

Since I last was in touch, a great deal has happened for the Foundation.

First of all, can I express our unease and regret over a link being made to the Foundation in recent stories surrounding the resignations of members of the Lloyds TSB Scotland's Board. We were as surprised as anyone to see decisions taken by them being linked to our ongoing funding situation with Lloyds Banking Group. This is the comment I issued to the media:

"We are dismayed that anyone should seek to wrongly tie in decisions made by Susan Rice, and members of Lloyds TSB Scotland's Board, to the situation the Foundation currently finds itself in with Lloyds Banking Group in London.

"As an independent organisation, nothing that has happened affects or alters the Foundation's determination or ability to seek a resolution of our interim funding difficulties with the Group in London. We will continue to do so in the open and transparent way we have done to date."

Meeting: We met with Lord Leitch and Shane O'Riordain of Lloyds Banking Group on 6th November in London. Disappointingly, the Group was still only prepared to discuss their offer that remains broadly unchanged since the original proposal in June.

We tabled our own proposal in an attempt to find common ground, a proposal that sought interim funding in the form of a loan, whilst leaving our independence intact: we have never asked for a handout from the Bank at the taxpayers' expense. However, our proposal was refused point-blank. We were told that the existing covenant, giving a fraction of one percent of pre-tax profits to the Foundation, was simply "too much". There was no further discussion.

Subsequent to that meeting, our Trustees met and subsequently replied to the Group formally and unanimously rejecting their current offer.

Throughout this process, the Foundation has remained – and remains - open to discussions with the Banking Group, and I am saddened that this co-operation has not been reciprocated in any meaningful way.

The Covenant:

As I have explained before, the strings attached to the Group's proposal would leave us with a reduction of 50% in the proportion of the pre-tax profits allocated to the Foundation's work with Scotland's grassroots charities.

Just as important, their proposal states that, out of these reduced monies, the Group wishes to align a significant proportion of our grants with their overall aims. In these circumstances, how can the Banking Group still insist – wrongly – that the Foundation will receive full value of the existing agreement? There is no way the level of funding through our existing award programmes could be maintained. Funding to the most needy groups in Scotland would be decimated under this proposal.

Funding: On 12 November, the Foundation announced that it is seeking to raise funding of £12m to guarantee its future for the short term.

Trustees have agreed that efforts should now be made to secure monies from sources other than Lloyds Banking Group to cover our grant-making programmes for the next two years, whilst continuing to work to reach a settlement for interim funding with the Group.

By seeking to raise our own funds for a limited period, the hope is that, irrespective of whether or not the Foundation reaches an agreement with the Banking Group, we will be in a position to restart grant-making programme early in the New Year. This would bring a lifeline to charities across Scotland concerned about the impact the loss of the Foundation's funding would have on their work.

We are currently working to identify major donors but will not be seeking money through public donation. We are also hoping to realise some monies through the Rights Issues, having established with the Banking Group, after six months of intense activity, that we are indeed entitled to participate. Let us be clear: any monies we receive from the Rights Issues are not a 'donation' to the Foundation or some act of generosity, they are ours by right of our shareholding.

Misinformation: There are a number of pieces of misinformation in statements made by Lloyds Banking Group that have been drawn to our attention that I think I should correct:

Assuming the four national Foundations accept LBG's proposals, they will receive the full value of the existing agreement. As the Group's proposal is explicit in stating that the funds provided through the covenant will be reduced from the current 1% of pre-tax profits to 0.5%, we will not receive the full value of the existing agreement. On that basis, the assurance is wrong and worthless.

It may be that the Group is still using the "smaller slice of a bigger pie" argument – that is, accept a smaller percentage of a potentially bigger profit from a bigger group, which is the way the Group has explained its rationale for halving our income in future. That is completely discredited given that the Group is to be broken up. There can now be no doubt that this could, in fact, lead to an overall decrease in our income.

At a time when LBG is loss making, existing commitments can be honoured and funding to charities in Scotland will not be reduced. In addition to cutting the funds available through the covenant, the Group has already advised us, as part of their proposal, that there will be at least four Giving Priorities that the Foundation will be required to fund, as decided by the Group.

By our reckoning, taken alongside the Group's proposal to reduce our income by half, we believe we will be lucky to have 30% of the income to which we are entitled to fund the grassroots charities that are at the heart of our current grant-making programmes. There is no way existing grant-making programmes could continue and funding to the most needy groups in Scotland would be substantially reduced.

In addition, based on the Group's own figures, when we apply the 0.5% rate to the covenant, we estimate that Scotland's charities will lose out on £22m in the next nine years alone. Either way, how can anyone say that funding to Scotland's charities will not be reduced?

The Foundation will retain its independent status. How can this be when the bank has stated that they wish to align a significant proportion of our grants to the Group's business activities? *Lloyds Banking Group is a 'donor' to the Foundation.* Lloyds Banking Group is fulfilling a legal obligation to give the Foundation a fraction of 1% of its pre-tax profits. This legal commitment has been in place since 1985. It is entirely misleading of the Group to portray itself as a donor.

The covenant is not in perpetuity but runs for a nine year period. This is not true; the covenant is set up in perpetuity. It has been in place since 1985, and unless it is broken by the Banking Group will run indefinitely, as was the intention when it was set up by the will of an Act of Parliament (Trustee Savings Bank Act 1985). It is true that there is a nine year notice period should the Banking Group decide to break the covenant, but that does not mean it is a nine year covenant.

As ever, as and when there is more information to share with you, I shall be in touch. But for now, thank you again for your interest.

Mary E. Craig

Chief Executive, Lloyds TSB Foundation for Scotland