning. However, only a minority of businesses think a transition period will have a negative impact.

This is a good indication that businesses believe a transition period is favourable to a 'cliff-edge', but it is not a cure-all solution. Until it is clear what the UK's long-term future relationship with the EU will look like, companies will hold off making investment and recruitment decisions.



The findings of the survey reinforce what we already know from conversations with many of our business, corporate and institutional clients. Many firms feel a transition period would help them to prepare for Brexit, and the sooner the UK and EU27 agree terms, the less uncertainty for businesses there will be.



Edward Thurman

Managing Director
Head of Financial Institutions, Commercial Banking
Group Ambassador for London
Lloyds Banking Group

Find out more

 Go to londonfirst.co.uk

 @London_First



London First is focused on keeping our capital at the top of the global charts, delivering for the whole of the UK. We were founded by business leaders in the '90s, when London was struggling, with a mission to make London the best city in the world for business. We've galvanised the business community to bring pragmatic solutions to London's challenges over the years.

We have established Think London, now part of London & Partners, to promote the capital worldwide and encourage foreign direct investment, been instrumental in creating the Mayor of London, pioneered Teach First,

driven the campaign for Crossrail and, most recently, lobbied for government action on airport capacity, which has led to the government's decision to build a new Heathrow runway. Now, we are working on solutions to what our business leaders see as the top priorities for our capital: talent, housing and transport.

"London First speaks for London businesses and that means the government hears what London businesses have to say."
Sadiq Khan, Mayor of London

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