

UK Financial Investments Ltd

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Executive Chairman

Chancellor of the Exchequer
HM Treasury
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25 March 2014

Dear Chancellor,

In September 2013, UKFI executed the disposal of approximately 6% of HM Government's shareholding of Lloyds Banking Group. Following the initial sell-down of shares in Lloyds, we have continued to assess the options for a further disposal, including incorporating the participation of retail investors.

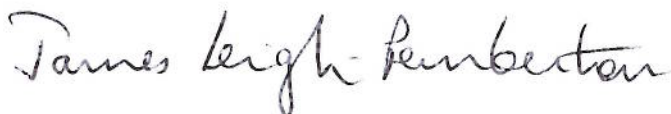
Our view, based on the outcome of this work and in conjunction with our advisers, is that an offer should be made to institutional investors only at this time, that we consider the current share price to be fair value, and that institutional investor sentiment and risk appetite remain conducive to participating in a large share placing.

On that basis, we judge that this is the right moment to sell a further stake in Lloyds on behalf of taxpayers.

We believe that this transaction should be launched via an accelerated bookbuild to institutional investors with a size of c.£4 billion.

Given the feedback from the Bookrunners, and assuming no substantive market events during bookbuilding, on behalf of the UKFI Board I confirm that we are confident an accelerated bookbuild would achieve a price no less than the price achieved in the September 2013 sale, based on the current traded price of 79.00p (at 16:25 GMT), and which would represent value for money.

On behalf of the Board



James Leigh-Pemberton
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