Rights Issue and Capital Enhancement Proposals

3 November 2009

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Introduction

Sir Winfried Bischoff

Chairman

Key Highlights

Eric Daniels

Group Chief Executive

TODAY'S PROPOSALS
A market-based solution to Lloyds' capital needs

- **At least £21 billion core[1] capital generation: proceeds fully underwritten**
  - £13.5 billion rights issue[2]
  - £7.5+ billion exchange offers into enhanced capital notes (ECNs) and equity[3]
- **HMT/UKFI will fully subscribe to rights issue**
- **Good momentum in 2009Q3 results**

Proposals structured to:

- **Create a higher quality, more efficient capital structure**
- **Reinforce capital ratios in stress conditions**
- **Secure less onerous EU remedies than GAPS**
- **Deliver superior economic value compared to GAPS**

POSITIONING LLOYDS BANKING GROUP FOR FUTURE GROWTH

[1] Core tier 1 and contingent core tier 1 capital
[2] Before expenses
[3] In limited circumstances, cash or additional ECNs (Non-US Exchange Offer)

SUPERIOR ECONOMIC VALUE TO GAPS

	CAPITAL AND VALUE	INSURANCE PROVIDED
GAPS	▪ £15.6 billion cost with marginal benefit ▪ Public shareholders potentially diluted from 57% to 38% for limited value ▪ Excess initial capital, excess medium term leverage as GAPS fee amortises ▪ Adverse operational and commercial impact	▪ No net GAPS claims under Group central case ▪ Even under FSA stress test net claims less than £15.6 billion fee ▪ Coverage limited to GAPS assets
PROPOSALS	▪ £13.5 billion[1] immediate cash and core tier 1 capital ▪ GAPS payment of £2.5 billion ▪ Lower dilution[2] ▪ EPS and RoE enhancing relative to GAPS	▪ £7.5 billion of contingent core tier 1 capital[3] ▪ Converts into core tier 1 capital in times of severe stress ▪ Coverage extends to all Group's assets

1 Before expenses
2 Assumes no conversion of ECNs
3 Based on fully underwritten exchange offers

A COMPELLING INVESTMENT PROPOSITION

LLOYDS BANKING GROUP

BUILDING POSITIVE MOMENTUM

- **UK economic outlook beginning to stabilise**
- **Stabilising margins**
- **Overall impairments peaked**

HIGH QUALITY, EFFICIENT CAPITAL STRUCTURE

- **Core tier 1 ratio increases to 8.6%**[1]
- **Liability management exercise creates contingent core tier 1 buffer of 1.6%**[2]
- **Meets FSA stress test requirements**

PROGRESS ON STATE AID REMEDIES

- **Significantly less onerous expected remedies than GAPS**
- **Cost synergy target unchanged**

COMPELLING INVESTMENT PROPOSITION

- **Leading market positions**
- **Breadth of revenue opportunities**
- **Significant cost synergies**
- **Rigorous risk management**
- **Lower asset intensity**
- **Excellent long term earnings and returns potential**

[1] Pro-forma at 30 June 2009, excludes impact of any equity generated as part of exchange offers and after expenses and GAPS payment

[2] Pro-forma at 30 June 2009, based on fully underwritten exchange offers

BUILDING POSITIVE MOMENTUM
Performing in line with recent guidance

	RECENT GUIDANCE	Q3 TREND
REVENUE GROWTH	High single digit growth within 2 years	✓
MARGINS	Lower in 2009H2, rising in 2010	✓
COST:INCOME RATIO	c.200 p.a. basis points improvement	✓
INTEGRATION BENEFITS	>£1.5 billion savings p.a. by end 2011	✓
IMPAIRMENTS	Overall impairments peaked in 2009H1	✓
REDUCTION IN BALANCE SHEET ASSETS	£200 billion asset reduction over 5 years	✓

