

LLOYDS
BANKING
GROUP

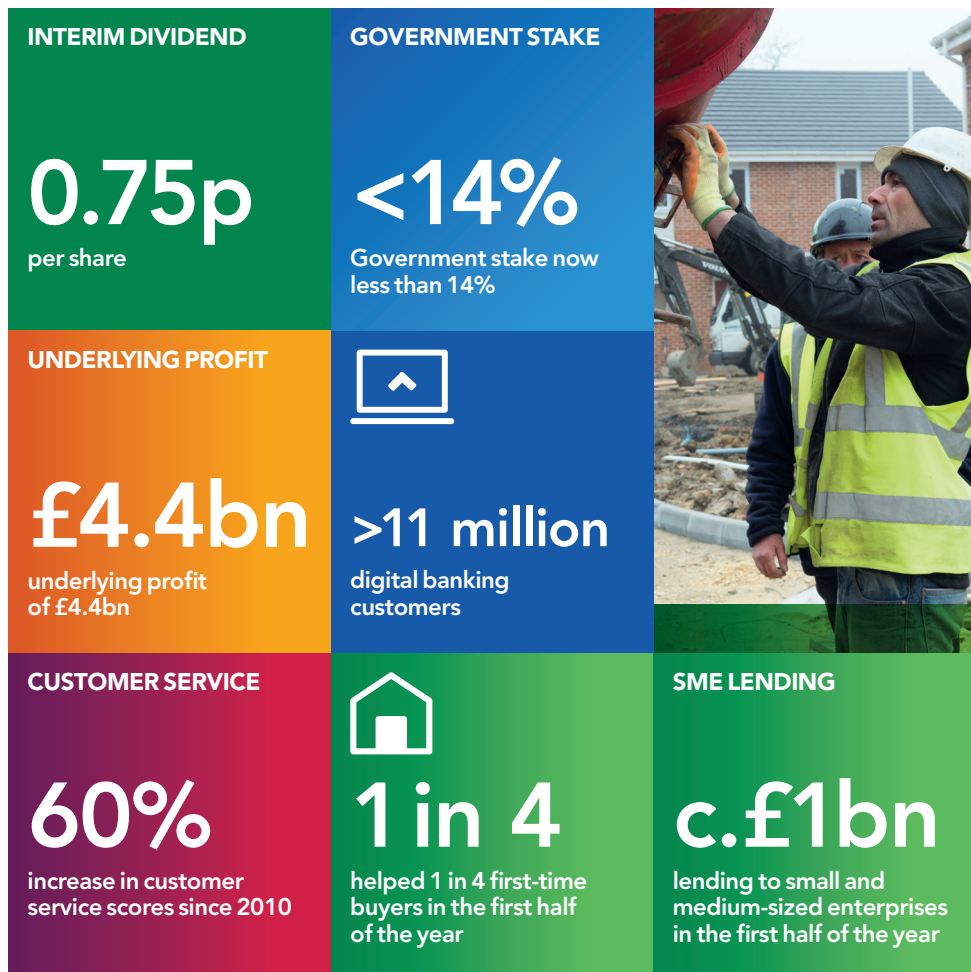


HALF-YEAR UPDATE

Supporting
our customers
and helping
Britain prosper



Highlights



MILESTONE YEAR
250th anniversary of
Lloyds Bank,
200th anniversary of
Scottish Widows



Statements to note

This 2015 half-year update should be read in conjunction with Lloyds Banking Group's 2015 half-year results. This 2015 half-year update is provided for information purposes only, and is not intended to be a substitute for reading the 2015 half-year results.

Lloyds Banking Group plc is registered in Scotland, No. 95000. Registered office: The Mound Edinburgh EH1 1YZ



António Horta-Osório
Group Chief Executive

► Dear shareholder

When I last wrote to you in March, following the publication of our 2014 full-year results, I talked about the strong start we had made to the next phase of our strategy to become the best bank for our customers and shareholders, while at the same time helping Britain to prosper.

I am pleased to report that we have continued to make good progress in the first half of 2015, focusing on our three strategic priorities: creating the best customer experience; becoming simpler and more efficient; and delivering sustainable growth. This focus will increasingly help us to deliver additional value and high-quality experiences for customers, and sustainable returns for shareholders.

