

THIS DOCUMENT AND THE ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (the “FSMA”) if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or have sold or otherwise transferred all of your Existing Ordinary Shares please send this document, together with any accompanying Form of Proxy and Application Form, as soon as possible, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or transferred, or otherwise disposed of, only part of your holding of Existing Ordinary Shares you should retain this document and accompanying Form of Proxy and Application Form and consult the stockbroker, bank or other agent through whom you made the sale, transfer or disposal. However, the distribution of such documents into certain jurisdictions may be restricted by law and therefore persons into whose possession such documents come should inform themselves about and observe such restrictions. In particular, such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States and Malaysia.

This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security.

This document does not set out the full terms and conditions of the Placing and Compensatory Open Offer and it does not constitute a prospectus or a prospectus equivalent document. Nothing in this document should be interpreted as a term or condition of the Placing and Compensatory Open Offer. The full terms and conditions of the Placing and Compensatory Open Offer are set out in the Prospectus. Any decision to acquire Open Offer Shares under the Placing and Compensatory Open Offer must be made only on the basis of the information contained in and incorporated by reference into the Prospectus. Copies of the Prospectus are available from Lloyds Banking Group’s registered office and as described in section 5 of Part IV (“Additional Information”) of this document.

Applications will be made to the UK Listing Authority for the Open Offer Shares to be admitted to the Official List and to the London Stock Exchange for the Open Offer Shares to be admitted to trading on the main market for listed securities of the London Stock Exchange. It is expected that, subject to the satisfaction of certain conditions, Admission will become effective and that dealings in the Accepted Shares on the London Stock Exchange will commence at 8.00 a.m. (London time) on 9 June 2009, with admission to the Official List of, and commencement of dealings on the London Stock Exchange in, all Open Offer Shares other than Accepted Shares expected to take place no later than 8:00 a.m. on 16 June 2009.

**LLOYDS
BANKING
GROUP**



Lloyds Banking Group plc

(incorporated under the Companies Act 1985 and registered in Scotland with Registered No. 95000)

**Proposed Placing and Compensatory Open Offer of
10,408,535,000 Open Offer Shares at 38.43 pence per Open Offer Share and
Redemption of HMT Preference Shares**

Circular and Notice of General Meeting

Your attention is drawn to the letter from your Chairman which is set out on pages 9 to 32 of this document and which recommends you vote in favour of the Resolutions to be proposed at the General Meeting referred to below. Please read the whole of this document. If you wish to apply for Open Offer Shares in the Placing and Compensatory Open Offer, you are also referred to the Prospectus, which contains further information about the Placing and Compensatory Open Offer and, in particular, the section headed “Risk Factors” in the Prospectus. You should not rely solely on any key or summarised information set out in this document.

Dated: 20 May 2009

Notice of a General Meeting of the Company, to be held on 5 June 2009 at the Scottish Exhibition and Conference Centre, Glasgow G3 8YW, at noon (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting of the Company convened for the same day), is set out at the end of this document. A Form of Proxy for use at the General Meeting is enclosed. To be valid, Forms of Proxy should be completed, signed and returned in accordance with the notes to the General Meeting Notice (at the end of this document) and the Form of Proxy itself.

Citi, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Lloyds Banking Group and for no one else as joint financial adviser, joint bookrunner and joint placing agent in relation to the Placing and Compensatory Open Offer and the listing of the Open Offer Shares on the Official List and their admission to trading on the London Stock Exchange's main market for listed securities, and will not be responsible to any other person for providing the protections afforded to clients of Citi nor for providing advice in connection with the Placing and Compensatory Open Offer, proposed listing or admission to trading or contents of this document or any other matters referred to in this document.

J.P. Morgan Cazenove, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Lloyds Banking Group and for no one else as joint sponsor, joint financial adviser, joint bookrunner and joint placing agent in relation to the Placing and Compensatory Open Offer and the listing of the Open Offer Shares on the Official List and their admission to trading on the London Stock Exchange's main market for listed securities, and will not be responsible to any other person for providing the protections afforded to clients of J.P. Morgan Cazenove nor for providing advice in connection with the Placing and Compensatory Open Offer, proposed listing or admission to trading or contents of this document or any other matters referred to in this document.

UBS is acting exclusively for Lloyds Banking Group and for no one else as joint sponsor, joint financial adviser, joint bookrunner and joint placing agent in relation to the Placing and Compensatory Open Offer and the listing of the Open Offer Shares on the Official List and their admission to trading on the London Stock Exchange's main market for listed securities, and will not be responsible to any other person for providing the protections afforded to clients of UBS nor for providing advice in connection with the Placing and Compensatory Open Offer, proposed listing or admission to trading or contents of this document or any other matters referred to in this document.

This document and any information incorporated by reference into this document can be obtained in hard copy form free of charge from the Company's Registrar, Equiniti by request in writing addressed to Equiniti, Holm Oak Business Park, Woods Way, Goring by Sea, Worthing, West Sussex BN12 4QY or by calling the shareholder helpline on 0871 384 2990¹ (from inside the United Kingdom) or +44 208 495 4595 (from outside the United Kingdom) or on 0870 702 0102 (from inside the United Kingdom) or +44 870 702 0102 (from outside the United Kingdom) if you hold your shares through the Lloyds Banking Group Shareholder Account. Please note the shareholder helpline will be open between (i) 8.30 a.m. and 5.30 p.m. on any Business Day; and (ii) 9.00 a.m. and 4.00 p.m. on Saturday 23 May 2009, Sunday 24 May 2009 and the bank holiday of Monday 25 May 2009. Subject to certain exceptions, this document will not be mailed or otherwise distributed into the United States or Malaysia. If you are an Ordinary Shareholder, you may specify to Equiniti Limited that all future documents relating to the Transaction be sent to you in hard copy form. Please note that, except in the case of certain Ordinary Shareholders who have elected to receive shareholder communications in hard copy form, this document will not be provided in hard copy form unless requested as described above. Please also note that information incorporated by reference into this document will not be provided in hard copy form unless requested as described above.

¹ Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Calls to the 0870 702 0102 number are charged at no more than 6p a minute plus an 8p connection fee from a BT landline. Other service providers' costs may vary. Calls to (i) the +44 208 495 4595 number; or (ii) the +44 870 102 0102 number, from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. For legal reasons, the shareholder helpline will be unable to give advice on the merits of the Placing and Compensatory Open Offer or to provide legal, business, financial, tax, investment or other professional advice.

NOTICE TO US INVESTORS

The Open Offer Shares have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. The Open Offer Shares will be offered and sold in the United States in a transaction not involving a public offering within the meaning of Section 4(2) of the Securities Act to persons reasonably believed to be “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act. There will be no public offer of the Open Offer Shares in the United States. Neither the United States Securities and Exchange Commission (SEC) nor any other US federal or state securities commission or regulatory authority has approved or disapproved the Open Offer Shares or passed an opinion on the adequacy of this document. Any representation to the contrary is a criminal offence in the United States. The Open Offer Shares offered and sold in the United States will constitute “restricted securities” under Rule 144(a)(3) of the Securities Act.

NOTICE TO INVESTORS IN RESTRICTED JURISDICTIONS

The securities mentioned herein may not be offered or sold in any Restricted Jurisdiction absent registration or an applicable exemption from the registration requirements of the relevant laws of any Restricted Jurisdiction. There will be no public offer of such securities in any Restricted Jurisdiction.

PROFIT/LOSS FORECAST

Save as otherwise stated at section 6 of Part I (“Letter from Sir Victor Blank, Chairman of Lloyds Banking Group plc”) and in Part III (“Profit/Loss Forecast for the Year Ending 31 December 2009”) of this document, no statement in this document or incorporated by reference into this document is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for Lloyds Banking Group, unless otherwise stated.

ROUNDING

Certain figures included in this document and in the information incorporated by reference into this document have been subject to rounding adjustments. Accordingly, discrepancies in tables between the totals and the sums of the relevant amounts are due to such rounding.

WEBSITES

Neither the content of the Group’s website, including HBOS’s website, nor any other website nor the content of any website accessible from hyperlinks on the Group’s website, including HBOS’s website, nor any other website is incorporated into, or forms part of, this document.

TIME

All references in this document to times are to UK time unless otherwise stated.

DEFINITIONS

Capitalised terms used in this document have the meanings ascribed to them in Part V (“Definitions”) of this document.

FORWARD-LOOKING STATEMENTS

This document and the information incorporated by reference into this document include certain “forward-looking statements” with respect to the business, strategy and plans of the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group’s or its directors’ and/or management’s beliefs and expectations are forward-looking statements. Words such as “believes”, “anticipates”, “estimates”, “expects”, “intends”, “aims”, “potential”, “will”, “would”, “could”, “considered”, “likely”, “estimate” and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

Examples of such forward-looking statements include, but are not limited to, statements about expected benefits and risks associated with the Acquisition of HBOS, the Placing and Compensatory Open Offer, projections or expectations of the Group’s future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, expenditures or any other financial items or ratios; statements of plans, objectives or goals of the Group or its management following completion of the Acquisition of HBOS, including in respect of the integration of HBOS and the achievement of synergy targets; statements about the future business and economic environments in the UK and elsewhere, including trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments, competition, regulation, dispositions and consolidation or technological developments in the financial services industry; and statements or assumptions underlying such statements.

Factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group or on the Group’s behalf include, but are not limited to, general economic conditions in the UK and internationally; inflation, deflation, policies of the Bank of England and other G7 central banks; interest rate, exchange rate, market and monetary fluctuations; changing demographic development including consumer spending, saving and borrowing habits, technological changes, natural and other disasters, adverse weather, terrorist acts and other acts of war or hostility and responses to those acts; changes in laws, regulations, taxation, Government policies, including those relating to the GAPS and share ownership, or accounting standards or practices and similar contingencies outside the Group’s control; the ability to derive cost savings and other benefits as well as mitigate exposures from the Acquisition and integration of HBOS; inadequate or failed internal or external processes, people and systems; exposure to regulatory scrutiny, legal proceedings or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the ability to secure new customers and develop more business from existing customers; the degree of borrower credit quality; the ability to achieve value-creating mergers and/or acquisitions at the appropriate time, and the success of the Group in managing the risks of the foregoing.

Lloyds Banking Group may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the FSA, the Group’s annual report, half-year report, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of the Group to third parties, including financial analysts.

Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, the Company expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document or incorporated by reference into this document to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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THE PROSPECTUS

The Prospectus, from which certain information has been incorporated by reference into this document and which provides further detail on the Placing and Compensatory Open Offer, can be obtained from the Lloyds Banking Group website (which is at <http://www.lloydsbankinggroup.com>) or free of charge from the Company's Registrar, Equiniti by request in writing addressed to Equiniti, Holm Oak Business Park, Woods Way, Goring by Sea, Worthing, West Sussex BN12 4QY or by calling the shareholder helpline on 0871 384 2990¹ (from inside the United Kingdom) or +44 208 495 4595 (from outside the United Kingdom) or on 0870 702 0102 (from inside the United Kingdom) or +44 870 702 0102 (from outside the United Kingdom) if you hold your shares through the Lloyds Banking Group Shareholder Account. Please note the shareholder helpline will be open between (i) 8.30 a.m. and 5.30 p.m. on any Business Day; and (ii) 9.00 a.m. and 4.00 p.m. on Saturday 23 May 2009, Sunday 24 May 2009 and the bank holiday of Monday 25 May 2009. Subject to certain exceptions, the Prospectus will not be mailed or otherwise distributed into, or made available to those within, the United States or any other Restricted Jurisdiction. If you wish to apply for Open Offer Shares in the Compensatory Open Offer and are entitled to do so, you should read the Prospectus as a whole, including, in particular, the risk factors set out in the section headed "Risk Factors" in that document.

PLACING AND COMPENSATORY OPEN OFFER STATISTICS

Issue Price per Open Offer Share	38.43 pence
Number of Ordinary Shares in issue as at the date of this document	16,753,147,366
Number of Ordinary Shares to be issued by Lloyds Banking Group pursuant to the Placing and Compensatory Open Offer	10,408,535,000
Number of Ordinary Shares in issue immediately following completion of the Placing and Compensatory Open Offer ⁽¹⁾	27,161,682,366
Open Offer Shares as a percentage of Enlarged Share Capital of Lloyds Banking Group immediately following completion of the Placing and Compensatory Open Offer ⁽¹⁾	38.3 per cent
Estimated net proceeds of the Placing and Compensatory Open Offer receivable by Lloyds Banking Group ⁽²⁾	£3.94 billion
Estimated expenses of the Placing and Compensatory Open Offer	£30 million

Notes:

- (1) On the assumption that no further Ordinary Shares are issued as a result of the exercise of any options under any Lloyds Banking Group Employee Share Plans between the date of this document and the closing of the Placing and Compensatory Open Offer.
- (2) The proceeds of the Placing and Compensatory Open Offer (being not less than £3,940 million net of commissions of up to £60 million payable to HM Treasury under the Open Offer Agreement) will, together with up to £300 million of the Group's existing cash resources, be used to fund the redemption of the HMT Preference Shares at 101 per cent. of their issue price together with accrued dividends thereon.

¹ Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Calls to the 0870 702 0102 number are charged at no more than 6p a minute plus an 8p connection fee from a BT landline. Other service providers' costs may vary. Calls to (i) the +44 208 495 4595 number; or (ii) the +44 870 102 0102 number, from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. For legal reasons, the shareholder helpline will be unable to give advice on the merits of the Placing and Compensatory Open Offer or to provide legal, business, financial, tax, investment or other professional advice.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	Date
Capitalisation Issue record date	5.00 p.m. on 8 May 2009
Capitalisation Issue effective date	11 May 2009
Compensatory Open Offer Record Date for entitlement under the Compensatory Open Offer	5.00 p.m. on 13 May 2009
Latest date on which Existing Ordinary Shares trade cum entitlement under Compensatory Open Offer	19 May 2009
Ex-entitlement date for the Compensatory Open Offer	8.00 a.m. on 20 May 2009
Despatch of Application Forms to Qualifying Non-CREST Shareholders	20 May 2009
Despatch of Circular and General Meeting Forms of Proxy and forms of direction	20 May 2009
Publication of Prospectus	20 May 2009
Open Offer Entitlements credited to stock accounts of Qualifying CREST Shareholders in CREST	20 May 2009
Recommended last time and date for withdrawing Open Offer Entitlements from CREST	4.30 p.m. on 29 May 2009
Latest time and date for depositing Open Offer Entitlements into CREST	3.00 p.m. on 2 June 2009
Latest time and date for receipt of General Meeting Forms of Proxy and forms of direction	noon on 3 June 2009
Latest time and date for splitting Application Forms (to satisfy bona fide market claims only)	3.00 p.m. on 3 June 2009
Annual General Meeting	11.00 a.m. on 5 June 2009
General Meeting	noon on 5 June 2009 (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting)
Latest time and date for receipt of completed Application Forms and payment in full under the Compensatory Open Offer and settlement of relevant CREST instructions (as appropriate)	noon on 5 June 2009
Expected date of announcement of results of Compensatory Open Offer	9 June 2009
Expected time and date of Admission and commencement of dealings in Accepted Shares on the London Stock Exchange	8.00 a.m. on 9 June 2009
Accepted Shares in uncertificated form expected to be credited to accounts in CREST	By 8.00 a.m. on 9 June 2009
Latest time and date of admission to the Official List of, and commencement of dealings on the London Stock Exchange in, all Open Offer Shares other than the Accepted Shares	By 8.00 a.m. on 16 June 2009
Despatch of definitive share certificates for the Accepted Shares in certificated form	By 19 June 2009

Notes:

- (1) The ability to participate in the Compensatory Open Offer is subject to certain restrictions relating to Ordinary Shareholders with registered addresses outside the United Kingdom, details of which are set out in Part VIII ("Terms and Conditions of the Placing and Compensatory Open Offer") of the Prospectus.
- (2) The above times and dates are indicative only.
- (3) If you hold your Existing Ordinary Shares through an employee share scheme or CREST nominee, please note that certain of the latest dates set out in the timetable above may not be applicable to you. Where this is the case, the latest such dates which are applicable to you will be set out in your Application Form.

If any of the above times and/or dates change, the revised time and/or date will be notified by announcement through a Regulatory Information Service.

Different deadlines and procedures may apply in certain cases. For example, Ordinary Shareholders that hold their Ordinary Shares through a CREST participant or other nominee may be set earlier deadlines by the CREST participant or other nominee than the times and dates noted above.

Should you require further assistance please call the shareholder helpline on 0871 384 2990¹ (from inside the United Kingdom) or +44 208 495 4595 (from outside the United Kingdom) or on 0870 702 0102 (from inside the United Kingdom) or +44 870 702 0102 (from outside the United Kingdom) if you hold your shares through the Lloyds Banking Group Shareholder Account. Please note the shareholder helpline will be open between (i) 8.30 a.m. and 5.30 p.m. on any Business Day; and (ii) 9.00 a.m. and 4.00 p.m. on Saturday 23 May 2009, Sunday 24 May 2009 and the bank holiday of Monday 25 May 2009.

Please note that for legal reasons, the shareholder helpline is only able to provide information contained in this document and information relating to Lloyds Banking Group's register of members and is unable to give advice on the merits of the Placing and Compensatory Open Offer or to provide legal, business, financial, tax, investment or other professional advice.

The contents of this document should not be construed as legal, business, financial, tax, investment or other professional advice. Each prospective investor should consult his, her or its own appropriate professional advisers for advice.

Note:

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PART I

LETTER FROM SIR VICTOR BLANK, CHAIRMAN OF LLOYDS BANKING GROUP PLC

Registered Office:
Henry Duncan House
120 George Street
Edinburgh
EH2 4LH

Directors:

Sir Victor Blank (*Chairman*)
Lord Leitch (*Deputy Chairman*)
J Eric Daniels
Archie G Kane
G Truett Tate
Tim J W Tookey
Helen A Weir CBE
Wolfgang C G Berndt
Ewan Brown CBE FRSE
Philip N Green
Sir Julian Horn-Smith
Sir David Manning GCMG CVO
Carolyn J McCall OBE
T Timothy Ryan
Martin A Scicluna
Anthony Watson CBE

20 May 2009

Dear Shareholder,

PROPOSED CAPITAL RAISING BY WAY OF A PLACING AND COMPENSATORY OPEN OFFER OF 10,408,535,000 OPEN OFFER SHARES AT 38.43 PENCE PER OPEN OFFER SHARE TO FUND THE REDEMPTION OF THE HMT PREFERENCE SHARES

1. Introduction

On 7 March 2009, Lloyds Banking Group announced its intention to participate in the Government Asset Protection Scheme in order both to reduce substantially its risk weighted assets and strengthen significantly the Group's core tier 1 capital position. It was also announced that, on the implementation of the Government Asset Protection Scheme, Lloyds Banking Group would redeem the £4 billion of HMT Preference Shares issued to HM Treasury in January 2009, with such redemption to be funded by an issue of new Lloyds Banking Group Ordinary Shares by way of a pre-emptive open offer underwritten by HM Treasury.

As previously announced, the Group's participation in the Government Asset Protection Scheme remains subject to, among other things, further due diligence by HM Treasury and agreement with regard to the detailed operation of the scheme. Accordingly, discussions and negotiations with HM Treasury to finalise these matters are continuing and are expected to be concluded over the next few months. Therefore, as announced on 18 May 2009, the Group has reached agreement with HM Treasury and UK Financial Investments (through which HM Treasury manages its shareholding in certain financial institutions in the UK) to proceed with the redemption of the HMT Preference Shares separately from, and in advance of, the Group's proposed participation in the Government Asset Protection Scheme.

The Board has also agreed with HM Treasury to adapt the structure of the originally envisaged pre-emptive open offer. The Open Offer Shares not taken up by Registered Shareholders are expected to be placed in the market on their behalf. Any proceeds of such placing in excess of 38.43 pence per share (plus associated expenses) will be remitted on a pro rata basis to those Registered Shareholders. This revised structure also removes the excess application facility which was originally contemplated as part of the pre-emptive open offer. Further details in relation to the new Placing and Compensatory Open Offer are set out in section 1 of Part A of the Appendix to this letter. The Board believes that proceeding with the Placing and Compensatory Open Offer and

the HMT Preference Share Redemption carries a number of advantages for the Company and its Ordinary Shareholders which are described below.