Business trending in line with recent guidance

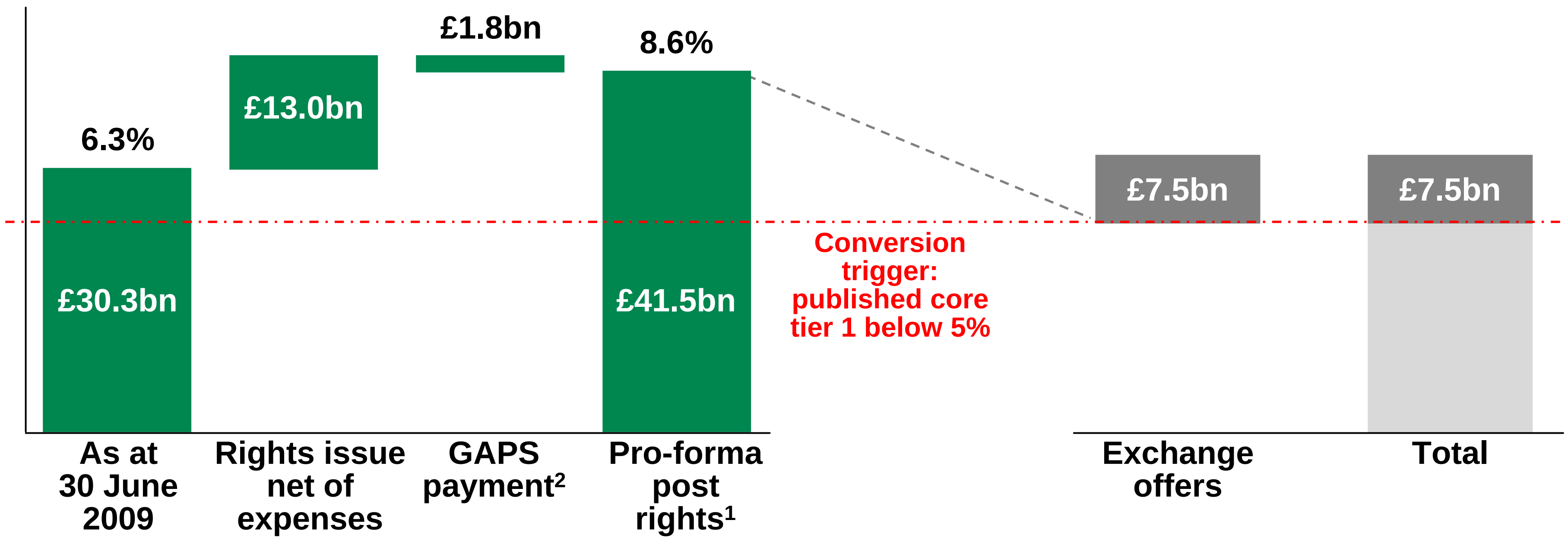
HIGH QUALITY, EFFICIENT CAPITAL STRUCTURE

STRONG CORE TIER 1 CAPITAL

- Immediate 230bps increase in core tier 1 capital ratio to 8.6%
- Appropriate and efficient core tier 1 capital base

EFFECTIVE DOWNSIDE PROTECTION

- 160bps contingent core tier 1 capital buffer
- ECNs convert to core tier 1 if published core tier 1 ratio falls below 5%
- Downside protection in severe stress



[1] Pro-forma at 30 June 2009, excludes impact of any equity generated as part of exchange offers
[2] Net of tax

STATE AID
No materially negative impact on the Group's business

- **c.£180 billion asset reduction**
- **Divestment of retail banking business with at least 600 branches, a 4.6% personal current account market share and approximately 19% of the Group's mortgage book, to include:**
  - C&G savings accounts and all C&G branch-based mortgages, all branches but not the brand
  - Lloyds TSB Scotland, including all branch-based customers, but not the brand
  - TSB brand
  - Some Lloyds TSB branches in England and Wales[1]
  - Intelligent Finance
- **2 year prohibition on discretionary coupon payments/calls on existing hybrids; no restriction on new issuance**
  - Consequent prohibition on ordinary share dividend payments for a similar period
- **Prohibition on making certain acquisitions for approximately 3 to 4 years**

CONTINUE TO EXPECT COST SYNERGIES OF OVER £1.5 BILLION PER ANNUM BY 2011

[1] Together with their branch-based customers

A LEADING UK FINANCIAL SERVICES COMPANY

LLOYDS BANKING GROUP

LEADING MARKET POSITIONS	• A leading provider of banking products and services • 35 million retail and nearly 1 million commercial customers • Focused on most attractive segments in retail and wholesale
POWERFUL BRAND PRESENCE	Lloyds TSB, BANK OF SCOTLAND, clerical medical, HALIFAX, SCOTTISH WIDOWS
WINNING BUSINESS MODEL	• Deep and enduring customer relationships • Strong operational efficiency • Prudent risk disciplines • Capital disciplines
EXCELLENT EARNINGS AND RETURNS POTENTIAL	Income growth (high single digit within 2 years) / 2% p.a. cost:income ratio improvement (higher in earlier years) / On track to achieve £1.5 billion cost savings p.a. / Run off / redeploy £200 billion of assets; core tier 1 ratio target of >7%

