

LLOYDS BANKING GROUP



Lloyds Banking Group plc
25 Gresham Street
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31 July 2014

Dear Shareholder,

In this, my third update to shareholders, I am delighted to be able to tell you that we have continued to make good progress on our strategic plan. This is resulting in much better service for our customers, substantially improved underlying financial performance, and further risk reduction and improvements in the Group's financial strength.

Successful implementation of our strategy

Through the successful implementation of the strategy we set out in 2011, we have now turned Lloyds Banking Group into a low-risk, highly efficient, UK focused retail and commercial bank, which includes our strong insurance business. This, in turn, means that we remain well on track to deliver strong, stable and sustainable returns to you our shareholders, and given the good progress made in the first half of this year, we will apply in the second half of the year to our regulator, as expected, to restart dividend payments on the Group's shares at a modest level.

The individual strands of our strategy are the same as when it was announced in June 2011: reshape; strengthen; simplify; invest – and I would like to draw your attention to some of the actions taken in these areas over the first half of this year.

Supporting our customers, and helping Britain prosper

We have introduced innovative products to meet our customers' needs, such as the Club Lloyds current account and our 18 month fixed-rate ISA. We have developed our customer platforms, with growth in our digital channels meaning we now have over 10 million online banking users and 4.5 million mobile users. We also continue to be a major provider of support to households and businesses – for instance, we have pledged to grow our lending to SMEs on a net basis by £1bn, support 100,000 start-ups, and help more than 80,000 people buy their first home in 2014. We remain on track to meet all of these commitments.

This ongoing support to communities is embodied in our Helping Britain Prosper Plan, which I wrote to you about in my letter following the Group's 2013 Full Year results. We are the first UK business to commit to a plan like this. The aim is to help address some of the big issues facing Britain today, and covers the areas where we can make the biggest difference to our customers across households, businesses and communities. We are in the early stages of implementing this Plan, but initial signs are very encouraging, and we recently provided further support for the Plan by raising £250 million through an Environmental, Social and Governance bond, from which the money will be used to finance loans to SMEs which offer clear social and environmental benefits.

Improving customer service by keeping it simple

Over the last three years we have worked hard to simplify the bank to improve customer service and satisfaction, while reducing costs. The results are clear: in the first half, we increased our customer service scores by 5 per cent and gained 45,000 net current account customers, a strong performance given the increasingly competitive market.

 **10 million +**
Digital Banking
customers

On track to lend
£1bn
to small businesses

We will help
80,000
first time buyers in 2014 

**HELPING
BRITAIN
PROSPER**
PLAN
LAUNCHED 

5% 
increase in
Customer service scores

Current account
customers
45,000
net gain

We have made these improvements while enhancing the working environment for our colleagues and lowering costs for the benefit of our shareholders. Under our UK focused model we are now operating in just eight countries, down from 30, and we remain on track to achieve run-rate cost savings of £2 billion by the end of this year from our Simplification initiatives.

On track to generate
£2bn
Run-rate savings

Investing to create a strong foundation for sustainable growth

Action we have taken to focus on our UK business and iconic brands has significantly strengthened our balance sheet. For example, we have significantly increased our capital and leverage ratios and improved our funding position. This, in turn, has reduced risk and improved our resilience.

Further milestones achieved

We have also reshaped the bank significantly to a position of strength, and this, combined with our capacity to generate capital while continuing to effectively manage legacy issues, has enabled the Government to sell a further £4.2bn of its shareholding in the Group – a total of £7.4bn of taxpayer's money has now been returned, and the Government has reduced its stake in the Group to 24.9%. Furthermore, we sold 38.5% of our stake in TSB via a well received initial public offering, an important step towards completing our European Commission State Aid commitments. These events are more evidence of your bank returning to normal.

51%
Market Leading
Cost:Income ratio

Government stake
reduced to 24.9%
£7.4bn
returned to taxpayer

Delivering sustainable benefits for customers, colleagues and shareholders

I believe then that our plan to transform the Group is working, and is helping to make us the best bank for customers, ensuring we continue to help Britain prosper, and delivering improved performance for shareholders. But I am not complacent as there is much to do, and legacy issues do remain.

The first phase of the strategy we set out in June 2011, aimed at simplifying the organisation to focus on UK retail and commercial banking, including our strong insurance business, is now substantially complete. The rise in our share price of more than 50% since that time shows that the market supports our approach. Our low risk, efficient, UK focused retail and commercial business model gives us safe, solid foundations for the future; and I expect to provide an update later this year on our strategy and our plans to build on these foundations over the next three years.

Successful IPO of
TSB

Finally, I would like to thank you for your loyalty and continued support. I intend to send updates on our progress twice a year, and I will write to you again following the release of our Full Year results in the first quarter of 2015.

Share price increased by
51%
3%
Banking
sector average

In the meantime, if you would like to see further detail on our 2014 Half Year results, you can find it on our website at: lloydsbankinggroup.com/investors

Yours faithfully



António Horta-Osório
Group Chief Executive