The purpose of this document is to provide Ordinary Shareholders with notice of a General Meeting of the Company to be held to consider, and if thought fit, pass, the Resolutions required to implement both the Placing and Compensatory Open Offer and the HMT Preference Share Redemption, including to approve such transactions as related party transactions pursuant to the Listing Rules. It also explains (i) the background to and reasons for the Transaction, and (ii) why the Directors consider the Resolutions to be in the best interests of the Company and Ordinary Shareholders as a whole and recommend that you vote in favour of the Resolutions to be proposed at the General Meeting.

Shareholders are not being requested, at this time, to approve the Group's entry into the Government Asset Protection Scheme. Although the Group is proceeding with the Placing and Compensatory Open Offer and the HMT Preference Share Redemption separately from, and in advance of its intended participation in, the Government Asset Protection Scheme, the Group's intention remains to participate in the Government Asset Protection Scheme. Further information in relation to the Group's proposed participation in the Government Asset Protection Scheme is set out in section 7 of this letter. The Group's participation remains subject to, amongst other things, further due diligence by HM Treasury and agreement as to the detailed terms on which the Group will participate. As previously announced, the Group's participation in the Government Asset Protection Scheme will also be subject to obtaining regulatory clearances and state aid clearance from the European Commission for the scheme. As described in section 7 below, it is currently uncertain whether such state aid clearance will be obtained and, if it is obtained, it may require the Group to undertake a restructuring which may be materially adverse to the interests of the Group. Discussions and negotiations with HM Treasury to finalise these matters are continuing and the Board expects these to be concluded over the next few months. Entry into the Government Asset Protection Scheme by the Group is also subject to approval by the Board and shareholder approval. Once the terms of, and associated documentation relating to, the Group's participation in the Government Asset Protection Scheme have been finalised, shareholders will each receive a circular setting out details of the terms of the scheme, together with information in relation to any shareholder resolutions which will be required to be passed at a general meeting (on certain of which it is expected that HM Treasury will not be permitted to vote) in order to approve the Group's entry into the scheme.

As shareholders may also be aware, on 17 May 2009, I notified the Board that I am planning to retire from the Chairmanship of the Group by the annual general meeting of the Company in 2010. I believe it is the right time for the Group to appoint a new Chairman. I will continue working until my successor is appointed to ensure the successful integration of the two banks.

2. Background to and reasons for the Placing and Compensatory Open Offer

Since the capital raising undertaken by the Company in conjunction with the acquisition of HBOS in January 2009, there has been significant further dislocation in financial markets and continued uncertainty around credit conditions. The UK economy remains in recession and economic conditions have deteriorated markedly.

The impact of deteriorating market and economic conditions in 2008, particularly towards the end of the fourth quarter, resulted in the portfolios of both the Lloyds TSB Group and HBOS Group incurring significant credit impairment losses and credit market write-downs during the year, details of which are provided on pages 10 to 17 of the Lloyds Banking Group 2008 annual report and pages 2 to 33 of the HBOS 2008 annual report, respectively. The HBOS loan portfolio incurred relatively larger losses, reflecting its greater risk profile and the fact that its exposures are more susceptible to an economic downturn.

The prospects for financial markets remain uncertain and, as noted in our most recent annual results announcement on 27 February 2009, against the backdrop of recession and the ongoing financial crisis, 2009 is expected to be another challenging year. As shareholders will note from the Group's Interim Management Statement, a summary of which is set out in section 6 below, the Group has experienced a significant rise in impairment levels in its lending portfolio during the first quarter of 2009 and the Board expects the Group to report a loss for 2009.¹ In particular, the

¹ Please see Part III ("Profit/Loss Forecast for the Year Ended 31 December 2009") of this document.

Group's Interim Management Statement highlighted an expected increase of over 50 per cent. in the level of corporate impairments for the Group in 2009 (as compared to 2008), with corporate defaults in the Group's commercial real estate portfolios in the UK and Ireland (particularly the legacy HBOS portfolios) expected to contribute significantly to this figure.

The Group continually strives to manage its balance sheet efficiently and to ensure it remains in a position of strength. The level of capital within the business is an important metric in assessing such strength and over recent months the Board has taken various steps to increase the Group's capital ratios, in particular the core tier 1 capital ratio. In this regard, since the acquisition of HBOS, the Group has completed two liability management exercises to generate a significant amount of core tier 1 capital by redeeming certain upper tier 2 securities at a discount to their carrying value. A substantial number of note holders have accepted the various offers made pursuant to these transactions and, as a result, the Group expects a pre-tax profit from these transactions of approximately £1 billion.

The Group is now seeking to raise approximately £4 billion pursuant to the Placing and Compensatory Open Offer in order to redeem all outstanding HMT Preference Shares. As announced on 7 March 2009, the redemption of the HMT Preference Shares pursuant to the Placing and Compensatory Open Offer will increase the Group's core tier 1 capital ratio which, particularly in the current financial and market environment, is a key measure of the Group's financial stability and strength for market regulators, investors and funding providers alike. The Board believes that it is important to continue to improve the quality of the Group's capital base given the continuing deterioration of the wider economy and the increasing pressure this places on banks' capital. On a pro forma basis as at 31 December 2008, the Placing and Compensatory Open Offer and the HMT Preference Share Redemption will materially improve the strength of the Group's capital position by increasing the Group's pro forma core tier 1 ratio by approximately 80 basis points to around 6.7 per cent.² This increase in core tier 1 capital is expected to benefit the Group's customers, counterparties and investors.

Aside from the benefits to the Group's capital base, the HMT Preference Share Redemption will also permit the Company to resume the declaration and payment of dividends on its Ordinary Shares, which it is precluded from doing whilst any HMT Preference Shares remain in issue. The Board recognises the importance of dividends to Ordinary Shareholders, and welcomes the opportunity to remove this prohibition on payment of dividends. As previously announced, whilst it is not the Board's intention to pay a dividend on the Company's Ordinary Shares in 2009, it does intend to resume dividend payments on its Ordinary Shares as soon as market conditions and the financial position of the Group permit.

Furthermore, as announced on 7 March 2009, the redemption of the HMT Preference Shares will also remove the annual cost of the dividends payable on the HMT Preference Shares of £480 million and will thereby improve the Group's profitability, cashflow, liquidity and organic capital generation. The Directors believe that it is advantageous to the Group to do this as soon as possible, particularly since the cost of the dividend payable on the HMT Preference Shares accrues on a daily basis.

3. Summary of the Placing and Compensatory Open Offer terms

Qualifying Shareholders are being invited to take part in the Placing and Compensatory Open Offer pursuant to which the Company is proposing to issue 10,408,535,000 new Ordinary Shares to raise approximately £4 billion. The proceeds of the Placing and Compensatory Open Offer (being not less than £3,940 million net of commissions of up to £60 million payable to HM Treasury under the Open Offer Agreement) will, together with up to £300 million of the Group's existing cash resources, be used to fund the redemption of the HMT Preference Shares at 101 per cent. of their issue price (in accordance with the terms agreed with HM Treasury) together with accrued dividends thereon. Dividends will continue to accrue on the HMT Preference Shares until redemption. The Company has also agreed to pay all legal and other costs and expenses of HM Treasury, HM Treasury's financial advisers and the Joint Bookrunners, incurred in connection with the Placing and Compensatory Open Offer. It is expected that these costs and expenses, together with other expenses of the Group relating to the Placing and Compensatory Open Offer (and which

² Please see the unaudited pro forma net assets statement of the Group as at 31 December 2008, and PwC's report thereon, set out in Part II ("Unaudited Pro Forma Net Assets Statement of the Group as at 31 December 2008") of this document.

are in addition to the commissions of up to £60 million payable to HM Treasury under the Open Offer Agreement), will amount to approximately £30 million.

Qualifying Shareholders will be able to apply to subscribe for Open Offer Shares pro rata to their existing shareholdings on the basis of 0.6213 Open Offer Shares for every Existing Ordinary Share at a fixed price of 38.43 pence per share. This represents an 8.5 per cent. discount to the Closing Price on 6 March 2009, and a 54.6 per cent. discount to the Closing Price on 13 May 2009, the last practicable date prior to publication of this document. Further details of the terms of the Placing and Compensatory Open Offer are set out in section 1 of Part A of the Appendix to this letter.

Following the Closing Date, the Joint Bookrunners will, pursuant to the Rump Placing, use reasonable endeavours to procure placees for all Non-Accepted Shares, at an aggregate price at least equal to the Minimum Rump Placing Amount. Any premium to the Minimum Rump Placing Amount will then (subject to the terms set out in Part VIII ("Terms and Conditions of the Placing and Compensatory Open Offer") of the Prospectus) be paid by the Joint Bookrunners to those Qualifying Shareholders who do not (or are deemed not to) take up some or all Open Offer Shares to which they are entitled and to other Registered Shareholders who are not entitled to apply for Open Offer Shares by virtue of their being resident in a Restricted Jurisdiction, on a pro rata basis to the number of Non-Accepted Shares, save that amounts of less than £3.00 (three Pounds) per holding, will not be so paid but will be aggregated and donated to charity (British Heart Foundation). HM Treasury has agreed with the Company that it will take up all of the Open Offer Shares comprised in its Open Offer Entitlement.

Each of the Directors intends to take up his or her Open Offer Entitlement in full.

HM Treasury has agreed, subject to certain conditions, to underwrite the Placing and Compensatory Open Offer in full by subscribing any Residual Shares at the Issue Price. If all Qualifying Shareholders take up their Open Offer Entitlements in full and/or all Non-Accepted Shares are placed with placees pursuant to the Rump Placing, then HM Treasury will continue to hold approximately 43.4 per cent. of the enlarged issued ordinary share capital of the Company. However, if no Qualifying Shareholders take up their Open Offer Entitlements and no Non-Accepted Shares are placed with placees pursuant to the Rump Placing, then, following the subscription by HM Treasury of the Residual Shares pursuant to its underwriting commitment, HM Treasury will hold 17,685,739,386 Ordinary Shares, representing approximately 65.1 per cent. of the enlarged issued ordinary share capital of the Company.

4. Driving value in Lloyds Banking Group

The Group's vision is to be recognised as the best financial services organisation in the UK by its customers, employees and shareholders.

The strategy for the Group remains to develop long-term customer relationships and build its customer franchise. All of the Group's businesses are focused on extending the reach and depth of its customer relationships, whilst enhancing product capabilities to build competitive advantage. The more prudent Lloyds TSB 'through the cycle' approach to risk is now being applied across the enlarged franchise and will remain important as the Group strives to improve its processing efficiency and use of capital.

The acquisition of HBOS has created the largest retail financial services provider in the UK – one of the world's largest retail financial services markets. The Group is now a well diversified UK financial services group with strong positions in a number of core product areas including current accounts, savings and mortgages. Most importantly, the Group's focus remains on those areas of the market where the Board believes it is possible, applying the Group's risk management policies, to build strong customer relationships and generate sustainable earnings growth.

In addition, in combining the Lloyds TSB Group with HBOS, the opportunity exists to improve further the Group's processing efficiency and create a better business. The Group previously announced that it expects to generate significant synergies which will further enhance the Group's ability to compete effectively in its target markets. Further details on anticipated cost synergies are set out in section 5 of this letter.

The Group has strong capabilities in building relationships with customers through excellent service and the Board believes the Group will be able to build on such relationships to increase sales of the Group's products and generate material revenue improvements as those capabilities are developed across the enlarged franchise.

The Group intends to focus on those businesses within the enlarged franchise that fit the Group's relationship bank model and conform to the Group's risk appetite.

Overall, the Board remains confident that the Group has the right strategy to create value for its shareholders over the medium to long term. The Board is confident that the management team has the skills, experience and determination to deliver the strategy and a successful integration of HBOS and the Lloyds TSB Group over the next few years and to create value for the Group's shareholders.

5. Integration of HBOS and synergies update

Prior to the acquisition of HBOS becoming effective on 16 January 2009, the Group had already appointed its executive management team, developed a strong view on potential cost synergies and begun to formulate a strategy for dealing with the most problematic portfolios within HBOS.

The Group has made significant progress in establishing its new organisational structure and has appointed its top executives who are currently managing the enlarged Group's businesses. The Group has communicated its vision and values across the enlarged franchise and has rolled out its key new risk policies and governance requirements across the Group.

Following completion of the acquisition of HBOS, the Group has confirmed its synergy targets and expects to deliver annualised cost savings in excess of £1.5 billion, or 14 per cent. of the Group's cost base, by the end of 2011. As previously announced, the Group has made significant progress in capturing savings from areas such as procurement, and over £150 million of cost synergy run-rate savings have already been realised in the first quarter of 2009.

Revenue synergies, which could in time prove to be considerable, have also been identified and work is underway to deliver them.

6. Current trading, trends and prospects

The Company issued an Interim Management Statement on 7 May 2009, commenting on trading since 31 December 2008 and the outlook for 2009. A detailed extract from this Interim Management Statement is set out in the Appendix to Part IX ("Information on the Group") of the Prospectus. Highlights of the Interim Management Statement are set out below:

- The Group has delivered a good revenue performance in the first quarter of 2009 in what remains a difficult period for financial services companies.
- The Group's net interest margin has reduced as a result of lower deposit margins and higher funding costs offsetting higher asset pricing.
- A strong cost performance has continued to be delivered, resulting in the Group's costs in the first quarter of 2009 being marginally lower than in the first quarter of 2008.
- Corporate impairment levels are rising significantly, reflecting the continuing deterioration in the macro-economic environment. The vast majority of these higher corporate impairments relate to assets designated for inclusion in the Government Asset Protection Scheme. Writedowns of investment securities have reduced considerably.
- Excellent progress has been made on the integration of the enlarged Group.
- The Group's intended participation in the Government Asset Protection Scheme will substantially reduce the risk profile of the organisation and significantly strengthen the capital position of the Group.
- As announced in February 2009, the Board continues to expect the Group to report a loss before tax for 2009, excluding the impact of a credit relating to negative goodwill.

7. Update on the UK banking sector, the Government Asset Protection Scheme and State Aid

As outlined above, since the capital raising undertaken by the Company in conjunction with the acquisition of HBOS in January 2009 there has been a further and significant downward trend in financial markets, with continued uncertainty accompanied by recessionary trends in many economies throughout the world. Governments and central banks around the world have announced a variety of both monetary and fiscal measures to help support the global economy. A key element of such support in the UK has been the recapitalisation of a number of financial institutions, including the Group.

During times of recession, significant pressures are put on banks' capital resources as the level of impairments increases and the amount of operating income generated reduces (including as a result of the adverse impact of lower base rates and higher costs of funding), each reflecting the poorer economic outlook. It is therefore essential that banks are sufficiently well capitalised to absorb such pressures throughout the economic cycle.

Some banks in the UK have worked with the FSA to identify and analyse the potential impact of an extended and severe UK recession on their respective regulatory capital ratios. The objective of each bank undertaking this exercise was to ensure that it would be sufficiently capitalised to maintain its regulatory capital ratios in excess of the prescribed minima at the lowest point in a potentially extreme recessionary cycle.

The Group is aware of the challenges of a severe recessionary environment and has taken, and will continue to take, steps to ensure that it remains appropriately capitalised even under potentially extreme adverse economic conditions. In this regard, since the acquisition of HBOS, the Group has completed two liability management exercises to generate a significant amount of core tier 1 capital by redeeming certain upper tier 2 securities at a discount to their carrying value. A substantial number of note holders have accepted the various offers made pursuant to these transactions and, as a result, the Group expects a pre-tax profit from these transactions of approximately £1 billion. The Group now proposes to further enhance its core tier 1 equity ratio by approximately 80 basis points through the Placing and Compensatory Open Offer and the HMT Preference Share Redemption. In aggregate, the Placing and Compensatory Open Offer and the HMT Preference Share Redemption would result in the Group's pro forma 31 December 2008 core tier 1 capital ratio being approximately 6.7 per cent. (please see the unaudited pro forma net assets statement of the Group as at 31 December 2008, and PwC's report thereon, set out in Part II ("Unaudited Pro Forma Net Assets Statement of the Group as at 31 December 2008") of this document for further details).

On 7 March 2009 both HM Treasury and the Group issued announcements relating to the Group's intention to participate in the Government Asset Protection Scheme (itself announced on 19 January 2009) together with the anticipated key terms of its participation. Under the announced terms of the Government Asset Protection Scheme, participating institutions, in return for a fee, and subject to certain conditions, can obtain protection from HM Treasury against credit losses incurred on one or more portfolios of defined assets to the extent that credit losses exceed a "first loss" amount to be borne by the participating institution and subject to the participating institution retaining exposure to 10 per cent. of any such losses in excess of the "first loss" amount. The fee payable by the Group to HM Treasury in connection with the Group's proposed participation in the Government Asset Protection Scheme will be applied by HM Treasury in subscribing for B Shares to be issued by the Company.

Participating in the Government Asset Protection Scheme on the announced terms (including the issue of B Shares) would improve the Group's capital ratios substantially and reduce the risks associated with the Group's balance sheet on an ongoing basis, thus improving the Group's ability to lend in the wider economy. Furthermore, the Board believes that such participation by the Group in the Government Asset Protection Scheme in conjunction with the capital strengthening measures already undertaken by the Group, as well as the Placing and Compensatory Open Offer and the HMT Preference Share Redemption, would help ensure that the Group is able to weather a very severe economic downturn and emerge more strongly when the economy recovers.

Further details of the key terms of the Group's expected participation in the Government Asset Protection Scheme (as announced on 7 March 2009) are provided in section 4 of Part A of the Appendix to this letter. However, as previously announced, the Group's participation remains subject to, amongst other things, further due diligence by HM Treasury and agreement as to the detailed terms on which the Group will participate. The Board is keen to ensure that the protections afforded to the Group by the Government Asset Protection Scheme are appropriate and that participation in the scheme does not affect the Group's continuing ability to operate its business in the interests of shareholders and other stakeholders. Discussions and negotiations with HM Treasury to finalise the terms of the Group's proposed participation are continuing and, although this is not currently expected by the Board, may result in changes to the terms announced on 7 March 2009.

As a result of the state aid given in the context of the placing and open offer in November 2008 and the Group's participation in HM Treasury's credit guarantee scheme, the Group is required to

co-operate with HM Treasury to submit a forward plan to the European Commission. In addition, the Group's intended participation in the Government Asset Protection Scheme will be subject to obtaining state aid clearance from the European Commission for the scheme. Furthermore, following the Group's accession to the Government Asset Protection Scheme, further state aid approval will be required from the European Commission in respect of the Group's ongoing participation in the various elements of state aid that it has received since it announced its acquisition of HBOS. This further approval also requires a forward plan, however, it is anticipated that there will only be a single plan addressing the Group's participation in the Government Asset Protection Scheme and the other state aid that the Group has already received.

It is currently uncertain whether such state aid approval will be forthcoming and, if forthcoming, on what terms it will be granted, but the Group expects to agree a forward plan involving the cessation or disposal of certain parts of the business. The terms of such forward plan are likely in particular to include the obligation to reduce significantly the size of the Group's balance sheet and/or behavioural restrictions. The Group expects such reduction in the balance sheet to be achieved through making divestments of or exiting non-core businesses. However, a reduction could require the Group to divest or exit core businesses. For further details on state aid, including the potential behavioural restrictions, please see risk factor 1.3 set out in Part II ("Risk Factors") of the Prospectus. The effect of requirements to divest or exit businesses and/or to abide by any behavioural restrictions may be materially adverse to the interests of the Group.

Entry into the Government Asset Protection Scheme by the Group is also subject to Board and shareholder approval. Once the terms of, and associated documentation relating to, the Group's participation in the Government Asset Protection Scheme have been finalised, shareholders will receive a circular setting out details of the terms of the scheme, together with information in relation to any shareholder resolutions which will be required to be passed at a separately convened general meeting (on certain of which it is expected HM Treasury will not be permitted to vote) in order to approve the Group's entry into the scheme and certain related matters.