Proposal Structure and Third Quarter Update

Tim Tookey
Group Finance Director

£21 BILLION OF CORE TIER 1 AND CONTINGENT CORE TIER 1 CAPITAL GENERATED

RIGHTS ISSUE £13.5bn[1]	▪ **£13.5 billion of new core tier 1 capital** ▪ **Fully underwritten** ▪ **HMT / UKFI will fully subscribe**
EXCHANGE OFFERS AT LEAST £7.5bn	▪ **£7.5 billion exchange offers into enhanced capital notes (ECNs) and new ordinary shares[2]** ▪ **£7.5 billion fully underwritten**

1 Before expenses
2 Or in limited circumstances, cash or additional ECNs (Non-US Exchange Offer)

EXCHANGE OFFERS
Overview

- **Offers to eligible holders of £16 billion Existing Securities (tier 1/upper tier 2 capital securities) to exchange into either of:**
  - Enhanced Capital Notes (ECNs) on a par for par basis with enhanced coupon; or
  - Ordinary shares[1] at a discount to the par value of Existing Securities exchanged
    - maximum value of ordinary shares issued capped at £1.5 billion
    - maximum ordinary shares equal to £1.5 billion divided by 75% of ECN conversion price
- **New ECNs treated as lower tier 2 at issue and convert into ordinary shares if Group's published core tier 1 ratio falls below 5%**
  - ECN conversion price is the higher of (i) 5 day VWAP[2] or (ii) 90% of the closing price as at 17 November 2009 (adjusted for the bonus element of the Rights Issue)
- **£7.5 billion underwriting of Exchange Offers provided by investment banks**
- **Lloyds may limit quantum of Existing Securities accepted in Exchange Offers**

1 In limited circumstances, cash or additional ECNs
2 Volume weighted average price

BENEFITS OF EXCHANGE OFFERS
An attractive proposition for eligible holders

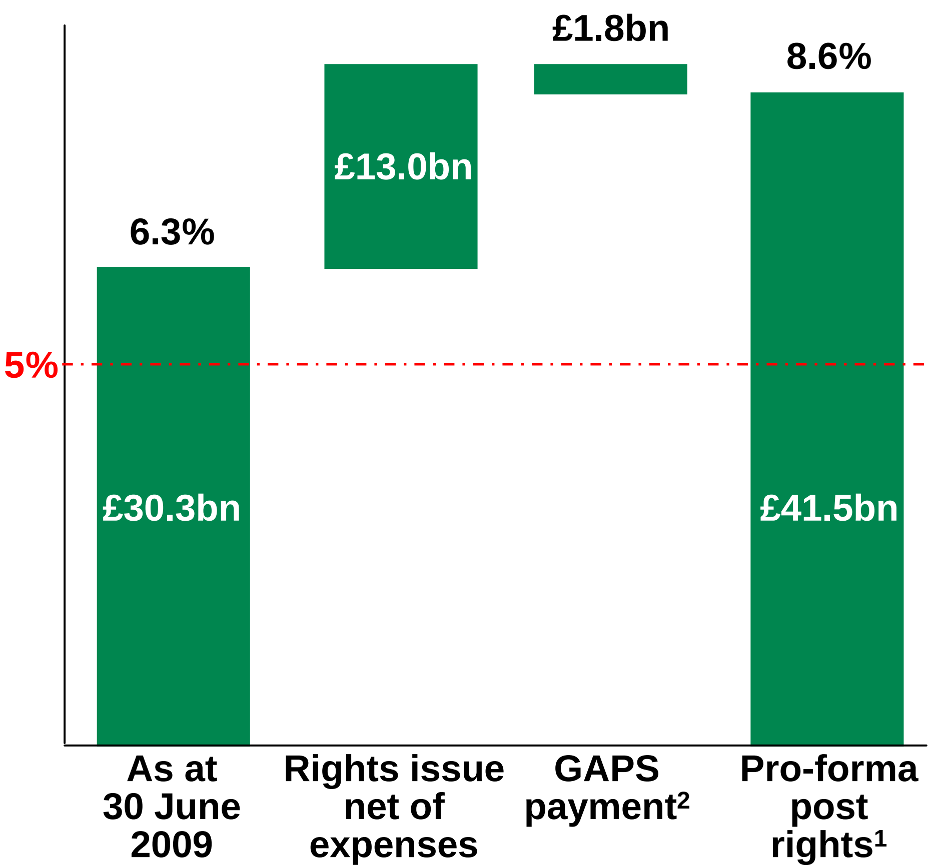
- **Benefits to ordinary shareholders**
  - Limited upfront dilution[1]
  - Provides protection against severe downside
  - Modest additional coupon cost
- **Investors exchanging into ECNs will benefit from**
  - Par for par exchange
  - Certainty of coupon payments: many Existing Securities subject to deferral/suspension of coupon payments required by EU
  - Fixed maturity date: ECNs are lower tier 2 bonds with fixed maturity date
- **Investors exchanging into ordinary shares will benefit from**
  - Greater liquidity in ordinary shares
  - Premium to prevailing market price of their Existing Securities

[1] Assumes no conversion of ECNs. Up to a maximum number of ordinary shares being equal to £1.5 billion divided by 75% of ECN conversion price.