Creating the best customer experience

We are committed to a multi-brand, multi-channel strategy which enables us to meet customer needs more effectively. By offering products through our respected brands including Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows and a range of channels including our branch networks, our telephone banking services and our digital propositions, customers can interact with us when they want, where they want and in the way they want.

We are adapting to the digital revolution and today we have more than 11 million online users and nearly 6 million active mobile users, numbers which are rising by the day. This opens huge opportunities for how we serve our customers in new and more efficient ways. Recent examples of this include our Halifax Motor Finance offer which is the market's first digital direct-to-consumer, secured car finance proposition and the launch of the Lloyds Bank online eligibility checker which customers can use to find out how likely they are to be accepted for a current account and overdraft without affecting their credit profile. In addition, we continue to streamline our processes and have reduced the average intermediary mortgage application to offer time from around 25 days to 14 days, with further improvements targeted. Our progress in creating the best customer experience has been reflected in further increases to our customer service scores.

Becoming simpler and more efficient

We have continued to improve and simplify our procedures in the first half by increasing investment in our IT efficiency and resilience, resulting in simpler and more efficient processes and better digital experiences for our customers as well as cost reductions for the Group. These reductions, together with our underlying financial performance, have further strengthened our already market-leading cost-to-income ratio, providing us with an important advantage in an increasingly competitive market.

Delivering sustainable growth

We remain the largest provider of mortgages to first-time buyers and have helped 1 in 4 to get on the housing ladder in the first half of the year. We have also continued to lend to our other key customer segments, including approximately £1 billion to SMEs where we continue to grow ahead of the market. Our ongoing support to customers and the UK economy is embodied in our Helping Britain Prosper Plan, through which we have committed to make a difference for our customers across households, businesses and communities.

Financial performance and strategic progress

Our underlying profit increased in the first half of the year to £4.4 billion and the effective risk management of our lending portfolio has led to a lower risk business with reduced impairments and improved resilience. We have further strengthened our balance sheet and our capital ratios remain among the strongest of our major banking peers worldwide. In addition, a number of our ratings agencies have either reaffirmed or upgraded the Bank's credit ratings, validating the successful delivery of our strategy.

Regrettably, we are still being impacted by conduct provisions for Payment Protection Insurance (PPI) and have increased our provision for expected PPI costs in the first half by £1.4 billion. We also reached a settlement with the Financial Conduct Authority in June in relation to aspects of our past PPI complaint handling process. We are fully committed to improving our operational procedures and ensuring we do the right thing for our customers.

Our continued strategic and financial progress has enabled the Government to further reduce its stake in the Group which now stands at less than 14 per cent, down from its peak of 43 per cent. This means that almost £14 billion has been returned to UK taxpayers. Furthermore, the completion of the sale of TSB to Banco Sabadell represents the continued delivery of our commitment to the European Commission under the terms of the state aid decision. These milestone events are further evidence of your bank returning to normal, a situation which is reinforced by the continued progress in our share price.

Dividend

Following the resumption of dividend payments at the 2014 full year, we are delighted to announce that the Board has approved an interim dividend payment of 0.75 pence per share. The dividend will be paid on 28 September 2015 to shareholders on the register at the close of business on 14 August 2015. Our aim is to have a dividend policy that is both progressive and sustainable. As we have previously indicated, we expect ordinary dividends to increase over the medium term with a dividend payout ratio of at least 50 per cent of sustainable earnings.

We are delighted to announce that the Board has approved an interim dividend payment of 0.75 pence per share.

In addition, going forward the Board will give due consideration, subject to the circumstances at the time, to the distribution of surplus capital through the use of special dividends or share buy-backs.

Outlook

I am proud of what we have achieved and I passionately believe that our simple, low-risk, UK-focused retail and commercial banking model is the right one. But we still have a lot to do; we will continue to adapt and shape our offering around customer needs in this ever evolving political, regulatory, economic and competitive environment so that we deliver for our shareholders and help Britain prosper for many years to come.

In this milestone year in which we commemorate the 250th anniversary of Lloyds Bank and the 200th anniversary of Scottish Widows, I would like to thank you once again for your support. I will continue to update you on our progress twice a year and will therefore write again following the publication of our 2015 full-year results in the first quarter of 2016.

In the meantime, if you would like further details on our 2015 half-year results or the Helping Britain Prosper Plan, please visit our website at www.lloydsbankinggroup.com

Yours faithfully



António Horta-Osório
Group Chief Executive