8. Further information

Your attention is drawn to the further information set out in Part A of the Appendix to this letter. You should read the whole of this document and not rely solely on the information set out in this letter. **In particular, you should read the risk factors set out in section 7 of Part A of the Appendix to this letter.**

9. Lloyds Banking Group General Meeting

The Transaction is conditional upon, amongst other things, the approval of Resolutions 1 and 5 by the Ordinary Shareholders, which (i) increase the Company's authorised share capital and grant the Directors authority to allot Ordinary Shares in connection with the Placing and Compensatory Open Offer, and (ii) grant the Directors authority to allot such Ordinary Shares on a non-pre-emptive basis.

In addition, since the Placing and Compensatory Open Offer and the HMT Preference Share Redemption involve Lloyds Banking Group's substantial shareholder, HM Treasury (which, as at 13 May 2009 (being the last practicable date prior to the date of this document) held 7,277,204,386 Ordinary Shares, representing approximately 43.4 per cent. of the issued ordinary share capital of the Company), they are related party transactions for the purposes of the Listing Rules. Therefore, as required by the Listing Rules, the Placing and Compensatory Open Offer and the HMT Preference Share Redemption are also conditional on the approval of Resolution 3 by its Ordinary Shareholders (other than HM Treasury, which may not vote on Resolution 3 and has agreed to take all reasonable steps to ensure that its associates, if any, also do not vote on Resolution 3).

As HM Treasury's percentage holding of Ordinary Shares may increase pursuant to the Placing and Compensatory Open Offer, the Transaction is also conditional (unless such condition is waived by HM Treasury) upon the approval of Resolution 4 by the Independent Shareholders on a poll in order to confirm that, should this occur, HM Treasury would not be required to make a general cash offer to all Ordinary Shareholders in accordance with the City Code.

The remaining Resolutions, which are conditional upon the Placing and Compensatory Open Offer being effected, update several of the authorities proposed to be approved at the Annual General

Meeting to take into account the fact that the Company's issued share capital will be increased following the Placing and Compensatory Open Offer.

For further information on the General Meeting, please see section 6 of Part A of the Appendix to this letter.

10. Consequences of the Resolutions not being passed

If any of Resolutions 1, 3, 4 (unless waived by HM Treasury) or 5 are not approved by the relevant Ordinary Shareholders, the Transaction will not be effected. This may have adverse consequences on the Group, including that:

- (i) the Group's core tier 1 capital ratio calculated on a pro forma basis as at 31 December 2008³ would not benefit from the increase of approximately 80 basis points anticipated as a result of the Transaction, and therefore the Group could require further capital to maintain stability through a sustained or severe economic recession. Such further capital raising could be dilutive to Ordinary Shareholders at the time;
- (ii) the HMT Preference Shares will remain in issue, and the Company will remain subject to the conditions imposed by them, including the accrual of dividends on the HMT Preference Shares themselves and the restriction on the declaration and payment of dividends on Ordinary Shares; and
- (iii) it could impact adversely on the ongoing discussions and negotiations between Lloyds Banking Group and HM Treasury in relation to the specific terms of the Government Asset Protection Scheme and the Group's accession to the Government Asset Protection Scheme.

11. Directors' recommendation

The Board, which has been so advised by Citi, J.P. Morgan Cazenove and UBS, considers that the Placing and Compensatory Open Offer and the HMT Preference Share Redemption (both of which are related party transactions for the purposes of the Listing Rules) and the Rule 9 Waiver are fair and reasonable so far as shareholders are concerned and in the best interests of shareholders as a whole. In providing their advice, Citi, J.P. Morgan Cazenove and UBS have taken into account the Board's commercial assessments. Citi is deemed by the Panel to be a connected party to HM Treasury. J.P. Morgan Cazenove and UBS are therefore acting as the independent financial advisers to the Board in respect of the Rule 9 Waiver pursuant to Rule 3 of the City Code.

The Board considers that the Resolutions are in the best interests of Ordinary Shareholders taken as a whole and accordingly unanimously recommends that Ordinary Shareholders vote in favour of the Resolutions to be put to the General Meeting as they intend to do, or procure, in respect of their own beneficial shareholdings held at the time of the General Meeting.

Yours sincerely,

Sir Victor Blank
Chairman

³ Please see the unaudited pro forma net assets statement of the Group as at 31 December 2008, and PwC's report thereon, set out in Part II ("Unaudited Pro Forma Net Assets Statement of the Group as at 31 December 2008") of this document.

Appendix to the Letter from Sir Victor Blank, Chairman of Lloyds Banking Group plc

Part A

1 Principal terms of the Placing and Compensatory Open Offer

Under the Compensatory Open Offer, Lloyds Banking Group intends to invite Qualifying Shareholders to apply to subscribe for Open Offer Shares at the Issue Price of 38.43 pence per Open Offer Share, to raise approximately £4 billion.

The Issue Price of 38.43 pence per Open Offer Share represents an 8.5 per cent. discount to the Closing Price of 42 pence per Ordinary Share on 6 March 2009, the last Business Day before the Group's announcement of its intention to proceed with the issue of new Ordinary Shares by way of a pre-emptive open offer, and a 54.6 per cent. discount to the Closing Price of 84.60 pence per Ordinary Share on 13 May 2009, the last practicable date prior to publication of this document.

Qualifying Shareholders, subject to the terms and conditions of the Compensatory Open Offer, are being given the opportunity under the Compensatory Open Offer to apply for Open Offer Shares at the Issue Price on the basis of 0.6213 Open Offer Shares for every Existing Ordinary Share.

Entitlements to Open Offer Shares will be rounded down to the nearest whole number and fractional Open Offer Entitlements will not be allotted to Qualifying Shareholders but will be aggregated and the resulting Open Offer Shares may be placed for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Compensatory Open Offer as will holdings under different designations and in different accounts.

To the extent Open Offer Shares are not (or are deemed not to be or are otherwise treated as not having been) taken up, the Compensatory Open Offer in respect of such Open Offer Shares will be deemed not to have been accepted. Following the Closing Date, the Joint Bookrunners will, pursuant to the Rump Placing, use reasonable endeavours to procure placees for all Non-Accepted Shares, at an aggregate price at least equal to the Minimum Rump Placing Amount. The Issue Price in respect of any such Non-Accepted Shares so placed shall be paid to the Company. Any premium to the Minimum Rump Placing Amount shall be paid (subject as provided in section 6 of Part VIII ("Terms and Conditions of the Placing and Compensatory Open Offer") of the Prospectus) to those Qualifying Shareholders who do not (or are deemed not to) take up some or all Open Offer Shares to which they are entitled and to other Registered Shareholders who are not entitled to apply for Open Offer Shares by virtue of their being resident in a Restricted Jurisdiction, on a pro rata basis to the number of Non-Accepted Shares, save that amounts of less than £3.00 (three Pounds) per holding will not be so paid but will be aggregated and donated to charity (British Heart Foundation).

Notwithstanding the above, the Joint Bookrunners may cease or decline to endeavour to procure any placees pursuant to the Rump Placing if, in their reasonable opinion (following consultation with the Company) the opinion of the Joint Bookrunners and the Company, it is unlikely that any such placees can be so procured at an aggregate price at least equal to the Minimum Rump Placing Amount or if the procurement of placees would give rise to a breach of law.

To the extent Open Offer Shares are not taken up under the Compensatory Open Offer or placed pursuant to the Rump Placing, then, subject to the terms of the Open Offer Agreement, HM Treasury will itself subscribe for the Residual Shares, with the subscription monies in respect of such Residual Shares being retained by HM Treasury for the benefit of the Company, and the Company will authorise HM Treasury to apply such monies in respect of the redemption of the HMT Preference Shares as described in more detail in section 2 below.

The Placing and Compensatory Open Offer and the obligation of HM Treasury to subscribe for the Residual Shares is conditional on the Open Offer Agreement becoming unconditional in all respects. The conditions to the Open Offer Agreement are (among other things):

- (i) Admission becoming effective by not later than 8.00 a.m. on 7 July 2009 (or such later time and date as HM Treasury may agree);
- (ii) the obtaining or waiver of such regulatory approvals, authorisations and consents as may be required as a consequence of the activities contemplated by the Open Offer Agreement;

- (iii) there having occurred or being reasonably likely to occur, in the opinion of HM Treasury (acting in good faith), no event which has resulted or may result in a material adverse change in or affecting the condition (financial, operational, legal or otherwise), profitability, prospects, solvency, business affairs or operations of the Group taken as a whole, whether or not arising in the ordinary course of business; and
- (iv) the passing, without amendment, of certain of the Resolutions that are to be put to the Ordinary Shareholders at the General Meeting.

Certain of the conditions to the Open Offer Agreement may be waived by HM Treasury at its sole discretion. The condition described in paragraph (iv) above is, among others, not capable of waiver by HM Treasury.

As part of HM Treasury's agreement to the Group proceeding with the redemption of the HMT Preference Shares separately from, and in advance of, the Group's proposed participation in the Government Asset Protection Scheme, HM Treasury has agreed to consent to an amendment of the terms of the HMT Preference Shares to allow them to be redeemed earlier than was otherwise permitted under their terms of issue. HM Treasury has also agreed with the Company that it will take up all of the Open Offer Shares comprised in its Open Offer Entitlement.

The Open Offer Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive dividends or distributions made, paid or declared (if any) after admission of such Open Offer Shares, as described below.

Applications will be made to the UK Listing Authority for the Open Offer Shares to be admitted to the Official List and to the London Stock Exchange for the Open Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

It is expected that Admission will occur and that dealings in the Accepted Shares on the London Stock Exchange will commence at 8.00 a.m. on 9 June 2009, with admission of, and commencement of dealings in, all Open Offer Shares other than Accepted Shares expected to take place no later than 8.00 a.m. on 16 June 2009.

For Qualifying Non-CREST Shareholders, completed Application Forms and payment in full (in Pounds) should be returned to the Registrar so as to be received by no later than noon on 5 June 2009. For Qualifying CREST Shareholders, the relevant CREST instructions must have settled by no later than noon on 5 June 2009.

Qualifying Shareholders should be aware that the Compensatory Open Offer is not a rights issue. As such, Qualifying Non-CREST Shareholders should note that their respective Application Forms are not negotiable documents and cannot be traded. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, the Open Offer Entitlements will not be tradeable or listed and applications in respect of the Compensatory Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a bona fide market claim.

Some questions and answers, together with details of further terms and conditions of the Placing and Compensatory Open Offer including the procedure for application and payment, are set out in Parts VII ("Some Questions and Answers about the Placing and Compensatory Open Offer") and VIII ("Terms and Conditions of the Placing and Compensatory Open Offer") of the Prospectus and, for Qualifying Non-CREST Shareholders, will also be set out in the Application Form and the Shareholder Guide.

2 HMT Preference Share Redemption

The proceeds of the Placing and Compensatory Open Offer (being not less than £3,940 million net of commissions of up to £60 million payable to HM Treasury under the Open Offer Agreement) will, together with up to £300 million of the Group's existing cash resources, be used to fund the redemption of the HMT Preference Shares held by HM Treasury at 101 per cent. of their issue price, plus accrued dividends thereon. The Company has also agreed to pay all legal and other costs and expenses of HM Treasury, HM Treasury's financial advisers and the Joint Bookrunners, incurred in connection with the Placing and Compensatory Open Offer. It is expected that these costs and expenses, together with other expenses of the Group relating to the Placing and Compensatory Open Offer (and which are in addition to the commissions of up to £60 million payable to HM Treasury under the Open Offer Agreement), will amount to £30 million. The redemption of the HMT Preference Shares will remove the annual cost of the HMT Preference

Share dividend of £480 million and will thereby improve the Group's profitability, cashflow, liquidity and organic capital generation.

HM Treasury will hold all subscription monies owed to the Company in respect of any Open Offer Shares taken up by HM Treasury pursuant to its Open Offer Entitlement or pursuant to its subscription of the Residual Shares for the benefit of the Company, and the Company will authorise HM Treasury to apply such monies in respect of the redemption of the HMT Preference Shares.

3 Dividends and dividend policy on Ordinary Shares

It is currently a term of the HMT Preference Shares that, unless otherwise agreed by HM Treasury, no dividend may be paid or distribution made on the Ordinary Shares nor may any Ordinary Shares be redeemed, purchased, cancelled or otherwise acquired by the Company nor may the Company effect a reduction of its Ordinary Share capital which involves a distribution to holders of Ordinary Shares until the HMT Preference Shares have been redeemed or repurchased in full. On redemption of the HMT Preference Shares, these restrictions will be removed enabling the Company to resume the declaration and payment of dividends on its Ordinary Shares. Whilst it is not the Board's intention to pay a dividend on Ordinary Shares in 2009, the Board intends to resume dividend payments on its Ordinary Shares as soon as market conditions and the financial position of Lloyds Banking Group permit.

If the B Shares are issued with the terms announced on 7 March 2009, no cash dividend may be paid on the Ordinary Shares unless the cash dividend payable in respect of the same period on the B Shares is paid in full, and no scrip dividend may be paid on the Ordinary Shares unless the cash or scrip dividend payable in respect of the same period on the B Shares is paid in full. Further details of the likely terms of the B Shares, if issued, are outlined in Part B of this Appendix.

4 Government Asset Protection Scheme and additional capital raising

On 7 March 2009, both HM Treasury and the Group issued announcements relating to the Group's intention to participate in the Government Asset Protection Scheme. Although the terms of the Group's participation in the Government Asset Protection Scheme are still subject to ongoing discussions and negotiations, the arrangements between the Group and HM Treasury will, if completed, allow the Group to secure protection in respect of certain losses on some of its assets which have a greater degree of risk associated with them than other assets that should, in turn, enhance its financial strength. This is intended to provide improved stability for customers and depositors, enhance the Group's ability to lend into the UK market and protect the Group from further deterioration in the economy by providing it (subject to certain conditions) with protection in respect of certain losses on its assets and exposures on its balance sheet existing at 31 December 2008.

Fee and related issuance of capital

If the Group were to accede to the Government Asset Protection Scheme on the terms announced on 7 March 2009, it is expected that the Group would pay a fee to HM Treasury of £15.6 billion. This fee would be amortised over an estimated seven-year period. The proceeds of this fee would be applied by HM Treasury in subscribing for an issue by Lloyds Banking Group plc of B Shares, carrying a dividend of the greater of 7 per cent. of the issue price of the B Shares per annum and 125 per cent. (adjusted from time to time in accordance with the terms of the B Shares) of the dividend on Ordinary Shares. It is expected that the B Shares would, on the announced terms, constitute core tier 1 capital. A summary of the expected terms of the B Shares is set out in Part B of this Appendix.

The B Shares, which would (other than in certain specified situations) be non-voting, would be convertible at any time (subject to certain restrictions) at the holder's option into Ordinary Shares at an initial conversion price of 115 pence per Ordinary Share subject to adjustment in accordance with the terms of the B Shares, and would be mandatorily convertible into Ordinary Shares at the relevant conversion price if the volume weighted average trading price of the Ordinary Shares for 20 trading days in any 30 consecutive trading day period were to equal or exceed 150 pence.

The Group has not entered into any agreement to restrict the utilisation of any existing or future UK tax losses or allowances.

Government Asset Protection Scheme amount

Subject to reaching agreement with HM Treasury on the detailed terms of its participation the Group intends to participate in the Government Asset Protection Scheme in respect of Covered Assets with an aggregate par value of approximately £260 billion (expected to be approximately £250 billion net of December 2008 impairment provisions and writedowns). On 7 March 2009 it was announced that the Covered Assets are expected to include residential mortgages of approximately £74 billion, unsecured personal loans of approximately £18 billion, corporate and commercial loans (including commercial real estate and leveraged finance loans) of approximately £151 billion and treasury assets (including the Group's Alt-A portfolio) of approximately £17 billion. As the terms of the Group's participation in the Government Asset Protection Scheme are still subject to ongoing discussions and negotiations with HM Treasury, the various assets comprising the Covered Assets and the amounts thereof are yet to be agreed and may be different from those announced on 7 March 2009.

It is currently expected that approximately 83 per cent. of the Covered Assets will come from the HBOS Group's legacy lending books and the balance from the Lloyds TSB Group's legacy books.

First loss

If the Group were to implement the Government Asset Protection Scheme on the announced terms, it is envisaged that the Group would bear a first loss amount in respect of the Covered Assets. The amount of the first loss is expected, on the basis of the announced terms, to be up to £25 billion (after taking into account historical impairments and write-downs), although this amount has not yet been finalised and could change as the terms of the Government Asset Protection Scheme are negotiated and finalised. After the first loss, the Group would retain an exposure of 10 per cent. of any further losses incurred in respect of the Covered Assets. The remaining 90 per cent. of further losses arising in respect of the Covered Assets would be borne by HM Treasury. The Government Asset Protection Scheme would apply to losses incurred in respect of assets and exposures on the balance sheet as at 31 December 2008, regardless of when such losses are incurred.

Assets

Specific assets to be included in the Government Asset Protection Scheme will be subject to the approval of HM Treasury. The assets are expected to be drawn from Lloyds Banking Group's and certain of its affiliates' portfolios of corporate and leveraged loans, commercial and residential property loans, structured credit assets and such other assets as HM Treasury and the Group agree are to be included in the Government Asset Protection Scheme.

Capital ratios

On a pro forma basis as at 31 December 2008, the Placing and Compensatory Open Offer and the HMT Preference Share Redemption will materially improve the strength of the Group's capital position by increasing the Group's pro forma core tier 1 ratio by approximately 80 basis points to around 6.7 per cent. (please see the unaudited pro forma net assets statement of the Group as at 31 December 2008, and PwC's report thereon, set out in Part II ("Unaudited Pro Forma Net Assets Statement of the Group as at 31 December 2008") of this document for further details).

Participating in the Government Asset Protection Scheme on the terms announced on 7 March 2009 (including the issue of the B Shares) would further improve the Group's capital ratios substantially and reduce the risks associated with the Group's balance sheet on an ongoing basis, thus improving the Group's ability to lend in the wider economy.

Term

While it is intended that the Government Asset Protection Scheme would apply to the Covered Assets until their maturity, the Group's participation in the Government Asset Protection Scheme would be capable of termination in whole or in part by mutual agreement of the Group and HM Treasury.

Management of the assets

Pursuant to the announced terms, the Group would be required under the Government Asset Protection Scheme to manage the assets in accordance with certain asset management requirements as referred to in the Government Asset Protection Scheme. These are expected to

include, among others: (i) reporting requirements to provide financial, risk and performance data in respect of the Covered Assets and to monitor compliance with the Government Asset Protection Scheme; (ii) the adoption of oversight and control procedures with respect to the management of the Covered Assets; (iii) requirements in relation to organisational structure, staffing, resourcing, systems and controls required for implementation, administration and monitoring compliance with the Government Asset Protection Scheme, and (iv) the monitoring and management of conflicts of interest and potential conflicts of interest. As the Government Asset Protection Scheme is intended to apply to losses on protected assets on the balance sheet as at 31 December 2008 regardless of when such loss occurred (and therefore potentially before the Government Asset Protection Scheme comes into operation), the Group has agreed with HM Treasury certain interim arrangements (in force with effect from the date of the Group's announcement of 7 March 2009 until the earlier of accession to the Government Asset Protection Scheme by the Group or termination of discussions with HM Treasury in connection with the Government Asset Protection Scheme) relating to the management of those assets likely to be part of the Government Asset Protection Scheme.

Impact on the capital structure of the Company

Assuming no Open Offer Shares are taken up in the Compensatory Open Offer or placed with placees pursuant to the Rump Placing, following the subscription of the Residual Shares by HM Treasury pursuant to the terms of the Open Offer Agreement, HM Treasury would own approximately 65.1 per cent. of the Enlarged Share Capital. In addition, if the Group were to accede to the Government Asset Protection Scheme on the announced terms and in the event of full conversion of the B Shares in accordance with such terms, if HM Treasury retained all the Ordinary Shares resulting from such conversion and assuming (i) no Open Offer Shares are taken up in the Compensatory Open Offer or placed with placees pursuant to the Rump Placing and (ii) HM Treasury retains its shareholding in the Company as at the date of this document, then HM Treasury's aggregate shareholding of the Ordinary Shares would be approximately 77 per cent. HM Treasury may not exercise its option to convert the B Shares to the extent that by doing so it would hold more than 75 per cent. of the Ordinary Shares in the Company, although this limitation does not apply in the event of mandatory B Share conversion. In no circumstances will HM Treasury be able to exercise more than 75 per cent. of the voting rights in the Company.