ROBUST CAPITAL RATIOS

Significant increase in capital strength

CORE TIER 1 CAPITAL

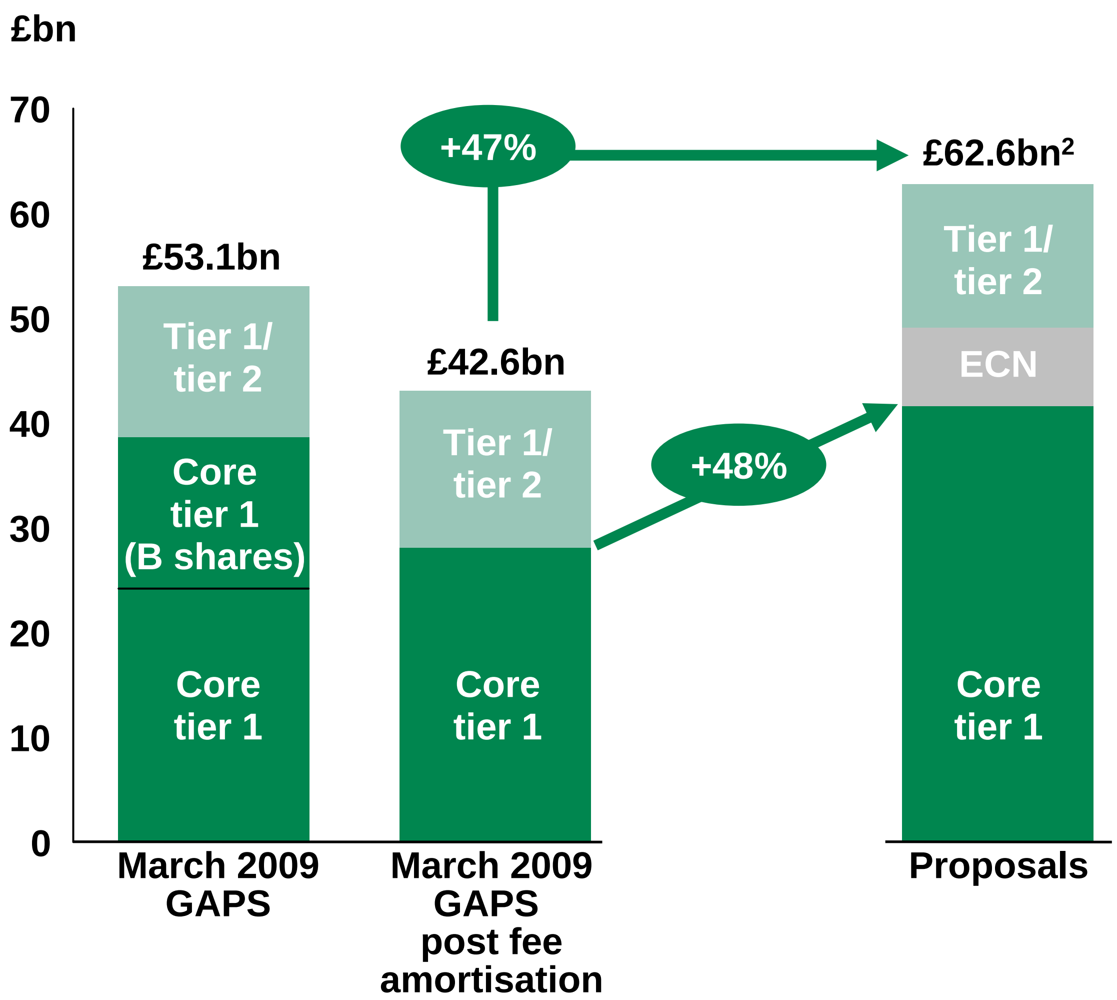


- **Significant increase in core tier 1 capital**
- **Non-amortising capital versus GAPS, reducing future Group leverage**
- **Target core tier 1 ratio of >7%**
- **Anticipated future strengthening of core tier 1 ratio from:**
  - £200 billion asset run down (consistent with half year announcement)
  - Any equity take up in the non-US exchange offers
  - Retained earnings

