

UK Financial Investments Ltd

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James Leigh-Pemberton
Executive Chairman

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Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

13th March 2015

Dear Chancellor,

Following your steer that it is your intention to take advantage of favourable market conditions to accelerate your exit from Lloyds and maximise the proceeds from the sale of these shares in fiscal year 2015/16, I have set out below my view on what is feasible.

As Lloyds has continued its path towards becoming a stronger, healthier bank with a simpler business model, we have sold more than £8.5bn of shares over the last 19 months. Current market conditions, underpinned by the ECB's QE programme, provide a very helpful backdrop for disposals. In addition, the bank's recent results – including the dividend announcement - have created favourable sentiment towards the shares and have made it possible for a broader range of investors, including income funds, to invest in them.

The share price move, the increase in liquidity as a result of the trading plan and the potential for new buyers mean that there are now more options to sell shares in different ways. For the same reasons, I also expect to be able to undertake larger transactions than have been possible to date.

As a result, my judgement is that the sale of around £9bn worth of Lloyds shares in fiscal year 15/16 would be achievable while delivering value for money for the taxpayer, subject to market conditions and sufficient flexibility on the appropriate time and method of disposal.

*yours sincerely,
James*

James Leigh-Pemberton
Executive Chairman