HM Treasury has confirmed to the Board that its objective in increasing its potential holding of Ordinary Shares in the Company is to provide financial support. In the event that HM Treasury increases its ownership of the Ordinary Shares, it has informed the Board that it does not envisage any change to the constructive relationship it currently enjoys with the Board.

Lending

In connection with the Group's proposed participation in the Government Asset Protection Scheme, on 6 March 2009 Lloyds Banking Group entered into a commitment to increase lending by approximately £14 billion in the 12 months commencing 1 March 2009 to support UK businesses (£11 billion) and homeowners (£3 billion), and to maintain in the 12 months commencing 1 March 2010 similar levels of lending as in the 12 months commencing 1 March 2009, subject to adjustment of the lending commitments by agreement with HM Treasury and BERR to reflect circumstances at the start of the 12-month period commencing 1 March 2010. This additional lending in 2009 and 2010 will be subject to the Group's prevailing commercial terms and conditions (including pricing and risk assessment) and, in relation to mortgage lending, the Group's standard credit and other acceptance criteria (see the summary of the terms of the Lending Commitments Deed in section 8.8 of Part XX ("Additional Information") of the Prospectus).

This lending commitment is part of the Group's ongoing support for UK businesses and homeowners. The Group has pledged its support for various Government schemes designed to provide additional funding for small businesses. The Group has also published charters for its small business customers making a range of pledges to help firms through the downturn, including a pledge to reduce business rates in line with the base rate.

If the Government Asset Protection Scheme is not implemented within the timeframe anticipated for such implementation, HM Treasury has agreed that it will, in consultation with the Group and acting reasonably, make an appropriate adjustment to the Group's lending commitment, which may include a reduction in the amount of business or homeowner lending set out above.

Conditions to accession to the Government Asset Protection Scheme

Implementation of the Government Asset Protection Scheme for the Group will be subject, amongst other things, to further due diligence by HM Treasury and its advisers and satisfactory agreement as to the detailed terms on which the Group will participate in the Government Asset Protection Scheme, as well as documentation and satisfaction of applicable conditions (including the application criteria and asset eligibility criteria of the Government Asset Protection Scheme), adoption of a remuneration policy which is compliant with the FSA's code on remuneration practices and conditions precedent to accession to the Government Asset Protection Scheme, including state aid, regulatory, Board and shareholder approvals (expected to include certain resolutions on which HM Treasury will not be permitted to vote). The Group has agreed to provide certain information to HM Treasury in the period prior to the Group's proposed accession to the Government Asset Protection Scheme, including:

- (i) an indicative list of the Proposed Assets;
- (ii) information and data relating to the Proposed Assets for the purposes of HM Treasury's due diligence; and
- (iii) access to the Group's premises, books, records, senior executives, relevant personnel and advisers.

As at the date of this document, the timing for the implementation of the Government Asset Protection Scheme is still to be determined. The proposed entry by the Company into the Government Asset Protection Scheme and the associated issue of B Shares would constitute a related party transaction for the purposes of the Listing Rules, requiring the approval of the Board and Ordinary Shareholders other than HM Treasury. Therefore, if the Company is to participate in the Government Asset Protection Scheme, it will need to convene a further general meeting to seek shareholder approval and a circular explaining the proposals and containing the relevant general meeting notice will be sent to Ordinary Shareholders in due course, although it is currently expected that no prospectus would be required.

5 Relationship with HM Treasury

The Government's shareholding in the Company is currently held by the Solicitor for the Affairs of HM Treasury as nominee for HM Treasury and managed by UKFI (a company wholly owned by HM Treasury) on behalf of HM Treasury. No formal relationship agreement has been concluded between the Group and the UK Government and no specific measures are in place to ensure that control is not abused by HM Treasury. However, the relationship falls within the scope of the framework document between HM Treasury and UKFI published on 2 March 2009. The framework document states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined therein) (including with respect to individual lending or remuneration decisions)". This document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision and "will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets)".

These goals are consistent with the stated public policy aims of the UK Government, as articulated in a variety of public announcements.

In the publication "An Introduction: Who We Are, What We Do and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury", it is stated that UKFI is to "develop and execute an investment strategy for disposing of the investments in the banks in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition".

UKFI has also stated that it intends to "engage robustly with banks' boards and management, holding both strategy and financial performance to account, and taking a strong interest in getting the incentives structures right on the board and beyond – accounting properly for risk and avoiding inefficient rewards for failure".

The Group, in common with other financial institutions, is also working closely with a number of Government departments and agencies on various industry-wide initiatives that are intended to support the Government's objective of supporting stability in the wider financial system. These

initiatives currently include the Bank of England's Special Liquidity Scheme whereby banks and building societies can exchange eligible securities for HM Treasury bills, and the creation of a credit guarantee scheme by HM Treasury, providing a Government guarantee for certain short- and medium-term senior debt securities issued by eligible banks.

The Group also engages in numerous transactions on arm's length commercial terms in the ordinary course of our business with the Government and its various departments and agencies, as well as with other companies in which the Government has invested. This includes financings, lendings, banking, asset management and other transactions with UK financial institutions in which the Government has invested. During 2008, the Group made use of these measures in order to maintain and improve a stable funding position.

6 General Meeting

As described in section 9 of this letter, the Transaction is conditional upon the approval of Resolutions 1, 3, 4 (unless waived by HM Treasury) and 5 by the relevant Ordinary Shareholders. These Resolutions, together with other Resolutions intended to update Directors' authorities to allot Ordinary Shares, are set out in the notice convening a General Meeting of the Company to be held on 5 June 2009 at the Scottish Exhibition and Conference Centre, Glasgow G3 8YW at noon (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting), which is set out at the end of this document. Further details of the Resolutions proposed to be passed at the General Meeting are set out in the notice. The purpose of the General Meeting is to approve six Resolutions, a summary of which is set out below.

HM Treasury has agreed, in its capacity as a holder of Ordinary Shares, that to the extent permitted under applicable law, it will vote in favour of all the resolutions which are proposed in connection with the Placing and Compensatory Open Offer (other than Resolution 3 and Resolution 4 on which it will not vote for the reasons set out below).

Increase in authorised share capital and Directors' authority to allot shares for the Placing and Compensatory Open Offer

Resolution 1

This resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 1 proposes:

- (i) to increase the Company's authorised share capital by £2,602,133,750 by the creation of 10,408,535,000 new Ordinary Shares of 25p each in the capital of the Company. This represents an increase of approximately 45.8 per cent. in the authorised share capital of the Company as at 13 May 2009, the last practicable date before the publication of this document, and an increase of 36.9 per cent. in the authorised share capital of the Company if resolution 7 in the notice of the Annual General Meeting is passed. This will enable the Company to issue the Open Offer Shares; and
- (ii) to authorise the Directors to allot the new shares being created pursuant to Resolution 1(A). The Directors shall only use this authority to allot all of these Ordinary Shares pursuant to the Placing and Compensatory Open Offer. This authority will expire at the end of the annual general meeting of the Company in 2010 or on 4 September 2010, whichever is the earlier. This authority would relate to Ordinary Shares representing approximately 62.1 per cent. of the issued ordinary share capital of the Company as at 13 May 2009, the last practicable date before the publication of this document.

No Ordinary Shares are held in treasury.

Directors' authority to allot shares generally

Resolution 2

This resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 2 proposes, subject to the completion of the Placing and Compensatory Open Offer:

- (i) to increase the Company's authorised share capital to £11,550,262,389, in order to allow it to take advantage of recent ABI guidance allowing a company to grant directors authority to issue up to two-thirds of their existing share capital in connection with a rights issue. This

represents an increase of approximately 103.5 per cent. in the authorised share capital of the Company as at 13 May 2009, the last practicable date before the publication of this document. However, the concept of authorised share capital will be abolished on 1 October 2009 as a result of changes to be brought in by the Companies Act 2006 and, therefore, this increase in authorised share capital is only relevant during the interim period; and

- (ii) to extend the Directors' authority, so that for the period until the annual general meeting of the Company in 2010 or 4 September 2010, whichever is the earlier, they would be able to allot up to a nominal amount of: (I) £4,540,104,954 in Ordinary Shares and (II) £52,035,254, US\$38,875,000, €39,875,000 and ¥1,250,000,000 in preference shares. This authority would relate to Ordinary Shares representing approximately 107.9 per cent. of the issued ordinary share capital of the Company as at 13 May 2009, the last practicable date before the publication of this document, and approximately 66.7 per cent. of the Enlarged Share Capital, half of which may only be allotted for the purpose of a fully pre-emptive rights issue.

No Ordinary Shares are held in treasury.

The extension of the Directors' authority to allot shares, as described in paragraph (ii) above, is proposed to replace the authority sought in resolution 7 in the notice of the Annual General Meeting, following the completion of the Placing and Compensatory Open Offer. The Directors have no present intention of exercising the authority granted by this Resolution 2, other than to maintain the Group's present capital position and to fulfil the Company's obligations under the Lloyds Banking Group Employee Share Plans.

Approval of the Transaction

Resolution 3

This resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour. As HM Treasury holds more than 10 per cent. of the voting rights in the Company, HM Treasury is a "related party" for the purposes of the Listing Rules, and the Placing and Compensatory Open Offer and HMT Preference Share Redemption are "related party transactions" (as defined in the Listing Rules). The Listing Rules provide that a related party transaction entered into by a listed company must be approved by its shareholders other than the related party. Therefore, in accordance with the Listing Rules, HM Treasury shall not be entitled to vote on the resolution. HM Treasury has further undertaken to take all reasonable steps to ensure that its associates, if any, will not vote on Resolution 3.

Resolution 3 proposes that the Placing and Compensatory Open Offer and HMT Preference Share Redemption be approved.

Rule 9 Waiver

Resolution 4

This resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour and will, pursuant to the requirements of the City Code, be taken on a poll. In accordance with the City Code, the vote on Resolution 4 is a vote of Independent Shareholders, and HM Treasury will therefore not vote on this Resolution.

Resolution 4 proposes to approve the waiver of the obligation that might otherwise require HM Treasury to make a general offer to Ordinary Shareholders as a result of the issue of new Ordinary Shares to HM Treasury pursuant to the Placing and Compensatory Open Offer. Following the completion of the Placing and Compensatory Open Offer, if HM Treasury subscribes for any Open Offer Shares in excess of its Open Offer Entitlement, HM Treasury's holding of Ordinary Shares would increase above its current level (approximately 43.4 per cent. of the issued ordinary share capital of Lloyds Banking Group) up to a maximum of 17,685,739,386 Ordinary Shares (representing approximately 65.1 per cent. of the Enlarged Share Capital of the Company).

Rule 9 of the City Code is designed to prevent the acquisition of control of a company to which the City Code applies without a general cash offer being made to all shareholders of that company.

Under Rule 9 of the City Code, when any person acquires, whether by a series of transactions over a period of time or not, an interest in shares (as defined in the City Code) which (taken together with shares in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, that person is

normally obliged to make a general cash offer to all the remaining shareholders of the company to acquire their equity shares and transferable securities carrying voting rights in the company.

Furthermore, under Rule 9 of the City Code, when a person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, that person is normally obliged to make a general cash offer to all the remaining shareholders of the company to acquire their equity shares and transferable securities carrying voting rights in the company.

However, where the obligation to make a mandatory offer under Rule 9 of the City Code might arise following an issue of new shares, the Panel will normally consent to a waiver of that obligation provided that, among other things, this is approved by a vote of Independent Shareholders. In this case, the Panel has been consulted and has agreed, subject to the passing on a poll by the Ordinary Shareholders, other than HM Treasury, of Resolution 4, to waive the obligation to make a general offer to Ordinary Shareholders under Rule 9 of the City Code that might otherwise arise on HM Treasury upon completion of the Placing and Compensatory Open Offer.

Following the Placing and Compensatory Open Offer and depending on the number of Open Offer Shares subscribed for by HM Treasury, HM Treasury may in aggregate hold more than 50 per cent. of Lloyds Banking Group's Enlarged Share Capital. Accordingly, HM Treasury together with any person acting in concert with it would be able to increase their aggregate interests in Ordinary Shares without incurring any further obligation under Rule 9 of the City Code to make a general offer.

Directors' power to issue shares for cash in relation to the Placing and Compensatory Open Offer

Resolution 5

This resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

Resolution 5 proposes to allow the Directors to allot the Open Offer Shares pursuant to the Placing and Compensatory Open Offer as if section 89(1) of the Companies Act did not apply to any such allotment, pursuant to section 95 of the Companies Act. This authority will expire at the end of the annual general meeting of the Company in 2010 or on 4 September 2010, whichever is earlier.

Directors' power to issue shares for cash generally

Resolution 6

This resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

Resolution 6 proposes, subject to the completion of the Placing and Compensatory Open Offer, to renew the Directors' power to issue shares for cash, for example in a rights issue, or to persons other than existing holders of Ordinary Shares provided that any such issue of Ordinary Shares to these persons would represent no more than 5 per cent. of the Enlarged Share Capital. In addition, if the Company were to purchase Ordinary Shares and hold them in treasury, Resolution 6 would give the Directors power to sell these shares for cash to persons other than existing holders of Ordinary Shares, subject to the same limit that would apply to issues of Ordinary Shares for cash to these persons. In addition, Resolution 6 authorises the Directors to issue shares for cash in connection with a rights issue on a non-pre-emptive basis. In applying the powers to be granted by virtue of Resolution 6, the Company intends to adhere to the Pre-emption Group's Statement of Principles which provides that no more than 7.5 per cent. of the issued share capital of the Company should be issued on a non-pre-emptive basis over a rolling three-year period without prior consultation with shareholders. This authority will expire at the end of the annual general meeting of the Company in 2010 or on 4 September 2010, whichever is the earlier.

Resolution 6 is proposed to replace the authority sought in resolution 9 in the notice of the Annual General Meeting, following the completion of the Placing and Compensatory Open Offer.

Form of Proxy

A Form of Proxy is enclosed. To be effective, Forms of Proxy must be completed by Ordinary Shareholders and received, no later than noon on 3 June 2009, by the Company's Registrar, Equiniti. CREST participants may also choose to utilise the CREST electronic proxy appointment service in accordance with the procedures set out in the notice convening the General Meeting at the end of this document. The lodging of the Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting at the meeting in person if you so wish.

7 Risk factors to be considered by Ordinary Shareholders

The Directors are aware of the following material risks relating to the Group's business and strategy, funding, the Placing and Compensatory Open Offer and the Ordinary Shares which they wish to draw to the attention of Shareholders. There may be other risks that are not summarised below that the Directors are not aware of or that the Directors do not consider material as at the date of this document.

7.1 RISKS RELATING TO THE GROUP

- The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, such as the current and ongoing crisis in the global financial markets, recession, and further deterioration of general economic conditions, particularly in the UK, have already adversely affected the Group's earnings and profits and could continue to cause its earnings and profitability to decline.
- HM Treasury is the largest shareholder of the Company and its shareholding could increase. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business.
- The aid given and proposed to be given by HM Treasury to the Group is subject to European state aid review. The outcome of this review is uncertain at this stage and may involve the prohibition of some elements of the aid, the requirement for the Group to repay the aid or the imposition of conditions on the Group that may be materially adverse to its interests.
- If the Group is unable to participate in the GAPS, or the operation of the GAPS fails to have the desired effect on the Group's financial and capital position, or the costs of participation outweigh the benefits, this could have a material adverse effect on the Group's results of operations, financial condition and prospects.
- The Company has agreed to certain undertakings with HM Treasury in relation to the operation of its business, including compensation arrangements for employees, in connection with the placing and open offer by the Company in November 2008 and as part of its proposed participation in the GAPS. The implications of some of these undertakings remain unclear and they could have a material adverse effect on the Group's results of operations, financial condition and prospects.
- The Group could fail to attract or retain senior management or other key employees.
- The Group's businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on the Group's operating results, financial condition and prospects.
- The Group's businesses are inherently subject to the risk of market fluctuations, which could materially adversely affect its operating results, financial condition and prospects.
- Market conditions have resulted, and are expected to result in the future, in material changes to the estimated fair values of financial assets of the Group. Negative fair value adjustments have had, and may continue to have in the future, a further material adverse effect on the Group's operating results, financial condition and prospects.
- The Group may fail to realise the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from, or may incur unanticipated costs associated with, the acquisition of HBOS. As a consequence, the Group's results of operations, financial condition and prospects may suffer.

- The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and are expected to continue to affect the recoverability and value of assets on the Group's balance sheet.
- Concentration of credit and market risk could increase the potential for significant losses.
- The Group's businesses are subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale money markets continues to be limited or becomes more limited, which could materially adversely affect the Group's ability to meet its financial obligations as they fall due.
- The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators.
- The Group has been and could continue to be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties, and which could materially adversely affect the Group's results of operations, financial condition and prospects.
- If the perceived creditworthiness of monoline insurers and other market counterparties does not improve or continues to deteriorate, the Group may be forced to record further credit valuation adjustments on securities insured or guaranteed by such parties, which could have a material adverse effect on the Group's results of operations, financial condition and prospects.
- The Group's insurance businesses and employee pension schemes are subject to risks relating to insurance claims rates, pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour.
- The Group's borrowing costs and access to the capital markets depend significantly on the Company's credit ratings and those of Lloyds TSB Bank plc, HBOS plc and Bank of Scotland plc and any reduction in rating could materially adversely affect the Group's results of operations, financial condition and prospects.
- In the United Kingdom, the Group is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.
- The Group is exposed to various forms of legal and regulatory risk, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a material adverse effect on its results or its relations with its customers.
- The Group's financial statements are based in part on assumptions and estimates which, if wrong, could cause losses in the future.
- Weaknesses or failures in the Group's internal processes and procedures and other operational risks could materially adversely affect the Group's results of operations, financial condition and prospects and could result in reputational damage.
- The Group's businesses are conducted in highly competitive environments and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures.
- Terrorist acts, other acts of war, geopolitical, pandemic or other such events could have a material adverse impact on the Group's results of operations, financial condition and prospects.
- The Company is a holding company and, as a result, is dependent on dividends from its subsidiaries to meet its obligations including its obligations with respect to its debt securities, and to provide funds for payment of dividends to shareholders.
- Failure to manage the risks associated with changes in taxation rates or law, or misinterpretation of the law, could materially and adversely affect the Group's results of operations, financial condition and prospects.
- HM Treasury's acquisition of its shareholding in the Company or the acquisition of HBOS could lead to the Group suffering adverse tax consequences.

7.2. RISKS RELATING TO THE BANKING ACT 2009

- Deposit-taking entities within the Group could become subject to the exercise of powers by HM Treasury, the Bank of England and the FSA under the Banking Act 2009 (the “Banking Act”), if they fail to meet threshold authorisation requirements under the FSMA.
- The Company may be taken into temporary public ownership if a relevant entity in the Group fails to satisfy the threshold conditions set out in Schedule 6 to the FSMA and the relevant conditions of the Banking Act are met.
- If the Company is taken into temporary public ownership, various actions may be taken in relation to any securities issued by the Company without the consent of the holders thereof.
- If the Company is taken into temporary public ownership or if a relevant entity in the Group is made subject to the special resolution regime set out in the Banking Act, contractual arrangements between the Company, its group companies and/or the bridge bank or private sector purchaser may be created, modified or cancelled.
- If the Company is taken into temporary public ownership or if a relevant entity in the Group is made subject to the special resolution regime set out in the Banking Act, a subsequent partial transfer of the Company’s, or a relevant entity in the Group’s, business may result in a concentration of risk.