1 Pro-forma at 30 June 2009, excludes impact of any equity generated as part of exchange offers
2 Net of tax

HIGH QUALITY CAPITAL BASE[1]

Improving quantity and quality of capital base



- **If Exchange Offers not fully taken up, additional tier 1/ tier 2 capital (maximum £7.5 billion)**
- **£7.5 billion capital buffer available for severe stress**
- **Core tier 1 + contingent core tier 1 represents 78% of total capital (vs 66% under GAPS) post fee amortisation**

1 As at 30 June 2009
2 Excludes value of tier 1 and upper tier 2 notes that could be exchanged into ECNs or equity

HIGH QUALITY CAPITAL BASE

A more sustainable capital position (as at 30 June 2009)

March 2009 GAPS participation: contribution to core tier 1[2]

	Immediate	After 7 years
Net capital ('B' shares)	3.2%	3.2%
Reduced RWAs	4.6%	0.0%[3]
Amortising GAPS fee	-0.2%	-2.3%
50% of first loss deduction	-2.0%	0.0%
Total	**5.6%**	**0.9%**

- **GAPS RWA relief reduces as assets run-off**
- **Capital reduced as GAPS fee amortises**
- **Reversal of first loss deduction**

November 2009 proposals: contribution to core tier 1[2]

	Immediate	After 7 years	Core tier 1 below 5%
Right issue (net of expenses/GAPS payment)	2.3%	2.3%	2.3%
Liability management[1]	–	–	1.6%
Total	**2.3%**	**2.3%**	**3.9%**

- **Higher quality new core tier 1 capital**
- **ECNs convert if published core tier 1 ratio falls below 5%**

1 Assumes full £7.5bn of ECNs issued through underwriting
2 Assumes constant RWAs unless otherwise specified and takes no account of retained earnings or losses
3 Assumes GAPS assets fully run-off over 7 years

KEY FACTORS IMPACTING INCOME STATEMENT

LLOYDS BANKING GROUP

		GAPS	PROPOSALS
CHARGES	Amortisation on £15.6 billion GAPS fee (over 7 years)	✗✗✗	✓✓✓ none
	GAPS payment	none	✗ (one off payment)
	Coupon on B shares (until conversion)[1]	✗✗	✓✓ none
	Coupon on ECNs	none	✗ modest
	Annual GAPS administration charge	✗	✓ none
CREDITS	Coupon suspension on tier 1/tier 2 securities	✓	✗ depends on take up
	GAPS claims (central case)[2]	none	none
	Rights issue funds @ overnight rate	✗	✓
	No onerous operational issues	✗	✓

1 13.6 billion shares issued on conversion of B shares if share price rises

2 For Lloyds central case assumptions see Appendix. In FSA stress test conditions, GAPS claims expected to be significantly less than the GAPS fee

EU STATE AID

No materially negative impact on the Group's business

'NON-CORE' ASSET REDUCTION

- **Consistent with half-year communication**
- **Committed to reduce c.£180 billion over 5 years**

GAPS PAYMENT FEE

- **£2.5 billion before tax**

BANKING DIVESTMENTS (2008)[1]

- **Total income: c.£1.4 billion**
- **Costs: c.£600 million**
- **Profit before tax: c.£500 million**
- **Customer lending: c.£70 billion**
- **Customer deposits: c.£30 billion**

CONTINUE TO EXPECT COST SYNERGIES OF OVER £1.5 BILLION PER ANNUM BY 2011

[1] Subject to final State Aid decision and based on initial high level estimates only. Figures likely to change when final shape of banking divestments is agreed

