

To Lloyds Banking Group Shareholders

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UK Shareholders Association
PO Box 62
Chislehurst
BR7 5YB
Phone: 020-8468-1027
Email: uksa3@btconnect.com
Web: www.uksa.org.uk

Lloyds Bank Shareholders Action Group – Update No. 3

New Lloyds Chairman

As forecast in our last newsletter, Sir Win Bischoff has been confirmed as the new Chairman of Lloyds Bank. He starts on the 15th September. Apparently Sir Victor Blank will serve only two more months so he will be departing a lot sooner than originally anticipated which will no doubt please a lot of shareholders. As he is on a contract with 6 months notice, his pay for the remaining 4 months will be donated to charity (that's about £213,000).

Another departure that was recently announced was that of John Kingman from the Treasury – more recently chief executive of UKFI. Mr Kingman has been at the centre of Government decision making concerning the handling of the banking crisis. He is apparently looking to move to the private sector.

Interim Results

Lloyds Bank published some interim results on the 5th August. There was a loss in the first half of £4bn (flattered by £3.7bn of "fair value unwind"), mainly caused by £13bn of charges for bad debts. The market seemed pleased and the share price rose 11% on the day. But future write-downs are likely as the bank is heavily exposed to the UK recession and the Asset Protection Scheme (APS) is not yet agreed. Commentators and analysts gave the results a mixed reception and the future is obviously still unclear to many.

Government Aid Issue

Ms Neelie Kroes, the European Unions Competition Commissioner, recently gave a speech to a London banking conference indicating that after tackling the German banks she was now looking at UK banks. She said "*The massive aid received by banks such as Lloyds and RBS allows these banks to remain leaders in markets which are concentrated*". She hinted that this might require "significant divestments". The EU has received a "restructuring plan" from Lloyds which needs their approval in due course.

APS Under Review?

Lloyds has floated the idea that it might pull out of the Asset Protection Scheme and instead raise £15bn or more in a right issue. There was some skepticism as to whether Lloyds could pull off such a fund raising and some institutions apparently expressed opposition. More dilution of your shareholding you might assume. But note though that the Government was going to collect a similar amount of "B" shares as a premium for the APS insurance so your economic interest in the company was going to be diluted anyway. It may simply be a matter of whether you prefer the Government to increase their stake, or have some other investors on board.

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As to whether the APS is a good deal or not depends on the details, which have not been disclosed (or even agreed it seems). Insurance is great if it pays out more than the cost of the premiums, and the assets to be insured are certainly of questionable quality, but the Government might be trying to ensure it makes a profit which could make it less attractive to Lloyds than originally anticipated.

Newsletters

As our mailing list for this campaign is expanding rapidly, many of you will have received this newsletter for the first time. We issue a newsletter to anyone who responds to our mailings about once per month and these newsletters report on the progress of the campaign and any general news about the company which is the subject of the campaign – after all most readers will still be shareholders in the company and may not have access to the financial press. Our newsletters try to be an unbiased summary of relevant news, but they may also contain comments where we think them relevant and worthy of mention. All newsletters are put on our web site so you can review past ones there if you wish to do so.

Campaign Status and Questions

We have continued to mail shareholders on the register of the company. Some respondents write questions on the response form, or send individual letters. Although all such communications are read, we cannot respond individually in writing. Please bear in mind that we are trying to communicate with 3 million Lloyds Bank shareholders and we have very limited resources. We are also very aware that we need to control the costs of this campaign and administration must be kept to a minimum as a result. It is simply not practical for us to answer individual questions. Any questions that are commonly asked will be answered either in these newsletters or on our web site.

Shareholders Meeting

We are also planning a meeting for Lloyds Bank shareholders in London on the 31st October where we will try and answer any questions you may have. Please make a note of the date in your diary. More details will be issued in due course.

Roger Lawson

Communications Director, UK Shareholders Association

Email: uksa@uksa.org.uk, Web: www.uksa.org.uk, Direct telephone: 020-8467-2686

Note that all previous information issued by UKSA in respect of our campaign on Lloyds Bank is present on the following web site page: www.uksa.org.uk/Lloyds.htm