7.3. RISKS RELATING TO THE PLACING AND COMPENSATORY OPEN OFFER AND TO INVESTMENT IN THE ORDINARY SHARES

- Possible volatility in the price of the Ordinary Shares.
- Shareholders who do not acquire Open Offer Shares in the Compensatory Open Offer will experience dilution in their ownership of the Company.
- Future issues of Ordinary Shares may further dilute the holdings of current Ordinary Shareholders and could materially affect the market price of the Ordinary Shares. The market price of the Ordinary Shares may also be adversely affected by a significant sale of Ordinary Shares by HM Treasury or another major shareholder.
- Subject to certain terms and conditions, any Open Offer Shares not subscribed for in the Placing and Compensatory Open Offer by existing Ordinary Shareholders (or placees pursuant to the Rump Placing) will be taken up by HM Treasury, which will therefore increase its already significant shareholding in the Group. This, the issue of the B Shares and/or the aggregation of HM Treasury’s interests with that of certain other shareholders, may lead to adverse consequences for the Group.
- The Rump Placing may not be achievable, or, if it is achieved, may not result in a material premium.

8 Action to be taken by Shareholders

A Form of Proxy is enclosed which covers the Resolutions to be proposed at the General Meeting and which is for use by the holders of Ordinary Shares. If you are a person nominated under section 146 of the 2006 Act to enjoy information rights, please read Note 2 to the General Meeting Notice.

Completed Forms of Proxy should be returned in the pre-paid envelope as soon as possible, but in any event no later than noon on 3 June 2009. In addition, it is possible to appoint and instruct your proxy electronically by following the instructions on the enclosed Form of Proxy. Completion of a Form of Proxy will not prevent you from attending and voting at the General Meeting if you so wish. To appoint more than one proxy (each of whom must be appointed to exercise rights attached to the different shares held by you), see Note 3(b) on the reverse of the Form of Proxy.

At the General Meeting the Company will disclose, for each Resolution, the total of the proxy votes received and any votes cast at the meeting, the proportion for and against each Resolution, and the number of votes withheld. Votes withheld will not be counted in the calculation of the proportion of votes ‘for’ and ‘against’ a Resolution.

Voting at the General Meeting in respect of each Resolution will be conducted by way of a poll. The Directors believe it is important that the intentions of all members who register a vote are fully taken into account. Voting on a poll is more transparent and equitable, since it allows the votes of all shareholders who wish to vote to be taken into account, and it reflects evolving best practice.

Ordinary Shareholders who attend the meeting will still be able to ask questions relevant to the business of the meeting prior to voting on the Resolutions.

Part B

Expected terms and conditions of the B Shares

Key terms of the B Shares are expected to include the following:

- Nominal value: 25 pence per B Share.
- Issue price: 42 pence per B Share.
- Ranking: on a return of capital or winding-up, holders of the B Shares will rank *pari passu* with the holders of any other classes of Ordinary Shares. For these purposes, on a winding-up each holder of a B Share will be deemed to hold one Ordinary Share of the Company for every B Share held at the date of the commencement of such winding-up (the “Winding-Up Ratio”). The Winding-Up Ratio is subject to anti-dilution adjustments.
- Dividend entitlement: non-cumulative dividends will be declared at the discretion of the Board, which dividends shall be paid in priority to any dividend on any other class of ordinary share capital. If declared, dividends on the B Shares will be paid semi-annually in arrear. The first such semi-annual dividend in respect of any financial year shall be payable on the date that is three business days after the record date in respect of the interim dividend payable on the Ordinary Shares in respect of such financial year, if such interim dividend on the Ordinary Shares is to be paid. The second such semi-annual dividend in respect of any financial year shall be payable on the date that is three business days after the record date in respect of the final dividend payable on the Ordinary Shares in respect of such financial year, if such final dividend on the Ordinary Shares is to be paid. If no interim dividend on the Ordinary Shares is to be paid in respect of any financial year, the first semi-annual dividend on the B Shares in respect of such financial year, if to be paid, shall be payable no later than 31 August in such financial year, and if no final dividend on the Ordinary Shares is to be paid in respect of any financial year the second semi-annual dividend on the B Shares in respect of such financial year, if to be paid, shall be payable no later than 30 April in the immediately following financial year.
- Quantum of dividend: if to be paid, the semi-annual dividend per B Share will be equivalent to (i) 7 per cent. of the issue price of each B Share multiplied by the number of days in the period from (and including) the immediately preceding Declaration Date (as defined below) or, in the case of the first semi-annual dividend, the date of issue to (but excluding) the current Declaration Date divided by 365 (or 366 in a leap year) or (ii) in the case of any second semi-annual dividend in respect of any financial year, if greater and if a dividend or dividends or other distribution(s) is/are paid or made (whether interim or final) on the Ordinary Shares in respect of the period from (but excluding) the Declaration Date falling on (or nearest to) one year prior to the current Declaration Date to (and including) the current Declaration Date, 125 per cent. (the “Participation Rate”), subject to anti-dilution adjustments of the aggregate amount of such dividend(s) or distribution(s) per Ordinary Share less the amount of the first semi-annual dividend (if any) paid in respect of such financial year. “Declaration Date” means each date on which the Company makes the decision whether or not to pay a semi-annual dividend (in whole or in part) in respect of any financial year.
- Non-declaration of dividend: the Board may in its discretion decide that dividends on the B Shares in respect of any financial year will not be declared at all or will be declared only in part even when distributable profits are available for distribution. If the Board decides not to declare a dividend payable on the B Shares in respect of a financial year or declares that it shall be payable only in part, then the rights of holders of the B Shares to receive the relevant dividend in respect of that financial year will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the relevant dividend in respect of that financial year or to pay interest thereon, whether or not dividends on the B Shares are declared in respect of any future financial years.
- Scrip dividends: if the Board decides to pay a dividend on the B Shares in respect of a semi-annual period and either (i) no dividend has been paid on the Ordinary Shares and/or distribution made thereon in respect of the same period or (ii) a dividend has been paid and/or a distribution has been made on the Ordinary Shares otherwise than in cash in respect of the same period, the Board may in its discretion determine that the dividend on the B Shares in respect of the corresponding period shall be paid in whole or in part by the Company

issuing further B Shares to the holders of B Shares. The number of further B Shares to be issued to each holder shall be such number of B Shares as shall be certified by an independent investment bank (acting as expert) to equal the value in cash of the dividend otherwise payable on the B Shares in respect of the relevant period.

- Restrictions following non-declaration of dividend: if any semi-annual dividend on the B Shares is not declared and paid in full, or the Company has not set aside an amount equal to such dividend in cash or otherwise, then until such time as semi-annual dividends on the B Shares have been resumed in full, the Company will be prohibited from paying dividends or other distributions (whether in cash or otherwise) on, or redeeming, purchasing or otherwise acquiring, (i) its Ordinary Shares or (ii) any other securities of the Company or any other member of the Group ranking or expressed to rank pari passu with the Ordinary Shares and the B Shares on a return of capital or a winding-up, either issued by the Company or, where issued by another member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Company which ranks or is expressed to rank pari passu with the Ordinary Shares and the B Shares on a return of capital or a winding-up.
- Redemption rights: none, but subject to the Articles, applicable laws and the rights conferred on any other class of shares of the Company and confirmation from the FSA that it has no objection to the purchase (for as long as the Company is required to obtain such confirmation) the Company may at any time purchase any B Shares.
- Conversion rights: holders of B Shares may, at any time, deliver a notice to the Company requesting conversion of B Shares into Ordinary Shares. All B Shares shall automatically and mandatorily convert into Ordinary Shares if the volume weighted average trading price of the Ordinary Shares for 20 complete trading days in any 30 trading day period equals or exceeds 150 pence per Ordinary Share. The number of Ordinary Shares to be issued upon conversion will be determined by dividing the aggregate issue price (42 pence per B Share) of the B Shares being converted by the Conversion Price. The initial conversion price of the B Shares will be 115 pence, rounded down to the nearest whole share (the "Conversion Price"). The Conversion Price shall be adjusted in accordance with standard Euro-market anti-dilution adjustments other than customary change of control adjustments or extraordinary dividend adjustments (to the extent compensated by dividends paid at the Participation Rate).
- Limitations on optional conversion: without prejudice to the provisions above concerning the mandatory conversion of the B Shares, HM Treasury shall not be entitled to exercise its option to convert B Shares into Ordinary Shares to the extent that it holds 75 per cent. or more of the Ordinary Shares or to the extent that the exercise of such option would result in it holding 75 per cent. or more of the Ordinary Shares.
- Voting rights before conversion: holders of the B Shares will only have voting rights in limited circumstances (resolutions varying/abrogating class rights and resolutions to wind up, or in relation to the winding-up of, the Company). If the Company does not declare and/or pay in full the second semi-annual dividend on the B Shares expressed to be for the 2011 financial year, or if any subsequent semi-annual dividend on the B Shares is not declared and paid in full, holders of the B Shares will be entitled to receive notice of, attend, speak at, and vote on any resolution proposed at, any general meeting until such time as the Company has resumed the payment in full of the dividends on the B Shares. Holders of B Shares shall not, for so long as the B Shares remain unlisted, be entitled to vote on a resolution proposed to fulfil a requirement of the Listing Rules. If entitled to vote, on a poll holders of B Shares will have one vote for each B Share held. HM Treasury shall not be so entitled to vote the B Shares to the extent the votes cast on such B Shares, together with any other votes which HM Treasury is entitled to cast in respect of any Ordinary Shares held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of the Company.
- Voting rights after conversion: HM Treasury shall not be entitled to vote in respect of Ordinary Shares acquired by it as a result of the conversion of B Shares into Ordinary Shares to the extent that votes cast on such Ordinary Shares, together with any other votes which HM Treasury is entitled to cast in respect of any other Ordinary Shares held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of the Company.

- Pre-emption rights: Holders of the B Shares will not have pre-emption rights in respect of Ordinary Shares.
- Ordinary Share buy-back: for as long as any B Shares remain outstanding, the Company may not purchase any of its Ordinary Shares.
- Listing: the B Shares will not initially be listed. HM Treasury is entitled to require the Company to seek a listing of the B Shares.
- Core tier 1 capital: for so long as the B Shares are held by or on behalf of HM Treasury and in the event that the B Shares cease to be eligible as core tier 1 capital then HM Treasury shall negotiate in good faith with the Company with a view to making such amendments to the terms of the B Shares as may be necessary for the B Shares to constitute core tier 1 capital.

PART II

UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE GROUP AS AT 31 DECEMBER 2008

Unaudited pro forma net assets statement of the Group as at 31 December 2008

The unaudited pro forma net assets statement of the Group as at 31 December 2008 and the notes thereto set out in this Part II (“Unaudited Pro Forma Net Assets Statement, of the Group as at 31 December 2008”) (together, the “pro forma net assets statement”) are based on the audited financial information of the Group and the HBOS Group, prepared under IFRS after applying the adjustments described in the notes set out below. The unaudited pro forma net assets statement has been prepared to show the effects of the Transaction and the share issues by Lloyds Banking Group and HBOS undertaken in January 2009 on the assets and liabilities, earnings, and certain capital ratios of the Group for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Group’s actual financial position or results. The unaudited pro forma net assets statement has been prepared on the basis set out in the notes below and in accordance with Annex I and Annex II of the PD Regulation.

Note	<i>Adjustments</i>							
	<i>Lloyds Banking Group</i>	<i>Lloyds Banking Group Share Issues Jan'09</i>	<i>HBOS Group</i>	<i>HBOS Share Issues Jan'09</i>	<i>Placing and Compensatory Open Offer</i>	<i>HMT Preference Share Redemption</i>	<i>Other</i>	<i>Pro forma</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>	<i>£m</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Assets								
Cash and balances at central banks	5,008	5,500	2,502	11,500	4,000	(4,040)	(450)	24,020
Items in course of collection from banks	946	—	445	—	—	—	—	1,391
Trading and other financial assets at fair value through profit or loss	45,064	—	88,842	—	—	—	—	133,906
Derivative financial instruments	28,884	—	51,810	—	—	—	—	80,694
Loans and advances to banks	40,758	—	18,019	—	—	—	—	58,777
Loans and advances to customers	242,735	—	473,902	—	—	—	—	716,637
Available-for-sale financial assets	55,707	—	28,048	—	—	—	—	83,755
Investment property	2,631	—	3,045	—	—	—	—	5,676
Goodwill	2,256	—	1,556	—	—	—	—	3,812
Value of in-force business	1,893	—	2,992	—	—	—	—	4,885
Other intangible assets	197	—	819	—	—	—	—	1,016
Tangible fixed assets	2,965	—	5,400	—	—	—	—	8,365
Current tax recoverable	300	—	983	—	—	—	—	1,283
Deferred tax assets	833	—	2,605	—	—	—	—	3,438
Retirement benefit asset	—	—	46	—	—	—	—	46
Other assets	5,856	—	8,369	—	—	—	—	14,225
Total assets	436,033	5,500	689,383	11,500	4,000	(4,040)	(450)	1,141,926

Adjustments

Note	Lloyds Banking Group		HBOS Group		Placing and Compensatory Open Offer		HMT Preference Share Redemption	Other	Pro forma
	(1)	(2)	(3)	(4)	(5)	(6)	(7)		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Liabilities									
Deposits from banks	66,514	—	97,150	—	—	—	—	—	163,664
Customer accounts	170,938	—	222,251	—	—	—	—	—	393,189
Items in course of transmission to banks	508	—	521	—	—	—	—	—	1,029
Trading and other financial liabilities at fair value through profit or loss	6,754	—	18,851	—	—	—	—	—	25,605
Derivative financial instruments	26,892	—	38,905	—	—	—	—	—	65,797
Debt securities in issue	75,710	—	188,448	—	—	—	—	—	264,158
Liabilities arising from insurance contracts and participating investment contracts	33,792	—	36,873	—	—	—	—	—	70,665
Liabilities arising from non participating investment contracts	14,243	—	33,321	—	—	—	—	—	47,564
Unallocated surplus within insurance businesses	270	—	551	—	—	—	—	—	821
Other liabilities	11,456	—	8,644	—	—	—	—	—	20,100
Retirement benefit obligations	1,771	—	562	—	—	—	—	—	2,333
Current tax liabilities	—	—	58	—	—	—	—	—	58
Other provisions	230	—	347	—	—	—	—	—	577
Subordinated liabilities	17,256	1,000	30,119	3,000	—	(4,000)	—	—	47,375
Total liabilities	426,334	1,000	676,601	3,000	—	(4,000)	—	—	1,102,935
Net assets	9,699	4,500	12,782	8,500	4,000	(40)	(450)	—	38,991

Key balance sheet measures

Risk-weighted assets	170,490	—	328,023	—	—	—	—	—	498,513
Core tier 1 capital (note 10)	9,542	4,500	13,503	8,500	4,000	(40)	(6,828)	—	33,177
Core tier 1 capital ratio	5.6%		4.1%						6.7%

Notes to pro forma net assets statement

The pro forma net assets statement has been prepared on a basis consistent with the accounting policies adopted by the Company in preparing its financial statements for the year ended 31 December 2008 and includes appropriate adjustments to account for the events directly associated with the Acquisition. In addition, adjustments have been made to reflect the fundraising (net of costs) undertaken by Lloyds Banking Group and HBOS post 31 December 2008, the Placing and Compensatory Open Offer and the HMT Preference Share Redemption. Any potential synergy benefits are not included within the pro forma net assets statement. Lloyds Banking Group and HBOS costs which (a) have been directly incurred as part of (i) the Acquisition, (ii) the placing and open offer and the issue of preference shares announced by the Company on 13 September 2008, and (iii) the placing and open offer by HBOS in January 2009; and (b) are expected to be directly incurred as part of the Placing and Compensatory Open Offer, and the HMT Preference Share Redemption, have been included.

1. The consolidated financial information of the Group as at 31 December 2008 in the pro forma net assets statement has been extracted without material adjustment from the 2008 Lloyds Banking Group financial statements published by Lloyds Banking Group on 30 April 2009.
2. This adjustment represents the gross proceeds and recognition of the preference shares as an accounting liability arising from the Placing and Compensatory Open Offer and the issue of preference shares by the Company in January 2009. See note 7 below for details of costs associated with these issues.
3. The consolidated financial information of the HBOS Group in this pro forma net assets statement reflects the consolidated financial information in the 2008 HBOS financial statements published by HBOS on 3 April 2009, and has been prepared on a basis consistent with the accounting policies adopted by HBOS in preparing the 2008 HBOS financial statements, save for: (i) adjustments for material differences between the accounting policies of HBOS and Lloyds Banking Group; and (ii) reformatting in order to be consistent with the 2008 Lloyds Banking Group financial statements.

Footnote	Adjustments				HBOS Group as at 31 December 2008 (Adjusted) £m
	HBOS Group as at 31 December 2008 (a) £m	Accounting policy alignment (b) £m	Balance sheet reclassifi- cations (c) £m	Alignment of balance sheet captions (d) £m	
Assets					
Cash and balances at central banks	2,502	—	—	—	2,502
Items in course of collection from banks	445	—	—	—	445
Trading and other financial assets at fair value through profit or loss	—	—	88,842(i)	—	88,842
Financial assets held for trading	22,571	—	(22,571)(i)	—	—
Derivative assets	51,810	—	—	(51,810)	—
Derivative financial instruments	—	—	—	51,810	51,810
Loans and advances to banks	17,645	—	374(i)	—	18,019
Loans and advances to customers	435,223	—	38,679(i)	—	473,902
Investment securities	133,372	—	(133,372)(i)	—	—
Available for sale financial assets	—	—	28,048(i)	—	28,048
Interests in jointly controlled entities	938	—	(938)(ii)	—	—
Interests in associates	223	—	(223)(ii)	—	—
Goodwill and other intangible assets	2,375	—	(2,375)(iii)	—	—
Goodwill	—	—	1,556(iii)	—	1,556
Other intangible assets	—	—	819(iii)	—	819
Property and equipment	1,433	—	—	(1,433)	—
Tangible fixed assets	—	—	3,967(iv)	1,433	5,400
Investment property	3,045	—	—	—	3,045
Operating lease assets	3,967	—	(3,967)(iv)	—	—
Deferred costs	1,181	—	(1,181)(ii)	—	—
Current tax assets	983	—	—	—	983
Deferred tax assets	2,556	49	—	—	2,605
Value of in-force long-term assurance business	2,992	—	—	—	2,992
Retirement benefit asset	629	(583)	—	—	46
Other assets	4,851	—	3,518(ii)	—	8,369
Prepayments and accrued income	1,176	—	(1,176)(ii)	—	—
Total assets	689,917	(534)	—	—	689,383

	<i>Adjustments</i>				<i>HBOS Group as at 31 December 2008 (Adjusted) £m</i>
	<i>HBOS Group as at 31 December 2008 (a) £m</i>	<i>Accounting policy alignment (b) £m</i>	<i>Balance sheet reclassifi- cations (c) £m</i>	<i>Alignment of balance sheet captions (d) £m</i>	
Liabilities					
Deposits by banks	97,150	—	—	—	97,150
Customer accounts	222,251	—	—	—	222,251
Items in course of transmission to banks	—	—	521(v)	—	521
Trading and other financial liabilities at fair value through profit or loss	—	—	—	18,851	18,851
Financial liabilities held for trading	18,851	—	—	(18,851)	—
Derivative liabilities	38,905	—	—	(38,905)	—
Derivative financial instruments	—	—	—	38,905	38,905
Notes in circulation	957	—	(957)(v)	—	—
Insurance contract liabilities	30,712	—	—	(30,712)	—
Liabilities arising from insurance contracts and participating investment contracts	—	—	6,161(vii)	30,712	36,873
Investment contract liabilities	39,482	—	(6,161)(vii)	(33,321)	—
Liabilities arising from non-participating investment contracts	—	—	—	33,321	33,321
Unallocated surplus	551	—	—	(551)	—
Unallocated surplus within insurance business	—	—	—	551	551
Retirement benefit liabilities	152	410	—	(562)	—
Retirement benefit obligations	—	—	—	562	562
Current tax liabilities	58	—	—	—	58
Deferred tax liabilities	227	(227)	—	—	—
Other liabilities	5,109	—	3,535(v)	—	8,644
Accruals and deferred income	3,099	—	(3,099)(v)	—	—
Other provisions	347	—	—	—	347
Subordinated liabilities	—	—	30,119(vi)	—	30,119
Debt securities in issue	188,448	—	—	—	188,448
Other borrowed funds	30,119	—	(30,119)(vi)	—	—
Total liabilities	676,418	183	—	—	676,601
Net assets	13,499	(717)	—	—	12,782

(a) The financial information of the HBOS Group as at 31 December 2008 has been extracted without material adjustment from the 2008 HBOS financial statements published by HBOS on 3 April 2009.