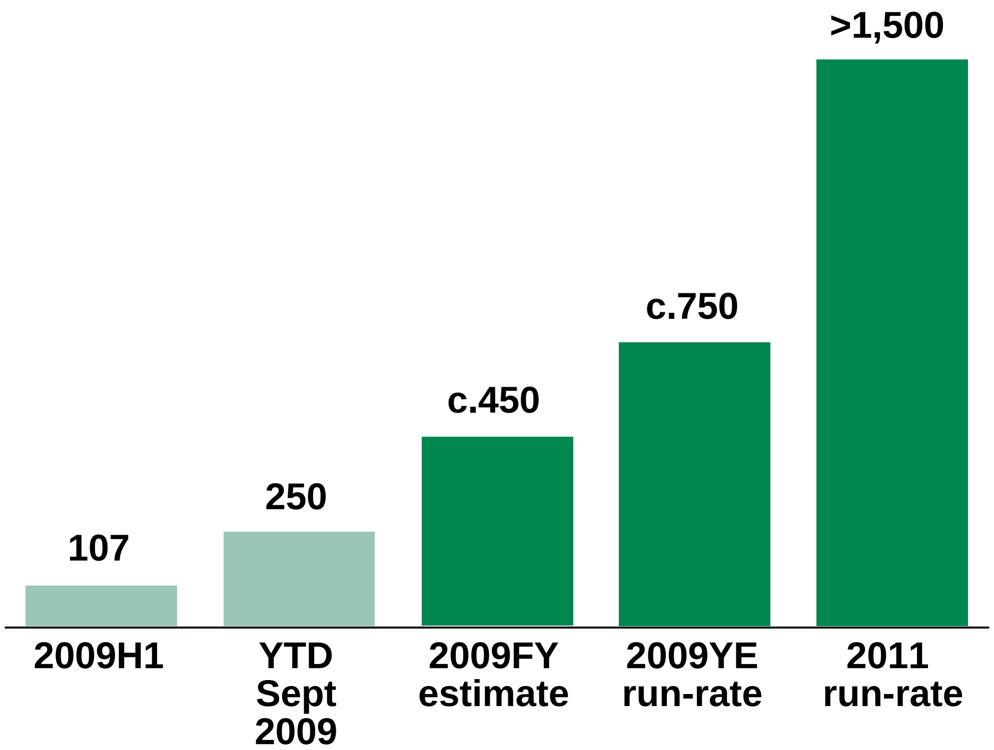
Third Quarter Update

THIRD QUARTER UPDATE
Building positive momentum

- **Continued to deliver good revenue performance in 2009Q3**
- **Banking net interest margin flat in 2009Q3 compared to 2009H1**
- **Costs continue to be well controlled: 2% lower compared to 9 months to 30 September 2008**
- **Excellent progress on integration: £50 million higher run-rate of cost synergies than previously announced**
- **Overall impairments on improving trend, 2009Q3 £5.2 billion compared to 2009H1 £13.4 billion:**
  - Overall run-rate has improved, particularly in Wholesale
  - Ireland remains a concern
  - We expect overall impairments to fall significantly in 2009H2

INTEGRATION UPDATE
Cost synergy delivery ahead of schedule

SYNERGY DELIVERY AS AT 3Q IMS (£m)



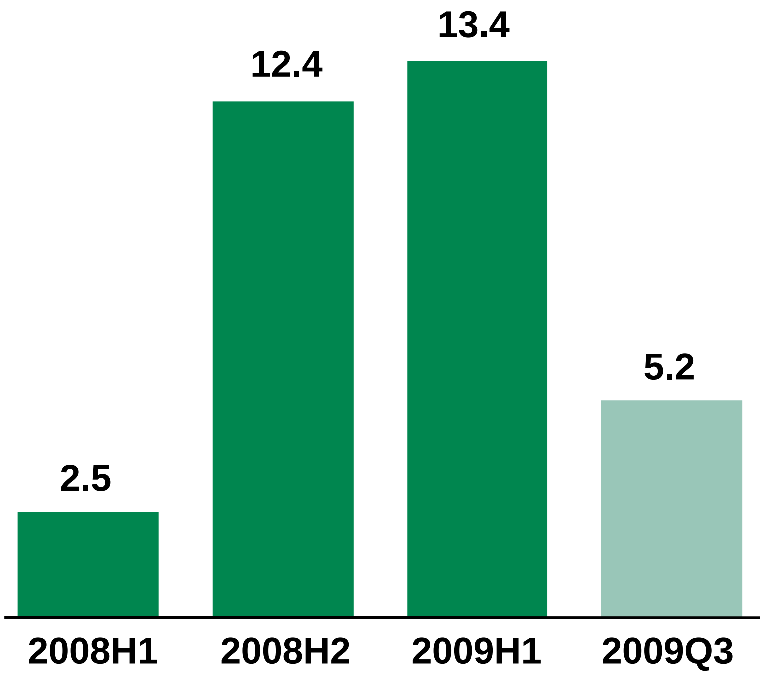
- **Integration benefits continue to run ahead of schedule**
- **Integration savings in first 9 months of 2009 of £250 million**
- **Increased estimates for synergy delivery in 2009: year end run-rate of c.£750 million (up from £700 million)**
- **Continue to expect over £1.5 billion of cost synergies per annum by end 2011 despite expected State Aid remedies**

