

# LLOYDS BANKING GROUP



Lloyds Banking Group plc  
25 Gresham Street  
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1 August 2013

Dear Shareholder,

Following the recent announcement of our 2013 half year results, I am writing to update you, as a shareholder in Lloyds Banking Group, on the progress we are making on our strategy to make your bank into the best bank for customers.

## SUBSTANTIAL PROGRESS IN DELIVERING OUR STRATEGIC PLAN

I am pleased to report that we have made substantial progress in the two years since we set out our strategy to transform the Group by strengthening it, reshaping it to focus on our core UK business, reducing costs and risk significantly, and simplifying and improving our service, products and processes. As a result we are now well on track to create a bank we can all be proud of, and which I expect to deliver strong, stable and sustainable returns to you.

## STRENGTHENING THE GROUP

Strengthening and stabilising the Group has been a priority over the past two years. We have successfully reshaped the Group's balance sheet, and substantially reduced those assets and businesses that we do not believe are core to our future plan. We have also significantly reduced our dependence on wholesale funding, whilst strengthening our capital and liquidity positions. We have continued to address legacy issues, such as PPI, and we have sought to do this in the best interests of both our customers and our shareholders.

## SIMPLIFYING THE GROUP AND SUPPORTING OUR CUSTOMERS

We are now far more efficient, having simplified the bank from our customers' point of view, whilst simultaneously reducing costs by over £1 billion. We have reduced our global footprint, so that we can focus on our core UK business, such that by the end of this year we will be operating in around 10 countries, down from 30 countries two years ago.

The Group's transformation allows us to better support our business and personal customers, by offering better value products and enhanced services.

This is having a significant impact. Our net lending to small and medium sized enterprises (SMEs), which are a key driver of growth and employment, has grown by around 4% per annum over the past two years. This is in marked contrast to the market overall, which fell by around 4% per annum over the same period.

We have also continued to support our personal customers through improving service, and in targeting specific areas, including first time buyers in the UK where we will help more than 60,000 people buy their first home in 2013.

As importantly, we have reduced costs while improving our quality of service, with customer satisfaction increasing and customer complaints now substantially lower than for all of our main competitors. In addition, we are the only major bank that has not reduced its branch network and we have committed to keep our branches open when we are the last bank in town.

WHOLESALE FUNDING



£140bn

NON-CORE ASSETS



50%



Costs down by over

£1bn

International presence reduced

2011	30 countries
2013	10 countries ~

We will help  
60,000  
first time buyers in 2013



## A SIGNIFICANT INCREASE IN PROFIT

In terms of our financial performance, the actions we are taking have put us ahead of plan and resulted in a significant increase in profit in the first half of 2013. You will be able to find further detail on our 2013 Half-Year Results on our website at [www.lloydsbankinggroup.com/investors.asp](http://www.lloydsbankinggroup.com/investors.asp)

We expect further positive progress on our strategy in the rest of this year. We have a strongly capital generative business, we expect to reduce costs further and to grow our core loan book.

## LAUNCHING TSB AND LLOYDS BANK ON TO THE UK HIGH STREET

I want also to update you briefly on progress on the business divestment that the European Commission has required the Group to make. We are creating two separate banks from Lloyds TSB: Lloyds Bank and TSB. You will see the new TSB branches on our high streets in the autumn. It is expected to have nationwide branch coverage with around 630 branches, and approximately five million customers. At the same time we will use the opportunity to rebrand our Lloyds branches as Lloyds Bank. We now intend to sell the new TSB through an Initial Public Offering, with our aim remaining to obtain best value for shareholders, as well as certainty for our customers and colleagues.

## DELIVERING SUSTAINABLE BENEFITS FOR CUSTOMERS, COLLEAGUES AND SHAREHOLDERS

The strategy we set out in June 2011, to simplify the organisation and focus on UK retail and commercial banking, is the right strategy for Lloyds Banking Group.

The rise in our share price confirms that the market supports this view. The Group's share price has increased by 41% in the two years following the announcement of the Strategic Review, the largest increase of any UK bank over that period and since January 2012 by 144%, the largest increase among the top 20 banks in the world.

Over time, I believe our plan to transform the Group will make us the best bank for customers and ensure we help Britain prosper. It will also enable us to realise our full potential to deliver strong, stable and sustainable returns for you our shareholders and ultimately to allow the UK taxpayers' investment in the Group to be repaid.

Finally, I would like to thank you for your loyalty and commitment as a shareholder. I intend to send you an update on our progress twice a year and will write to you again following the release of our Full Year Results in the first quarter of next year.

Yours faithfully



António Horta-Osório  
Group Chief Executive



Share price  
increased by