(b) Accounting policy alignment.

There is one material difference in accounting policies between Lloyds Banking Group and HBOS Pensions, IAS 19 'Employee Benefits' allows an entity to either:

- (i) apply a "corridor" approach under which actuarial gains or losses within 10 per cent. of the greater of the scheme's assets or liabilities are not recognised on the balance sheet. Actuarial gains or losses outside of this corridor are recognised as a charge spread over a period not longer than the average remaining working lives of the members of the scheme;
- (ii) adopt any systemic method that results in faster recognition of actuarial gains and losses than in (a), provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period; or
- (iii) recognise, through the statement of recognised income and expense, all actuarial gains and losses for all of its defined benefit retirement obligations.

Lloyds Banking Group has adopted option (i); as at 31 December 2008, HBOS adopted option (iii). As at 31 December 2008, the net assets reported would have been £717 million lower under the policy adopted by Lloyds Banking Group.

(c) These reclassifications are in relation to:

- (i) the reclassification of financial assets held for trading (£22,571 million) and certain investment securities (£66,271 million) to trading and other financial assets at fair value through profit or loss; and the remainder of investment securities (£67,101 million) reclassified to available-for-sale financial assets (£28,048 million), loans and advances to customers (£38,679 million) and loans and advances to banks (£374 million);
- (ii) the reclassification of interests in jointly controlled entities (£938 million), interests in associates (£223 million), deferred costs (£1,181 million) and prepayments and accrued income (£1,176 million) to other assets;
- (iii) the reclassification of goodwill and intangible assets into their separate components;
- (iv) the reclassification of operating lease assets (£3,967 million) to tangible fixed assets;
- (v) the reclassification of notes in circulation (£957 million) and accruals and deferred income (£3,099 million) to other liabilities and the reclassification of other liabilities (£521 million) to items in the course of collection.

- (vi) the reclassification of other borrowed funds (£30,119 million) to subordinated liabilities.
 - (vii) the reclassification of participating investment contracts (£6,161 million) from investment contract liabilities to liabilities arising from insurance contracts and participating investment contracts.
- (d) These reclassifications reflect the alignment of balance sheet captions used by Lloyds Banking Group and HBOS.
4. This adjustment represents the gross proceeds and recognition of the preference shares as an accounting liability arising from the placing and open offer by HBOS in January 2009 and the issue of preference shares by HBOS in January 2009.
 5. This adjustment represents the gross proceeds arising from the Placing and Compensatory Open Offer.
 6. This adjustment represents the recognition of the HMT Preference Share Redemption for a cash amount equal to 101 per cent. of their issue price. The pro forma net assets statement does not take account of any dividend which will continue to accrue on HMT Preference Shares until redemption.
 7. Lloyds Banking Group estimated costs directly attributable to the Acquisition are £120 million; the costs associated with the issue of ordinary and preference shares by Lloyds Banking Group and HBOS in January 2009 are estimated to be £240 million; the costs associated with the Placing and Compensatory Open Offer are estimated to be approximately £90 million. All these costs have been deducted from cash and balances at central banks for the purpose of the pro forma net assets statements.
 8. Save for the fundraising (net of costs) undertaken by Lloyds Banking Group and HBOS in January 2009, the Placing and Compensatory Open Offer and the HMT Preference Share Redemption, no account has been taken of the trading or other transactions of the Group or the HBOS Group. The impact of (a) the Placing and Compensatory Open Offer; and (b) the HMT Preference Share Redemption is to increase profit attributable to equity shareholders by £480 million per annum, resulting from the elimination of dividends on the HMT Preference Shares. In January 2009 the Group improved the quality of its regulatory capital by exchanging upper tier 2 instruments for qualifying tier 1 capital instruments and in March 2009, Lloyds TSB Bank plc (on behalf of itself and Bank of Scotland plc) invited holders of certain upper tier 2 securities to exchange such securities for new senior unsecured notes; for the avoidance of doubt, the pro forma net assets statement does not take account of these transactions. On 7 March 2009, the Company announced its intention to participate in the GAPS; for the avoidance of doubt, the pro forma net assets statement does not take account of any future participation in the GAPS including any issue of the B Shares.
 9. The Acquisition gives rise to negative goodwill, which will be recognised in the income statement in the year of acquisition. On the same basis as the pro forma net assets statement, the negative goodwill has been calculated as follows:

	<i>£m</i>
Equity consideration (note 9(a))	7,651
Costs of the Transaction (note 7)	120
	<hr/>
	7,771
Less net assets of HBOS Group (note 9(b))	(18,715)
	<hr/>
Negative goodwill	10,944
	<hr/> <hr/>

- (a) The equity consideration comprised 7,775,694,993 Ordinary Shares and is based on the closing price of 98.4p per Ordinary Share on 15 January 2009, the trading day immediately prior to completion. Under the terms of the Acquisition, HBOS shareholders received 0.605 Ordinary Shares for every 1 HBOS share.
 - (b) The net assets of HBOS are stated after:
 - (i) adjusting for the accounting policy alignment detailed in note 3(b);
 - (ii) adjusting for the minority interests (£1,300 million) as disclosed in the HBOS Group financial statements as at 31 December 2008 published by HBOS on 3 April 2009;
 - (iii) adjusting for the preference shares not included within other borrowed funds (£1,267 million) extracted without material adjustment from the HBOS Group financial statements as at 31 December 2008 published by HBOS on 3 April 2009; and
 - (iv) adjusting for the placing and open offer by HBOS in January 2009 (see note 4).
 - (c) The net assets do not include any fair value adjustments and no intangible assets have been recognised as part of the Acquisition.
10. The other adjustment comprises:
- (a) the estimated costs directly attributable to the Acquisition, the costs associated with the issue of ordinary and preference shares by Lloyds Banking Group and HBOS in January 2009 and the estimated costs associated with the Placing and Compensatory Open Offer; these costs are estimated to be £450 million;
 - (b) the elimination of the HBOS available-for-sale reserve which at 31 December 2008 amounted to a deficit of £5,335 million; and
 - (c) the elimination of the HBOS cash flow hedge which at 31 December 2008 amounted to a deficit of £1,043 million.

The Directors
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20 May 2009

Dear Sirs

Lloyds Banking Group plc (the “Company”) – Pro forma financial information

We report on the pro forma net assets statement (the “Pro forma financial information”) set out in Part II (“Unaudited Pro Forma Net Assets Statement of the Group as at 31 December 2008”) of the Company’s shareholder circular dated 20 May 2009 (the “Circular”) which has been prepared on the basis described in the notes to the Pro forma financial information, for illustrative purposes only, to provide information about how the proposed placing and compensatory open offer of new ordinary shares might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the year ended 31 December 2008. This report is required by item 13.3.3R of the Listing Rules and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro forma financial information in accordance with item 13.3.3R of the Listing Rules of the UK Listing Authority (the “Listing Rules”).

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro forma financial information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART III

PROFIT/LOSS FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

1 Profit/loss forecast

The Group currently expects to report a loss before tax for 2009, excluding the impact of a credit relating to negative goodwill.

2 Basis of preparation

The loss forecast is based on management estimates and forecasts for the 12 months ending 31 December 2009. Such management forecasts are based on current operating experience and expected market and economic conditions.

The loss forecast was prepared on the basis of the accounting policies adopted in the audited accounts for the year ended 31 December 2008, as amended for changes arising from the adoption of the amendments to IFRS 2 Share-based Payment-Vesting Conditions and Cancellations. The adoption of this revised accounting standard does not have a material impact on the Group.

3 Report relating to the profit/loss forecast

The principal assumptions on which the forecast is based are:

Factors outside the influence or control of the Directors

- There will be no material change in the present management or control of Lloyds Banking Group.
- There will be no material change in legislation or regulatory requirements impacting the Group operations.
- There will be no major change in Lloyds Banking Group accounting policies other than those noted above.
- There will not be any material change in interest rates affecting the Lloyds Banking Group from those currently prevailing.
- There will not be any changes in general trading and economic conditions in the countries in which the Group operates other than those already included.
- There will be no material change to the competitive environment which impacts on consumer preferences or the capacity of the business to penetrate new markets.

Factors within the influence or control of the Directors

- There will be no acquisitions and disposals by the Group which will have a material impact on the results.

The Directors
Lloyds Banking Group plc
25 Gresham Street
London
EC2V 7HN

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

UBS Limited
1 Finsbury Avenue
London
EC2M 2PP

J.P. Morgan Cazenove Limited
20 Moorgate
London
EC2R 6DA

20 May 2009

Dear Sirs

Lloyds Banking Group plc

We report on the profit forecast comprising the statement by Lloyds Banking Group plc and its subsidiaries (together the “Group”) for the year ending 31 December 2009 (the “Profit Forecast”). The Profit Forecast and the material assumptions upon which it is based, are set out in Part III of the shareholder circular issued by the Lloyds Banking Group plc (the “Company”) dated 20 May 2009 (the “Circular”).

This report is required by Rule 28.3(b) of the City Code on Takeovers and Mergers issued by the Panel on Takeovers and Mergers (the “City Code”) and is given for the purpose of complying with that rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the “Directors”) to prepare the Profit Forecast in accordance with the requirements of the City Code.

It is our responsibility to form an opinion as required by Rule 28.3(b) of the City Code as to the proper compilation of the Profit Forecast and to report that opinion to you.

Save for any responsibility under Rule 28.3(b) of the City Code to any person as and to the extent therein provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Rule 28.4 of the City Code, consenting to its inclusion in the Circular.

Basis of Preparation of the Profit Forecast

The Profit Forecast has been prepared on the basis stated on page 40 of the Circular and is based on the unaudited management accounts for the two months ended 28 February 2009 and a forecast to 31 December 2009. The Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Group.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Profit Forecast has been prepared and

considering whether the Profit Forecast has been accurately computed based upon the disclosed assumptions and the accounting policies of the Group. Whilst the assumptions upon which the Profit Forecast are based are solely the responsibility of the Directors, we considered whether anything came to our attention to indicate that any of the assumptions adopted by the Directors which, in our opinion, are necessary for a proper understanding of the Profit Forecast have not been disclosed or if any material assumption made by the Directors appears to us to be unrealistic.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Forecast has been properly compiled on the basis stated.

Since the Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Forecast and differences may be material.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion, the Profit Forecast has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART IV

ADDITIONAL INFORMATION

1 Responsibility

The Company and the Directors, whose names are set out in section 3 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Nicholas Macpherson (acting in his capacity as Permanent Secretary to HM Treasury) (the “HM Treasury Responsible Person”) accepts responsibility for the information contained in this document relating to HM Treasury, including any statements of expectation or intention on the part of HM Treasury. To the best of the knowledge and belief of the HM Treasury Responsible Person (who has taken all reasonable care to ensure that such is the case), the information contained in this document for which he is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 The Company

The Company was incorporated and registered in Scotland on 21 October 1985 with registered number 95000 as a public company limited by shares under the name TSB Group Public Limited Company. On 28 December 1995, it changed its name to Lloyds TSB Group plc. On 16 January 2009, the Company changed its name to its present name.

The principal legislation under which the Company operates, and pursuant to which the Open Offer Shares will be created, is the Companies Act, the 2006 Act and regulations made thereunder.

The Company is domiciled in Scotland. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44 (0)20 7626 1500) and its registered office is at Henry Duncan House, 120 George Street, Edinburgh, EH2 4LH.

The Ordinary Shares are listed on the Official List. The ISIN of the Ordinary Shares is GB0008706128. The Open Offer Shares will be in registered form and may be held in either certificated or uncertificated form.

The auditors of Lloyds Banking Group are and have been throughout the period covered by the financial information in this document, PricewaterhouseCoopers LLP.

3 Directors

The following table sets out information relating to each of the Directors:

<i>Name</i>	<i>Age</i>	<i>Current position with respect to Lloyds Banking Group</i>
Executive Directors:		
J Eric Daniels	57	Group Chief Executive
Archie G Kane	56	Group Executive Director, Insurance
G Truett Tate	59	Group Executive Director, Wholesale
Tim J W Tookey	46	Group Finance Director
Helen A Weir CBE	46	Group Executive Director, Retail
Non-Executive Directors:		
Sir Victor Blank	66	Chairman
Lord Leitch	61	Deputy Chairman
Wolfgang C G Berndt	66	Independent Non-Executive Director
Ewan Brown CBE FRSE	67	Independent Non-Executive Director
Philip N Green	56	Independent Non-Executive Director
Sir Julian Horn-Smith	60	Independent Non-Executive Director
Sir David Manning GCMG CVO	59	Independent Non-Executive Director
Carolyn J McCall OBE	47	Independent Non-Executive Director
T Timothy Ryan	63	Independent Non-Executive Director
Martin A Scicluna	58	Independent Non-Executive Director
Anthony Watson CBE	64	Independent Non-Executive Director

4 Major Shareholders of Lloyds Banking Group

Details of interests

As at 13 May 2009 (the latest practicable date prior to the publication of this document), a notification had been received of the following interest in 3 per cent. or more of Lloyds Banking Group's issued ordinary share capital:

Shareholder	Prior to admission of the Open Offer Shares ⁽¹⁾		Following admission of the Open Offer Shares ⁽¹⁾	
	Number of Ordinary Shares	Percentage of issued ordinary share capital	Number of Ordinary Shares	Percentage of issued ordinary share capital
Solicitor for the Affairs of Her Majesty's Treasury as Nominee for Her Majesty's Treasury	7,277,204,386	43.4	17,685,739,386	65.1

Note:

(1) Figures are calculated assuming that: (a) the interests of the above shareholder as at close of business on 13 May 2009, being the last practicable date prior to the publication of this document, do not change; (b) Ordinary Shares to be issued pursuant to the Placing and Compensatory Open Offer have been issued; (c) no other Ordinary Shares (including under the Lloyds Banking Group Employee Share Plans) are issued between 13 May 2009, being the last practicable date prior to the publication of this document, and the completion of the Placing and Compensatory Open Offer; and (d) no existing Ordinary Shareholders (other than HM Treasury) subscribe for any Open Offer Shares and no shares are placed pursuant to the Rump Placing.

Save as disclosed above, the Directors are not aware of any person who is interested (within the meaning of rule 5 of the Disclosure and Transparency Rules), directly or indirectly, in the total voting rights attaching to 3 per cent. or more of the issued share capital of the Company.

As at 13 May 2009, being the latest practicable date prior to the publication of this document, the Company was not aware of any person or persons, save for HM Treasury who directly, indirectly, jointly or severally, exercise or could exercise control over the Company nor is it aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company. Please see section 5 of Part A of the Appendix to Part I ("Letter from Sir Victor Blank, Chairman of Lloyds Banking Group plc") for information relating to the Company's relationship with HM Treasury.

None of the Company's major shareholders has, or will, at any relevant time, have, different voting rights attached to the Ordinary Shares they hold.

5 Documents available for inspection

Copies of:

- the documents listed in section 19 ("Documents Available for Inspection") of Part XX ("Additional Information") of the Prospectus;
- the material contracts described in section 8 ("Material Contracts") of Part XX ("Additional Information") of the Prospectus; and
- the service agreements described in section 4.6 ("Directors' service contracts") of Part XIX ("Directors, Corporate Governance and Employees") of the Prospectus,

are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period from the date of publication of this document until the conclusion of the General Meeting at:

- the registered office of the Company, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH; and
- the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ.

6 Documents incorporated by reference

The financial statements of Lloyds Banking Group included in the report of Lloyds Banking Group for the financial years ended 31 December 2006, 2007 and 2008, on Form 20F, together with the audit reports thereon, are incorporated by reference into this document. The audit reports for each of the financial years ended 31 December 2006, 2007 and 2008 were unqualified. The financial statements for the financial years ended 31 December 2006, 2007 and 2008 were prepared in accordance with IFRS.

These annual reports and accounts are available as follows:

Annual Report and Accounts 2006	http://www.lloydsbankinggroup.com/media/pdfs/investors/2006/2006_LTSB_Group_R&A.pdf
Annual Report and Accounts 2007	http://www.lloydsbankinggroup.com/media/pdfs/investors/2007/2007_LTSB_Group_R&A.pdf
Annual Report and Accounts 2008	http://www.lloydsbankinggroup.com/media/pdfs/investors/2008/2008_LBG_R&A.pdf

Certain sections of the Prospectus and the 2008 Circular are also incorporated by reference into this document.

Any document incorporated by reference into this document can be obtained in hard copy form free of charge from the Company's Registrar, Equiniti, by request in writing addressed to Equiniti, Holm Oak Business Park, Woods Way, Goring by Sea, Worthing, West Sussex BN12 4QY or by calling the shareholder helpline on 0871 384 2990¹ (from inside the United Kingdom) or +44 208 495 4595 (from outside the United Kingdom) or on 0870 702 0102 (from inside the United Kingdom) or +44 870 702 0102 (from outside the United Kingdom) if you hold your shares through the Lloyds Banking Group Shareholder Account. Please note the shareholder helpline will be open between (i) 8.30 a.m. and 5.30 p.m. on any Business Day; and (ii) 9.00 a.m. and 4.00 p.m. on Saturday 23 May 2009, Sunday 24 May 2009 and the bank holiday of Monday 25 May 2009. Please have the accompanying Form of Proxy available, as you will be asked to quote the account number shown on the form.

The table below sets out the various sections of the above documents which are incorporated by reference into this document so as to provide the information required under the Listing Rules and the City Code.

<i>Document</i>	<i>Information</i>	<i>Page number in such document</i>
Annual Report and Accounts 2006	Turnover	63
Annual Report and Accounts 2006	Net profit/loss before and after taxation	63
Annual Report and Accounts 2006	Other operating income	80
Annual Report and Accounts 2006	Charge for taxation	83
Annual Report and Accounts 2006	Earnings per share	84
Annual Report and Accounts 2006	Ordinary dividends and dividends per share	106
Annual Report and Accounts 2006	Note 45 (Related party transactions) to the consolidated financial statements	111
Annual Report and Accounts 2006	Minority interests	119
Annual Report and Accounts 2007	Turnover	77
Annual Report and Accounts 2007	Net profit/loss before and after taxation	77
Annual Report and Accounts 2007	Other operating income	95
Annual Report and Accounts 2007	Charge for taxation	98
Annual Report and Accounts 2007	Earnings per share	99
Annual Report and Accounts 2007	Ordinary dividends and dividends per share	125
Annual Report and Accounts 2007	Note 45 (Related party transactions) to the consolidated financial statements	131
Annual Report and Accounts 2007	Minority interests	144
Annual Report and Accounts 2008	Turnover	97
Annual Report and Accounts 2008	Net profit/loss before and after taxation	97
Annual Report and Accounts 2008	Other operating income	118
Annual Report and Accounts 2008	Charge for taxation	122
Annual Report and Accounts 2008	Earnings per share	123
Annual Report and Accounts 2008	Ordinary dividends and dividends per share	155
Annual Report and Accounts 2008	Note 47 (Related party transactions) to the consolidated financial statements	161
Annual Report and Accounts 2008	Minority interests	179
Annual Report and Accounts 2008	Consolidated balance sheet	98

¹ Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Calls to the 0870 702 0102 number are charged at no more than 6p per minute plus an 8p connection fee from a BT landline. Other service providers' costs may vary. Calls to (i) the +44 208 495 4595 number; or (ii) the +44 870 102 0102 number, from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. For legal reasons, the shareholder helpline will be unable to give advice on the merits of the Placing and Compensatory Open Offer or to provide legal, business, financial, tax, investment or other professional advice.