IMPAIRMENTS TRENDS

Overall Group impairments have peaked

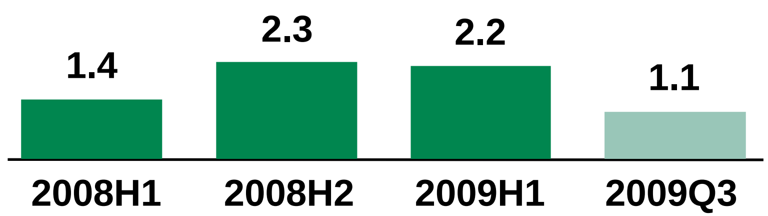
GROUP IMPAIRMENT CHARGES (£bn)

- **Run-rate of impairments has slowed in 2009Q3**
- **Continue to expect 2009H2 charge to be significantly lower than 2009H1 charge**



RETAIL IMPAIRMENT CHARGES (£bn)

- **Significant reduction in mortgage impairment run-rate**
- **Better house price index performance than expected**
- **Mortgage arrears trends improving**
- **Unsecured lending portfolio impacted by rising unemployment as expected**

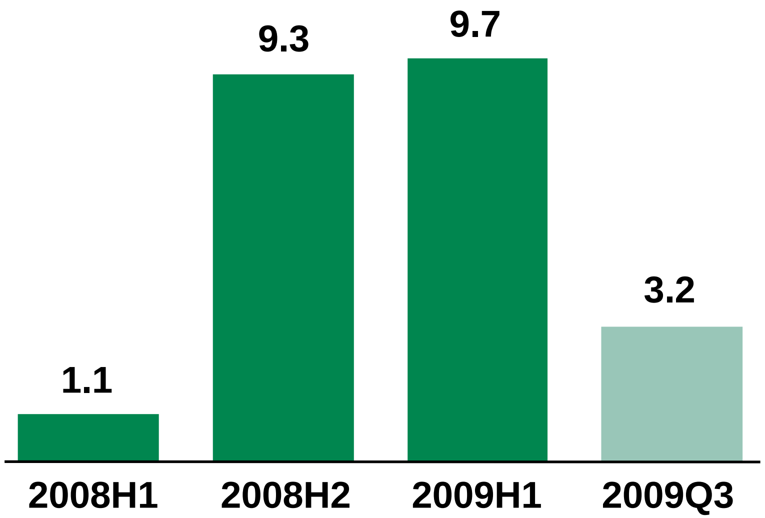


IMPAIRMENTS TRENDS

Overall Group impairments have peaked

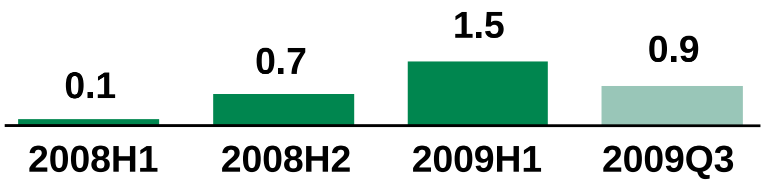
WHOLESALE IMPAIRMENT CHARGES (£bn)

- Significant reduction in impairment charge run-rate as expected
- Reduction driven by sharp fall in commercial real estate impairments
- 2009H2 charge expected to be significantly lower than that in 2009H1



WEALTH & INT'L IMPAIRMENT CHARGES (£bn)

- High level of impairments in 2009H1 continued into 2009Q3
- Two thirds of 2009Q3 charge related to Irish exposures
- Outlook for Irish economy continues to be difficult, and expect high levels of impairments to continue through 2009



