LLOYDS BANKING GROUP

Asset Protection Scheme

7 March 2009

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Asset Protection Scheme – Significantly de-risked Group

- Significant risk transfer away from shareholders
- Substantial increase in the Group’s capital base
- Exposure to higher risk and ‘outside appetite’ portfolios significantly mitigated
- £14 billion additional lending support to personal and business customers
- Conversion of £4 billion HMT preference shares into ordinary equity (on pre-emptive basis)

Asset Protection Scheme – Key details

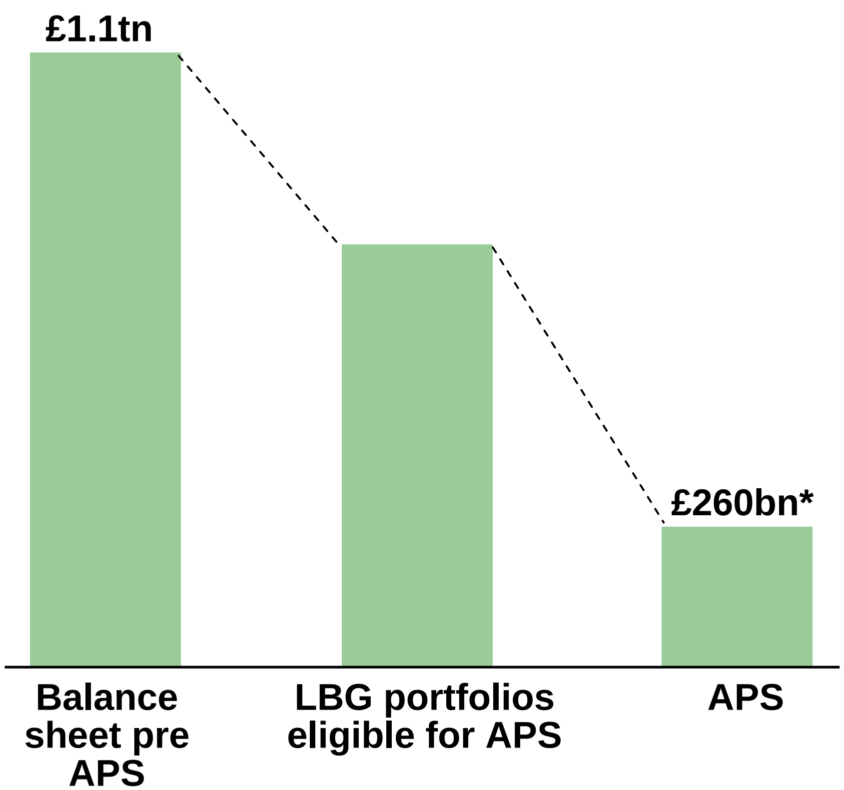
- De-risks up to £260 billion Group assets (expected to be £250 billion net of impairments)
- Approximately £194 billion risk-weighted asset relief (a reduction of c.39 per cent)
- Increases pro-forma adjusted* core tier 1 capital ratio by 810 basis points, to 14.5 per cent†
- Lloyds retains £25 billion 'first loss' net of impairments
- Subsequent losses shared 90/10 between HMT and Lloyds
- Participation fee of £15.6 billion, amortised over c.7 years, paid in core tier 1 eligible B shares with a dividend of 7 per cent per annum
- Subject to, inter alia, shareholder approval

* Adjusted for capital raisings in January 2009 and net negative capital adjustments arising on acquisition of HBOS

† Includes impact of conversion of the £4 billion HMT preference shares

APS portfolio – A rigorous selection process

Following a rigorous process of stress testing and risk criteria prioritisation, a portfolio of up to £260 billion has been identified for inclusion in APS



APS portfolio:

- Assets outside Lloyds risk appetite
- High concentration risk assets
- Higher risk assets with significant underlying volatility

Reduced risk balance sheet post APS, comprising:

- Assets not eligible or not efficient for APS; e.g. fixed assets; insurance assets
- Lower risk components of Lloyds Banking Group banking portfolios

* Including undrawn commitments of approximately £30 billion

APS portfolio – £260 billion assets covered

The initial portfolio comprises the following asset classes:

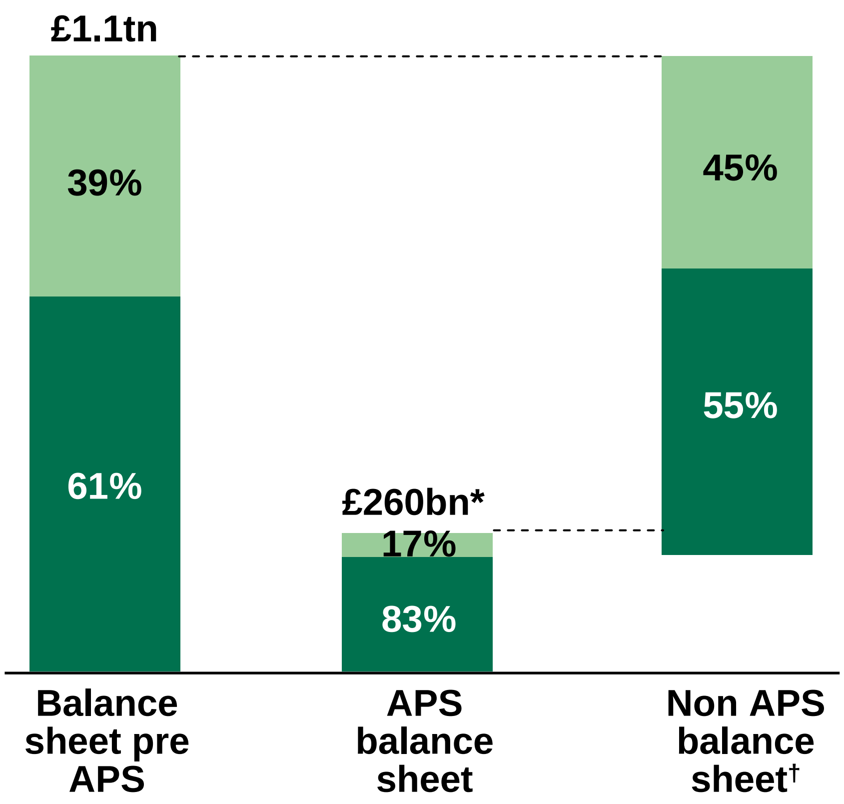
	£bn
Retail – mortgages	74
Retail – unsecured personal loans	18
Corporate/Commercial*	151
Treasury Assets	17
Total	260

- Assets predominantly represent higher risk and concentrated portfolios
- Final composition of asset portfolio may differ from above, following completion of due diligence by HMT
- Portfolio contains approximately £30 billion of undrawn commitments

* Including UK and International Commercial Real Estate and Leveraged Finance

Post-APS balance sheet

Of the £260 billion portfolio, a significant proportion (c.83%) of the assets included are legacy HBOS assets, reflecting the higher relative risk of the HBOS portfolio



Residual balance sheet:

- **Assets are more equally distributed across the two legacy organisations**
- **Concentration of risk across legacy Lloyds TSB and HBOS has been addressed**

Lloyds TSB

HBOS

*** Including undrawn commitments of approximately £30 billion**
† Excluding first loss and 10% retained exposure

Preference share conversion

- £4 billion HMT preference shares to be replaced by ordinary shares
- Issue price of 38.43p per ordinary share (8.5% discount to 6 March close, 10.4 billion ordinary shares issued)
- Eligible shareholders can subscribe pro-rata to their existing holdings at 38.43p per share
- Offer fully underwritten by HMT
- HMT would own 65% of the enlarged Group, if no take up by shareholders*

* Assumes no conversion of B shares

A significantly de-risked and improved capital position

At 31 December 2008	Before*	After*	Change
Risk-weighted assets (£bn)	498	304	(39%)
Core tier 1 capital (£bn)†	32.1	44.0	37%
Core tier 1 capital ratio (%)†	6.4	14.5	+810bps
Tier 1 capital (£bn)	48.8	56.7	16%
Tier 1 capital ratio (%)	9.8	18.7	+890bps

* Proforma adjusted for capital raisings in January 2009 and net negative capital adjustments arising on acquisition of HBOS. Based on initial APS portfolio analysis

† After first loss deduction which is reduced by impairment and fair value adjustments for the insured element of the APS portfolio, 50% of which is taken against core tier 1. Includes impact of conversion of the £4 billion HMT preference shares

Lending commitments and other issues

- **Commitments to extend a total of £14 billion lending to creditworthy borrowers in a commercial manner, within our current lending criteria**
  - **– £3 billion for mortgage lending**
  - **– £11 billion for business lending**
- **No agreement to restrict the utilisation of tax losses or allowances, existing or future**
- **No additional B share capital injections other than for payment of scheme fees**
- **Lloyds to continue to manage all the covered assets, in accordance with the provisions of the APS**

APS – B shares, terms and conditions

- **Qualifies as core tier 1 equity**
- **Non-voting, non-cumulative, B share dividend must be paid before any ordinary dividend can be declared**
- **Discretionary B share dividend of the higher of 7 per cent and 125 per cent of dividends paid on ordinary shares; scrip option**
- **HMT can convert some or all of its B shares into ordinary shares at a conversion price of 115p per ordinary share**
- **Mandatory conversion of B shares at 115p per ordinary share when ordinary share price is or exceeds 150p for 20 out of 30 consecutive trading days**
- **Following conversion, HMT ownership of 77%, assuming nil take up by eligible shareholders of £4 billion preference share conversion. HMT has restricted its voting rights to 75%**

A comparison with RBS

£bn	LBG	RBS
Covered assets	260	325
Expected net risk-weighted asset relief	194	144
First loss (net of existing provisions)	25	19.5
Second loss sharing (company/HMT)	10% / 90%	10 % / 90%
Participation fee (B shares)	15.6	6.5
Tax losses given up	None	4.6
Overall cost / RWA relief	20.9%	21.3%
Additional capital raised	None	13.0*
Total B share issuance	15.6	19.5*

* RBS also have a call on a further £6 billion

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Asset Protection Scheme – Summary

- **Significantly improves and de-risks capital position**
- **Substantially reduces risk profile of enlarged Group's balance sheet**
- **Provides greater capacity to support customer lending**
- **De-risks non-core assets, to enable greater focus on core businesses**

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