<i>Document</i>	<i>Information</i>	<i>Page number in such document</i>
Annual Report and Accounts 2008	Consolidated cash flow statement	101
Annual Report and Accounts 2008	Significant accounting policies and notes to the consolidated financial statements	102
2008 Circular	Section 9.1.3 of Part XII ("Additional Information")	256-257
2008 Circular	Section 9.1.4 of Part XII ("Additional Information")	257-258
2008 Circular	Section 9.2.4 of Part XII ("Additional Information")	259-261
2008 Circular	Section 9.2.5 of Part XII ("Additional Information")	261-262
Prospectus	Part II ("Risk Factors")	10
Prospectus	Part C ("Capital Resources and Liquidity") of Part XV ("Capital Resources")	181
Prospectus	Section 2 ("Directors' Profiles") of Part XIX ("Directors, Corporate Governance and Employees")	200
Prospectus	Section 4.6 ("Directors' Service Contracts") of Part XIX ("Directors, Corporate Governance and Employees")	208
Prospectus	Section 7 ("Related Party Transactions") of Part XX ("Additional Information")	242
Prospectus	Section 8 ("Material Contracts") of Part XX ("Additional Information")	242
Prospectus	Section 11 ("Litigation") of Part XX ("Additional Information")	249
Prospectus	Section 15 ("Significant Change") of Part XX ("Additional Information")	253
Prospectus	Section 18 ("Documents Available for Inspection") of Part XX ("Additional Information")	254

7 Middle market quotations

The middle market quotations for Lloyds Banking Group on the first business day of each of the six months preceding the date of this document and on 13 May 2009 being the latest practicable date prior to the posting of this document, as derived from the London Stock Exchange Daily Official List, were:

<i>2009</i>	<i>pence</i>
13 May	84.6
1 May	109.6
1 April	71.0
2 March	49.4
2 February	88.2
2 January	130.0
<i>2008</i>	
1 December	156.4

8 Changes to Executive Directors' service contracts in last six months

Prior to entering into the service agreements with the Company detailed in section 4.6 ("Directors' Service Contracts") of Part XIX ("Directors, Corporate Governance and Employees") of the Prospectus, the Executive Directors were employed under service contracts as set out below.

<i>Name</i>	<i>Date of previous contract</i>
J Eric Daniels	19 October 2001
Archie G Kane	9 February 2000
G Truett Tate	29 July 2004
Tim J W Tookey	10 February 2006

Name

Date of previous contract

Helen A Weir CBE

4 March 2004

Save as set out below, the Executive Directors' salary and other benefits, commission and profit-sharing arrangements, notice periods and termination arrangements did not change materially as a result of them entering the new service agreements.

(a) *Termination arrangements*

The new service agreements entered into by the Executive Directors expressly provide that compensation payable in the event of summary termination should be calculated on base salary only for the applicable notice period. The Company will pay them 12 monthly payments of one month's base salary or, at the discretion of the Company, a lump sum of 12 months' base salary. Their new service agreements provide that any monthly payments will be reduced by any remuneration received from any new employment in respect of the same period.

Under Mr Daniels' and Mr Kane's previous service agreements, had their employment been terminated summarily without cause, they would have been entitled to compensation based on base salary and contractual benefits for the applicable notice period.

(b) *Pension arrangements*

The new service agreements entered into by each of the Executive Directors provide that each may continue to participate in their current pension arrangements (either the Group's defined benefit pension scheme or the Group's defined contribution pension scheme), as applicable.

In respect of Mr Daniels and Mr Kane (both members of the Group's defined benefit pension scheme) their new service agreements provide that from 6 April 2012 they will become deferred members of the defined benefit pension scheme and from that date will have the option to participate in the Group's defined contribution pension scheme (with employer contributions at a rate of 25 per cent. of base salary per year), or if they opt not to join the defined contribution pension scheme to receive an annual cash allowance of 25 per cent. of basic salary instead.

The new service agreements entered into with Mrs Weir, Mr Tate and Mr Tookey provide that they may continue to participate in the Group's defined contribution pension scheme, of which each is a member, until a new defined contribution pension scheme is introduced. Once a new defined contribution pension scheme is introduced they will become eligible to participate in the new defined contribution pension scheme (with employer contributions at a rate of 25 per cent. base salary per annum). Alternatively, if they choose not to join the new defined contribution pension scheme, each of them will be able to opt for a cash allowance of 25 per cent. of base salary per annum instead.

Mr Daniels and Mr Kane's previous service agreements provided that, if they ceased to be employed by reason of redundancy at a time when they were aged 50 or more, then the Company would procure that an immediate pension would be payable from the date of cessation of employment based on final pensionable salary and pensionable service at the time of cessation, but without any reduction for commencement of payment before the age of 60. This right has been removed in the new service agreements Mr Daniels and Mr Kane have each entered into.

9 Interests in Ordinary Shares

- (a) As at the close of business on 13 May 2009 (the latest practicable date prior to the posting of this document), the following Directors and persons connected with such Directors (within the meaning of section 252 of the 2006 Act) had an interest in, or right to subscribe for, Ordinary Shares as follows:

Name of Director

Number of Ordinary Shares

Executive Directors:

J Eric Daniels	675,346
Archie G Kane	322,647
G Truett Tate	139,491
Tim J W Tookey	26,015

<i>Name of Director</i>	<i>Number of Ordinary Shares</i>
Helen A Weir CBE	112,528
Non-Executive Directors:	
Sir Victor Blank	444,363
Lord Leitch	14,705
Wolfgang C G Berndt	249,996
Ewan Brown CBE FRSE	139,811
Philip N Green	7,352
Sir Julian Horn-Smith	7,352
Sir David Manning GCMG CVO	6,617
Carolyn J McCall OBE	—
T Timothy Ryan, Jr	—
Martin A Scicluna	14,821
Anthony Watson CBE	13,538

- (b) In addition to their beneficial interests noted at (a) above, as at the close of business on 13 May 2009 (the latest practicable date prior to the posting of this document), the following options and awards over Ordinary Shares had been granted to the Directors:

<i>Name</i>	<i>Share plan</i>	<i>Date of grant</i>	<i>Number of Shares</i>	<i>Option price (£)</i>	<i>Market price at date of award (£)</i>	<i>Vested/unvested</i>	<i>Exercise period/ vesting date/year</i>	
J Eric Daniels	Lloyds TSB Group Executive Share Option Scheme	18/03/2004	131,484	4.1925	—	Vested	18/03/2007 – 17/03/2014	
		17/03/2005	430,547	4.7425	—	Vested	17/03/2008 – 16/03/2015	
	Lloyds TSB Long-term Incentive Plan	08/03/2007	534,322	—	5.39	Unvested	Q1 2010 ¹	
		04/04/2008	838,735	—	4.6275	Unvested	Q1 2011 ²	
		08/04/2009	1,143,014	—	0.7244	Unvested	Q1 2012 ³	
	Sharesave		1,714,522	—	0.7244	Unvested	Q1 2012 ³	
		19/11/2008	6,906	1.39	—	Unvested	01/01/2012 – 30/06/2012	
		Overall Total		4,799,530				
	Archie G Kane	Lloyds TSB Group Executive Share Option Scheme	06/03/2000	64,786	5.495	—	Unvested	06/03/2003 – 05/03/2010
			08/08/2000	11,841	6.155	—	Unvested	08/08/2003 – 07/08/2010
06/03/2001			34,759	6.55	—	Unvested	06/03/2004 – 05/03/2011	
18/03/2004			73,255	4.1925	—	Vested	18/03/2007 – 17/03/2014	
17/03/2005			247,891	4.7425	—	Vested	17/03/2008 – 16/03/2015	
Lloyds TSB Long-term Incentive Plan		08/03/2007	306,122	—	5.39	Unvested	Q1 2010 ¹	
		06/03/2008	413,309	—	4.2825	Unvested	Q1 2011 ²	
		08/04/2009	651,573	—	0.7244	Unvested	Q1 2012 ³	
Sharesave			977,360	—	0.7244	Unvested	Q1 2012 ³	
		19/11/2008	6,906	1.39	—	Unvested	01/01/2012 – 30/06/2012	
	Overall Total		2,787,802					

Name	Share plan	Date of grant	Number of Shares	Option price (£)	Market price at date of award (£)	Vested/unvested	Exercise period/ vesting date/year
G Truett Tate	Lloyds TSB Group Executive Share Option Scheme	18/03/2004	64,400	4.1925	—	Vested	18/03/2007 – 17/03/2014
		12/08/2008	27,357	4.03	—	Vested	12/08/2007 – 11/08/2014
		17/03/2005	247,891	4.7425	—	Vested	17/03/2008 – 16/03/2015
	Lloyds TSB Long-term Incentive Plan	08/03/2007	333,951	—	5.39	Unvested	Q1 2010 ¹
		04/04/2008	518,638	—	4.6275	Unvested	Q1 2011 ²
	—08/04/2009	706,791	—	0.7244	Unvested	Q1 2012 ³	
	Sharesave	19/11/2008	1,060,187	—	0.7244	Unvested	Q1 2012 ³
		19/11/2008	6,906	1.39	—	Unvested	01/01/2012 – 30/06/2012
	Overall Total		2,966,121				
Tim J W Tookey	Lloyds TSB Long-term Incentive Plan	08/03/2007	52,875	—	5.39	Unvested	Q1 2010 ¹
		06/03/2008	71,220	—	4.2825	Unvested	Q1 2011 ²
		08/04/2009	662,617	—	0.7244	Unvested	Q1 2012 ³
	Sharesave		993,926	—	0.7244	Unvested	Q1 2012 ³
		19/11/2008	6,906	1.39	—	Unvested	01/01/2012 – 30/06/2012
	Overall Total		1,787,544				
Helen A Weir CBE	Lloyds TSB Group Executive Share Option Scheme	29/04/2004	77,868	4.2475	—	Vested	29/04/2007 – 28/04/2014
		17/03/2005	247,891	4.7425	—	Vested	17/03/2008 – 16/03/2015
	Lloyds TSB Long-term Incentive Plan	08/03/2007	320,037	—	5.39	Unvested	Q1 2010 ¹
		04/04/2008	506,482	—	4.6275	Unvested	Q1 2011 ²
		08/04/2009	690,226	—	0.7244	Unvested	Q1 2012 ³
	Sharesave		1,035,339	—	0.7244	Unvested	Q1 2012 ³
		19/11/2008	6,906	1.39	—	Unvested	01/01/2012 – 30/06/2012
	Overall Total		2,884,749				
Sir Victor Blank	Sharesave	19/11/2008	6,906	1.39	—	Unvested	01/01/2012 – 30/06/2012
	Overall Total		6,906				

Notes:

- (1) Awards are subject to performance conditions which must be satisfied over the performance period. Awards vest on the date on which the Remuneration Committee determines whether the performance conditions have been satisfied. This will be in the first quarter of 2010.
- (2) Awards are subject to performance conditions which must be satisfied over the performance period. Awards vest on the date on which the Remuneration Committee determines whether the performance conditions have been satisfied. This will be in the first quarter of 2011.
- (3) Awards are subject to performance conditions which must be satisfied over the performance period. Awards vest on the date on which the Remuneration Committee determines whether the performance conditions have been satisfied. This will be in the first quarter of 2012.

- (c) As at the close of business on 13 May 2009 (the latest practicable date prior to the posting of this document), the following persons who are “associates” of Lloyds Banking Group (by virtue of paragraph (1) of the definition of “associate” set out in the City Code) (each an “Associate”) had an interest in, or right to subscribe in respect of, the following Ordinary Shares:

<i>Name</i>	<i>Number of Ordinary Shares</i>
Insight Investment Management (Global) Limited	123,040,052
Lloyds TSB Private Banking Limited (on behalf of private investors)	41,010,362
Scottish Widows Funds	33,268,311
Clerical Medical Managed Funds Limited	19,615,687
SW OEIC UK Growth Fund	16,826,793
Clerical Medical Investment Group Limited	15,909,584
Abbey Pensions Equity Fund	9,977,253
Multi-Manager UK Equity Focus Fund	9,112,512
Bank of Scotland (Portfolio Management Services)	7,468,857
SW OEIC UK All Share Tracker Fund	6,909,855
St Andrew’s Life Assurance plc	5,000,730
SWIP Capital Trust	4,547,425
Multi-Manager UK Equity Growth Fund	3,159,934
Abbey Life Equity S1 Fund	3,037,490
SW OEIC UK Tracker Fund	2,675,958
Multi-Manager UK Equity Income Fund	2,553,649
ICC ESOP Trustee Limited	1,947,625
SW OEIC Environmental Investor Fund	1,858,084
SWUFP Equity Fund	1,681,160
CMI Asset Management (Luxembourg) S.A.	1,314,870
SWUF - Assurance UK Equity Fund	908,380
SWPM - UK Equity Fund	877,909
Halifax Corporate Trustees Limited	767,179
Lloyds TSB Offshore Private Banking (on behalf of private investors)	740,000
SW OEIC Ethical Fund	622,451
Halifax Share Dealing Limited	510,244
SWPM - UK Capped Equity Fund	473,456
Esure Insurance Limited	445,400
Halifax Life Limited	354,486
SWPM (SWF) Ltd UK Alpha Fund	252,558
The NTMF UK Equity Fund	173,893
CMI Insurance Company Limited	120,500
Target Life Equity Fund	114,503
Swiss Re Equity Fund	100,459
Swiss Re Colonial & Mutual Fund	16,668

- (d) As at the close of business on 13 May 2009 (the latest practicable date prior to the posting of this document), the following pension funds of Lloyds Banking Group (or pension funds of Associates) had an interest in, or right to subscribe in respect of, the following Ordinary Shares:

<i>Name</i>	<i>Number of Ordinary Shares</i>
Lloyds TSB Group Pension Scheme No. 1	4,770,168
Lloyds TSB Group Pension Scheme No. 2	2,595,986
Asset Finance Division Pension Scheme	232,482
Lloyds TSB Offshore Pension Scheme	90,194
Scottish Widows Retirement Benefit Scheme	473,456
HBOS Final Salary Pension Scheme	6,584,832

- (e) As at the close of business on 13 May 2009 (the latest practicable date prior to the posting of this document), the following employee benefit trusts of Lloyds Banking Group (or employee benefit trusts of Associates) had an interest in, or right to subscribe in respect of, the following Ordinary Shares:

<i>Name</i>	<i>Number of Ordinary Shares</i>
HBOS Australia Employee Share Trust	171,381
HBOS No. 1 Employee Share Ownership Trust	721,329
HBOS No. 2 Employee Share Ownership Trust	947,646
HBOS plc Annual Bonus Trust	10,444
HBOS plc Approved Profit Sharing Scheme Trust	8,257
HBOS plc Share Incentive Plan Trust	748,478
Lloyds TSB Group Share Ownership Trust	1,387,390
Lloyds TSB Group Shareplan Trust	1,324,645

- (f) As at the close of business on 13 May 2009 (the latest practicable date prior to the posting of this document), the following connected advisers (as defined in the City Code) of Lloyds Banking Group (or connected advisers of Associates) had an interest in, or right to subscribe in respect of, the following Ordinary Shares:

<i>Name</i>	<i>Number of Lloyds Banking Group ADSs</i>	<i>Number of Ordinary Shares</i>
Citi	—	89,671,829
UBS	40,156 9,721 (Short position)	—

- (g) Save as disclosed above, as at the close of business on 13 May 2009 (the latest practicable date prior to the posting of this document): (i) none of Lloyds Banking Group, the Directors and persons connected with the Directors (within the meaning of section 252 of the 2006 Act); (ii) no Associates; (iii) no pension funds of Lloyds Banking Group or its Associates; (iv) no employee benefit trusts of Lloyds Banking Group or its Associates; (v) no connected advisers of Lloyds Banking Group or its Associates; and (vi) no person who has an indemnity or other relationship (as defined by Note 6 to Rule 8 of the City Code) with Lloyds Banking Group or a person who is an associate of Lloyds Banking Group (by virtue of paragraphs (1), (2), (3) or (4) of the definition of “associate” in the City Code), (A) had an interest in or a right to subscribe for any Ordinary Shares; or (B) had a short position (whether conditional or absolute or whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to take delivery, in respect of any Ordinary Shares.
- (h) Neither Lloyds Banking Group, nor any person acting in concert with Lloyds Banking Group, has borrowed or lent any relevant securities of Lloyds Banking Group, save for any borrowed shares which have been either on-lent or sold.

10 General

- (a) The proposed dispensation from Rule 9 of the City Code relates to HM Treasury and its nominees. The address of HM Treasury is 1 Horse Guards Road, London SW1A 2HQ.
- (b) Other than as set out in this document, no agreement, arrangement or understanding (including any compensation arrangement) exists between HM Treasury or any person acting in concert with HM Treasury and any of the Directors, recent directors, shareholders or recent shareholders of Lloyds Banking Group, which has any connection with or is dependent upon the proposals set out in this document.
- (c) HM Treasury’s shareholding in the Company is held by the Solicitor for the Affairs of HM Treasury as nominee for HM Treasury and managed by UK Financial Investments, a company wholly owned by HM Treasury.
- (d) As at 13 May 2009 (being the last practicable date prior to the publication of this document), no agreement, arrangement or understanding exists whereby any of the Ordinary Shares that may be acquired by HM Treasury pursuant to the Placing and Compensatory Open Offer will be transferred to any other persons. HM Treasury is entitled to novate its rights and obligations under the Open Offer Agreement to any entity which is wholly owned, directly or indirectly, by HM Treasury.

- (e) Other than as set out in section 5 of Part A of the Appendix to the letter from the Chairman of Lloyds Banking Group in Part I (“Letter from Sir Victor Blank, Chairman of Lloyds Banking Group plc”) of this document, HM Treasury has no intentions or strategic plans concerning the Group, its business or employees.
- (f) Citi, whose address is Citigroup Centre, Canada Square, London E14 5LB, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.
- (g) J.P. Morgan Cazenove, whose address is 20 Moorgate, London EC2R 6DA, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.
- (h) UBS, whose address is 1 Finsbury Avenue, London EC2M 2PP, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.
- (i) The auditors and reporting accountants of Lloyds Banking Group are PricewaterhouseCoopers LLP, which is a member firm of the Institute of Chartered Accountants of England and Wales, and whose address is Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH. PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in this document of its report in Part II (“Unaudited Pro Forma Net Assets Statement of the Group as at 31 December 2008”) of this document and its report in Part III (“Profit and Loss Forecast for the Year ended 31 December 2009”) of this document in the form and context in which such reports appear.

Dated: 20 May 2009

PART V

DEFINITIONS

The following expressions apply throughout this document unless the context otherwise requires:

“2006 Act”	the UK Companies Act 2006.
“2008 Circular”	the document sent, with certain exceptions, to Ordinary Shareholders dated 3 November 2008 in relation to the Acquisition and the placing and open offer by the Company in November 2008.
“ABI”	the Association of British Insurers.
“Accepted Shares”	Open Offer Shares validly taken up by Qualifying Shareholders pursuant to the Compensatory Open Offer, in accordance with the terms set out in Part VIII (“Terms and Conditions of the Placing and Compensatory Open Offer”) of the Prospectus.
“Acquisition”	the acquisition by Lloyds Banking Group of HBOS which was effected by way of a court approved scheme of arrangement.
“Admission”	admission of the Accepted Shares to the Official List and to trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards.
“Admission and Disclosure Standards”	the requirements contained in the publication of the London Stock Exchange “Admission and Disclosure Standards” (as amended from time to time) containing, amongst other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities.
“Annual General Meeting”	the annual general meeting of Lloyds Banking Group to be held at 11.00 a.m. on 5 June 2009 at the Scottish Exhibition and Conference Centre, Glasgow G3 8YW, or any adjournment thereof.
“Application Form”	the personalised application form or form of instruction by which Qualifying Non-CREST Shareholders, or Qualifying Shareholders who hold their Existing Ordinary Shares through a corporate sponsored nominee, as the case may be, may take up and apply for Open Offer Shares under the Compensatory Open Offer.
“Articles” or “Articles of Association”	the articles of association of the Company, details of which are set out in section 4 of Part XX (“Additional Information”) of the Prospectus.
“B Shares”	the B shares expected to be created in the capital of the Company, the key expected terms of which are set out in Part B of the Appendix to the letter from the Chairman of Lloyds Banking Group in Part I (“Letter from Sir Victor Blank, Chairman of Lloyds Banking Group plc”) of this document and “B Share” means any one of them.
“BERR”	the Department for Business Enterprise and Regulatory Reform.
“Board”	the board of directors of Lloyds Banking Group as at the date of this document.
“Business Day”	a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London and Edinburgh.
“Capitalisation Issue”	the capitalisation issue of the Company, the terms of which were announced on 27 February 2009, and which became effective on 11 May 2009.