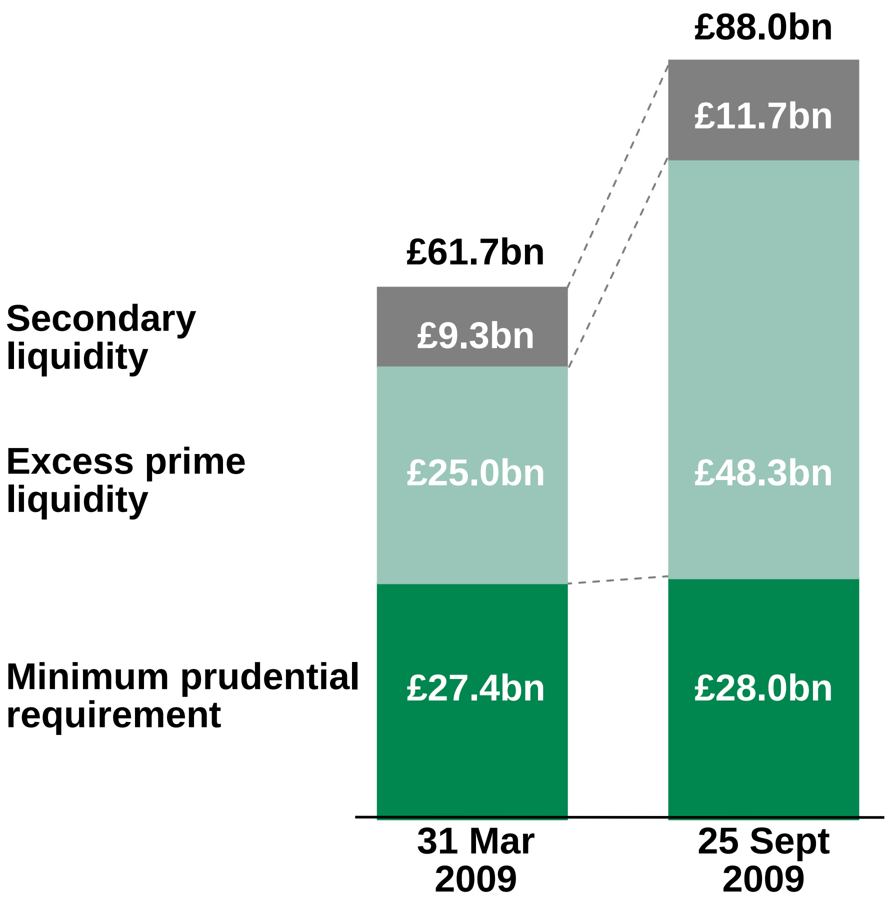
IMPAIRMENT GUIDANCE

Overall impairments expected to have peaked in 2009H1

	RECENT GUIDANCE	Q3 PERFORMANCE
GROUP	Expected to have peaked in 2009H1	Lower than H1 Guidance unchanged
RETAIL	Expected to peak in 2009H2	Lower than H1 Guidance unchanged
WHOLESALE	Expected to be significantly lower in 2009H2	Significantly lower than H1 Guidance unchanged
WEALTH & INTERNATIONAL	Expected to be significantly lower in 2009H2 Concern over Irish exposures	Ongoing concerns with Irish economy. High level of impairments to continue throughout 2009

HIGH QUALITY LIQUID ASSET BUFFER

Material increase in liquidity buffer



- Liquidity buffer in excess of 8% of total assets
- A multiple of current regulatory requirements
- Lloyds Banking Group already planning to use expected new FSA liquidity requirements

Definitions:

Minimum prudential requirement = minimum FSA liquid asset holding

Excess prime liquidity = eligible liquidity per FSA PS09/16 definition, i.e. G7 government debt

Secondary liquidity = unencumbered CB eligible debt (post haircuts)

LLOYDS BANKING GROUP
A compelling investment proposition

✓ **Significant improvement in quality and quantity of core tier 1 capital**

✓ **Significant capital buffer from new contingent core tier 1 capital**

✓ **Meets FSA stress test requirements**

✓ **Not entering GAPS in favour of a market-based solution is a superior economic alternative for shareholders**

✓ **Business performance and impairment trends continue to improve**

PROPOSALS UNDERPIN THE GROUP'S LONG-TERM EARNINGS POTENTIAL

Appendix

CAPITAL GENERATION STRUCTURE
Timetable

- Each element of transaction on approval by shareholders of all other elements
- HMT / UKFI can vote on all resolutions to approve transaction other than relating to GAPS payment

General meeting	26 November 2009
Rights issue	
– Rights issue terms announced	24 November 2009
– Dealing in nil-paids commences	27 November 2009
– Last date for acceptance/payment	11 December 2009
– New ordinary shares start trading fully paid	14 December 2009
Liability management	
– Announce results of exchange offers (Non-US and early bird US)	23 November 2009
– Announce results of US exchange offer	9 December 2009

ECONOMIC FORECASTS

	2009 FORECAST		2010 FORECAST	
	FSA Stress Test[1]	Lloyds Central Case[2]	FSA Stress Test[1]	Lloyds Central Case[2]
% change year-on-year				
– GDP	-3.8	-4.0	-2.0	+1.8
– House prices[3]	-24.7	0.0	-20.4	0.0
– Commercial real estate[3]	-30.3	-15.0	-16.1	0.0
Unemployment (%)	8.1	8.2	10.4	10.1

1 Forecast for year. Source FSA May 2009
2 Lloyds internal forecasts
3 Year to Q4

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3 November 2009