“certificated” or “in certificated form”	where a share or other security is not in uncertificated form.
“Chairman”	the Chairman of Lloyds Banking Group.
“Citi”	Citigroup Global Markets U.K. Equity Limited in relation to its role as joint bookrunner and joint placing agent and Citigroup Global Markets Limited in relation to its role as joint financial adviser, as the context requires.
“City Code”	the City Code on Takeovers and Mergers.
“Closing Date”	noon on 5 June 2009.
“Closing Price”	the closing middle-market quotation of an Ordinary Share, as derived from the Daily Official List.
“Companies Act”	the UK Companies Act 1985, as amended.
“Company”	Lloyds Banking Group (as defined in this Part V (“Definitions”)).
“Compensatory Open Offer”	the offer by Lloyds Banking Group to Qualifying Shareholders constituting an invitation to apply for the Open Offer Shares, on the terms and subject to the conditions set out in the Prospectus and, in the case of Qualifying Non-CREST Shareholders, in the Application Form.
“Compensatory Open Offer Record Date”	5.00 p.m. on 13 May 2009.
“Covered Assets”	certain assets and expenses on the Group’s balance sheet with an aggregate par value of £260 billion, including residential mortgages, unsecured personal loans, corporate and commercial loans and treasury assets.
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations).
“CREST participant”	a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations).
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), including any modification thereof or any regulations in substitution therefore made under section 207 of the UK Companies Act 1989, as amended, and for the time being in force.
“Daily Official List”	the daily record setting out the prices of all trades in shares and other securities conducted on the London Stock Exchange.
“Directors”	the directors of Lloyds Banking Group as at the date of this document, and “Director” means any one of them.
“Disclosure and Transparency Rules” or “DTR”	the Disclosure and Transparency Rules made by the FSA under section 73A(3) of FSMA.
“Enlarged Share Capital”	the expected number of issued Ordinary Shares in the capital of the Company immediately following the issue of the Open Offer Shares, based on the number of issued Ordinary Shares on 13 May 2009, being the last practicable date prior to the date of this document, plus the number of Open Offer Shares.
“Equiniti”	Equiniti Limited, a company incorporated under the laws of England and Wales, or, in certain circumstances, Equiniti Financial Services Limited, an affiliate of Equiniti Limited.
“EU Member States”	the member states of the European Union.
“Euro”	the single currency of the EU Member States that adopt or have adopted the Euro as their lawful currency under the legislation of the European Union or European Monetary Union.

“Euroclear”	Euroclear UK & Ireland Limited, the operator of CREST.
“European Commission”	the Commission of the European Union.
“Executive Directors”	the executive directors of Lloyds Banking Group at the date of this document, as set out in section 3 of Part IV (“Additional Information”) of this document, and “Executive Director” means any one of them.
“Existing Ordinary Shares”	the Ordinary Shares in issue at the Compensatory Open Offer Record Date and “Existing Ordinary Share” means any one of them.
“Fee”	a fee of approximately £15.6 billion to be paid by the Group to HM Treasury upon accession to the GAPS.
“Financial Services Authority” or “FSA”	the Financial Services Authority of the United Kingdom.
“Form of Proxy”	the form of proxy relating to the General Meeting.
“FSMA”	the Financial Services and Markets Act 2000, as amended.
“G7”	the group of seven industrialised nations constituted by Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.
“General Meeting”	the general meeting of Lloyds Banking Group to be held at noon on 5 June 2009 at the Scottish Exhibition and Conference Centre, Glasgow G3 8YW, or any adjournment thereof, notice of which is set out in this document.
“General Meeting Notice”	the notice of the General Meeting set out in this document.
“Government” or “UK Government”	the Government of the United Kingdom.
“Government Asset Protection Scheme” or “GAPS”	the asset protection scheme to be established by HM Treasury.
“Group”	Lloyds Banking Group and its subsidiary undertakings from time to time.
“HBOS”	HBOS plc, a company incorporated under the laws of Scotland (registered under no. 218813).
“HBOS Annual Report”	the annual report and accounts of HBOS for the year ended 31 December 2008.
“HBOS Group”	HBOS and its subsidiary undertakings.
“HM Treasury”	the Commissioners of Her Majesty’s Treasury (or, where HM Treasury has nominated a nominee to subscribe for any shares, which HM Treasury would otherwise be obliged to subscribe for such nominee).
“HMT Preference Share Redemption”	the proposed redemption of the HMT Preference Shares for a cash amount equal to 101 per cent. of their issue price plus accrued dividends thereon.
“HMT Preference Shares”	4,000,000 preference shares of £0.25 each in the capital of the Company owned by HM Treasury and “HMT Preference Share” means any one of them.
“IFRS”	the International Financial Reporting Standards as adopted for use in the European Union.
“Independent Shareholders”	the Ordinary Shareholders, excluding HM Treasury and any person acting in concert with HM Treasury.

“Institutional Investor Restricted Jurisdictions”	Canada, the United States, Hong Kong, Japan and Thailand.
“Interim Management Statement”	the interim management statement announced by Lloyds Banking Group on 7 May 2009, a detailed extract of which is included in the Appendix to Part IX (“Information on the Group”) of the Prospectus.
“ISIN”	International Securities Identifying Number.
“Issue Price”	38.43 pence per Open Offer Share.
“Joint Bookrunners” or “joint bookrunners”	Citi, J.P. Morgan Cazenove and UBS and “Joint Bookrunner” means any one of them.
“J.P. Morgan Cazenove”	J.P. Morgan Cazenove Limited.
“Lending Commitments Deed”	the deed poll entered into by Lloyds Banking Group on 6 March 2009 pursuant to which it undertook to support lending to creditworthy borrowers in the UK in a commercial manner.
“Listing Rules”	the Listing Rules made by the FSA under Part VI of FSMA.
“Lloyds Banking Group”	Lloyds Banking Group plc, formerly known as Lloyds TSB Group plc (has been referred to as “Lloyds TSB” within this document), registered in Scotland (no. 9500).
“Lloyds Banking Group ADSs”	the American Depositary Shares of Lloyds Banking Group, each representing four Ordinary Shares and evidenced by American Depositary Receipts.
“Lloyds Banking Group Employee Share Plans”	Lloyds TSB Long-term Incentive Plan 2006; Lloyds TSB Deferred Bonus Plan 2008; Lloyds TSB Performance Share Plan; Lloyds TSB Group Executive Share Plan 2003; Lloyds TSB Group No. 1 Executive Share Option Scheme 1997; Lloyds TSB Group No. 2 Executive Share Option Scheme 1997; Lloyds TSB Group Sharesave Scheme 2007; Lloyds TSB Group Sharesave Scheme 1997; Lloyds TSB Group Shareplan; HBOS plc Sharesave Plan 2001; HBOS plc International Sharesave Plan 2001; HBOS plc Inland Revenue Approved Employee Share Option Plan 2002; HBOS plc Share Incentive Plan; HBOS plc Approved Profit Sharing Scheme; HBOS plc Long Term Executive Bonus Plan; Insight Investment Management Limited Share Option Plan; ICC Bank Employee Share Ownership Plan; Bank of Scotland 1995 Executive Stock Option Scheme; and Bank of Scotland 1996 Executive Stock Option Scheme.
“Lloyds Banking Group Shareholder Account”	the name given to the service under which Halifax Nominees Limited holds Ordinary Shares for customers.
“Lloyds TSB Group”	Lloyds Banking Group and its subsidiaries from time to time but excluding the HBOS Group.
“London Stock Exchange”	London Stock Exchange plc.
“Minimum Rump Placing Amount”	the amount that is equal to the sum of (a) the Issue Price multiplied by the number of Non-Accepted Shares for which subscriber(s) are procured by the Joint Bookrunners pursuant to the Rump Placing, and (b) the expenses of procurement (including any applicable brokerage, transaction levies, trading fees, commissions and amounts in respect of VAT which are not recoverable).

“Non-Accepted Shares”	any Open Offer Shares which are not (or are deemed not to be or are otherwise treated as not having been) taken up under the Compensatory Open Offer.
“Non-Executive Directors”	the non-executive directors of Lloyds Banking Group at the date of this document, as set out in section 3 of Part IV (“Additional Information”).
“Official List”	the official list of the FSA pursuant to Part VI of the FSMA.
“Open Offer Agreement”	the agreement entered into with effect from 7 March 2009 by the Company and HM Treasury, as amended and restated on 20 March 2009 between Lloyds Banking Group, Citi, UBS, J.P. Morgan Cazenove and HM Treasury and further amended and restated on 18 May 2009, relating to the Placing and Compensatory Open Offer.
“Open Offer Entitlement”	the entitlement of a Qualifying Shareholder to apply for 0.6213 Open Offer Shares for every Existing Ordinary Share held on the Compensatory Open Offer Record Date.
“Open Offer Shares”	10,408,535,000 new Ordinary Shares to be issued pursuant to the Placing and Compensatory Open Offer and “Open Offer Share” means any one of them.
“Ordinary Shareholders”	holders of Ordinary Shares and “Ordinary Shareholder” means any one of them.
“Ordinary Shares”	ordinary shares of 25 pence each in the capital of Lloyds Banking Group (including shares underlying Lloyds Banking Group ADSs and if the context requires, the Open Offer Shares) and “Ordinary Share” means any one of them.
“Panel” or “Takeover Panel”	The Panel on Takeovers and Mergers.
“Placing”	the Rump Placing (if any) and the agreement by HM Treasury to subscribe for Open Offer Shares which are not (or are deemed not to have been or are otherwise treated as not having been) taken up pursuant to the Compensatory Open Offer or placed with places pursuant to the Rump Placing.
“Placing and Compensatory Open Offer”	the Placing and the Compensatory Open Offer.
“PD Regulation”	regulation 809/2004 of European Commission.
“Pounds”, “pence”, “Sterling”, “£” and “p”	the lawful currency of the United Kingdom.
“Proposed Assets”	the assets, commitments and exposures that the Group proposes to include within the GAPS.
“Prospectus”	the prospectus dated 20 May 2009 prepared in connection with the Placing and Compensatory Open Offer.
“Prospectus Rules”	the prospectus rules made by the FSA pursuant to Part VI of FSMA.
“PwC”	PricewaterhouseCoopers LLP.
“Qualifying CREST Shareholders”	Qualifying Shareholders holding Ordinary Shares in uncertificated form in CREST and “Qualifying CREST Shareholder” means any one of them.
“Qualifying Non-CREST Shareholders”	Qualifying Shareholders holding Ordinary Shares in certificated form and “Qualifying Non-CREST Shareholder” means any one of them.
“Qualifying Shareholders”	Registered Shareholders with the exclusion (subject to certain exceptions) of Ordinary Shareholders with a registered address in the United States or in any other Restricted Jurisdiction and “Qualifying Shareholder” means any one of them.

“Registered Shareholders”	holders of Ordinary Shares on the register of members of Lloyds Banking Group at the Compensatory Open Offer Record Date.
“Registrar”	Equiniti or such other registrar as is identified on a relevant Application Form and references to “Registrar” or “relevant Registrar” will be construed accordingly.
“Regulatory Information Service”	any of the services authorised from time to time by the Financial Services Authority for the purposes of disseminating regulatory announcements.
“Remuneration Committee”	the duly appointed remuneration committee of the Lloyds Banking Group.
“Residual Shares”	all or any Non-Accepted Shares which are not placed with placees pursuant to the Rump Placing and/or any Non-Accepted Shares placed with placees pursuant to the Rump Placing who fail to meet their payment obligations for all or any Non-Accepted Shares and or any Open Offer Shares representing the aggregate of fractional entitlements which are not placed in the market for the benefit of the Company.
“Resolution 1”	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, increasing the Company’s authorised share capital and granting the Directors authority to allot Ordinary Shares in connection with the Placing and Compensatory Open Offer.
“Resolution 2”	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, increasing the Company’s authorised share capital and granting the Directors authority to allot Ordinary Shares.
“Resolution 3”	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, to approve the Transaction.
“Resolution 4”	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, approving the Rule 9 Waiver to be voted on by Independent Shareholders.
“Resolution 5”	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Directors authority to allot Ordinary Shares in connection with the Placing and Compensatory Open Offer on a non-pre-emptive basis.
“Resolution 6”	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Directors authority to allot Ordinary Shares and Lloyds Banking Group preference shares on a non-pre-emptive basis.
“Resolutions”	Resolution 1, Resolution 2, Resolution 3, Resolution 4, Resolution 5 and Resolution 6.
“Restricted Jurisdiction”	any of Malaysia and the Institutional Investor Restricted Jurisdictions.
“Rule 9 Waiver”	the waiver agreed to be granted by the Panel, subject to the passing by the Independent Shareholders on a poll of Resolution 4, of the obligation to make a general offer to Ordinary Shareholders under Rule 9 of the City Code that might otherwise be imposed upon HM Treasury.
“Rump Placing”	the proposed placing of any Non-Accepted Shares by the Joint Bookrunners, as agent of the Company, pursuant to which the Joint Bookrunners will use reasonable endeavours to procure placees for the Non-Accepted Shares at a price not less than the Minimum Rump Placing Amount.

“ Securities Act ”	the United States Securities Act of 1933, as amended.
“ Shareholder Guide ”	the guide enclosed with the Application Forms containing instructions as to the completion of the Application Forms.
“ stock account ”	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited.
“ Transaction ”	the Placing and Compensatory Open Offer and the HMT Preference Share Redemption, taken together.
“ UBS ” or “ UBS Investment Bank ”	UBS Limited.
“ UK Financial Investments ” or “ UKFI ”	UK Financial Investments Limited.
“ UK Listing Authority ” or “ UKLA ”	the UK Financial Services Authority in its capacity as the competent authority for listing under Part VI of the FSMA.
“ uncertificated ” or “ in uncertificated form ”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST or constituting a giro depot (<i>girodepot</i>) maintained by Euroclear Nederland in accordance with the Dutch Securities Giro Act as a result of which title may be transferred in accordance with the Dutch Securities Giro Act.
“ United Kingdom ” or “ UK ”	the United Kingdom of Great Britain and Northern Ireland and its dependent territories.
“ United States ” or “ US ”	the United States of America (including the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction.
“ US Dollar ” or “ US\$ ”	the lawful currency of the United States.

For the purposes of this document, “**subsidiary**”, “**subsidiary undertaking**”, “**undertaking**” and “**associated undertaking**” have the meanings given by the 2006 Act.

Unless otherwise stated, all times referred to in this document are references to London time.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of Lloyds Banking Group plc (the "Company") will be held on 5 June 2009 at the Scottish Exhibition & Conference Centre, Glasgow G3 8YW at 12.00 p.m. (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting of the Company convened for the same day) for the purposes of considering and, if thought fit, passing the following resolutions:

1 To resolve as an ordinary resolution:

- (A) That the authorised share capital of the Company be increased from an aggregate of £7,043,396,347, €40,000,000, US\$40,000,000 and ¥1,250,000,000 to £9,645,530,097, €40,000,000, US\$40,000,000 and ¥1,250,000,000 (if resolution 7 in the notice of the Annual General Meeting of the Company dated 17 April 2009 is passed) or from an aggregate of £5,675,477,055, US\$40,000,000, €40,000,000 and ¥1,250,000,000 to £8,277,610,805, US\$40,000,000, €40,000,000 and ¥1,250,000,000 (if resolution 7 in the notice of the Annual General Meeting of the Company dated 17 April 2009 is not passed) by the creation of 10,408,535,000 new ordinary shares of 25 pence each in the capital of the Company, such shares forming one class with the then existing ordinary shares and having attached thereto the respective rights and privileges and being subject to the limitations and restrictions set out in the Articles of Association of the Company (the "Articles"); and
- (B) That in addition and without prejudice to the authority conferred on the Directors by Article 9.2 of the Articles and any other subsisting authority conferred on the Directors pursuant to the Section 80 of the Companies Act 1985 (the "Act") the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £2,602,133,750, provided that:
- (i) such authority shall be limited to the allotment of relevant securities pursuant to or in connection with the placing and compensatory open offer described in the circular dated 20 May 2009 (the "Circular") of which this notice forms part (the "Placing and Compensatory Open Offer") made for the purposes of financing the redemption of the HMT Preference Shares (as defined in the Circular);
 - (ii) such authority shall expire at the end of the next annual general meeting of the Company or on 4 September 2010, whichever is the earlier; and
 - (iii) by such authority and power the Company may make offers or enter into agreements during the relevant period which would, or might, require securities to be allotted after the authority ends.

2 To resolve as an ordinary resolution:

That, conditional on the completion of the Placing and Compensatory Open Offer:

- (A) the authorised share capital of the Company be increased from an aggregate of £9,645,530,097, €40,000,000, US\$40,000,000 and ¥1,250,000,000 to £11,550,262,389, €40,000,000, US\$40,000,000 and ¥1,250,000,000 (if resolution 7 in the notice of the Annual General Meeting of the Company dated 17 April 2009 is passed) by the creation of 7,618,929,168 new ordinary shares of 25 pence each in the capital of the Company or from an aggregate of £8,277,610,805, €40,000,000, US\$40,000,000 and ¥1,250,000,000 to £11,550,262,389, €40,000,000, US\$40,000,000 and ¥1,250,000,000 (if resolution 7 in the notice of the Annual General Meeting of the Company dated 17 April 2009 is not passed) by the creation of 13,090,606,3363 new ordinary shares of 25 pence each in the capital of the Company, such shares forming one class with the then existing ordinary shares and having attached thereto the respective rights and privileges and being subject to the limitations and restrictions set out in the Articles; and
- (B) the directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to exercise all the powers of the company to allot relevant securities (as defined in Section 80(2) of the Act):

- (i) up to a nominal amount of (I) £2,270,052,477 in ordinary shares and (II) £52,035,254, US\$38,875,000, €39,875,000 and ¥1,250,000,000 in preference shares,
- (ii) subject to the passing of resolution 2(A) above, up to a further nominal amount of £2,270,052,477 comprising equity securities (as defined in the Act) in connection with an offer by way of a rights issue,

such authorities to apply in substitution for all previous authorities pursuant to Section 80 of the Act and to expire at the end of the next annual general meeting of the Company or on 4 September 2010, whichever is the earlier but, in each case, so that the Company may make offers and enter into agreements during the relevant period which would, or might, require relevant securities to be allotted after the authority ends.

For the purposes of this resolution, 'rights issue' means an offer to:

- (a) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- (b) people who are holders of other equity securities if this is required by the rights of those securities or, if the directors consider it necessary, as permitted by the rights of those securities, to subscribe further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory.

- 3** To resolve as an ordinary resolution (on which HM Treasury (as defined below) is not permitted to vote):

That the Transaction (as defined in the Circular), being a related party transaction for the purposes of the Listing Rules of the United Kingdom Listing Authority, be and is hereby approved.

- 4** To resolve as an ordinary resolution (on which only Independent Shareholders (as defined in the Circular) are permitted to vote):

That the waiver granted by the Panel on Takeovers and Mergers as described in the Circular of the obligation that might otherwise be imposed upon The Commissioners of Her Majesty's Treasury or their nominee ("HM Treasury"), under Rule 9 of the City Code on Takeovers and Mergers, to make a general offer to ordinary shareholders for all of the issued ordinary shares in the capital of the Company held by them as a result of the issue to HM Treasury of up to 10,408,535,000 ordinary shares in the Company pursuant to the open offer agreement entered into with effect from 7 March 2009 between, amongst others, the Company and HM Treasury as amended and restated on 20 March 2009 and further amended and restated on 18 May 2009 be approved. This represents a maximum of 65.1 per cent. of the shares carrying voting rights in the Company.

- 5** To resolve as a special resolution:

That, subject to and conditional upon Resolution 1 being passed, the Directors be and are hereby generally empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) wholly for cash pursuant to the authority given by Resolution 1 above as if Section 89(1) of the Act did not apply to any such allotment provided that:

- (A) such power shall be limited to the allotment of equity securities pursuant to the Placing and Compensatory Open Offer up to an aggregate nominal amount of £2,602,133,750;
- (B) such power shall expire at the end of the next annual general meeting of the Company or on 4 September 2010, whichever is the earlier; and
- (C) by such power the Company may make offers or enter into agreements during this period which would, or might, require equity securities to be allotted after the power ends and the Board may allot equity securities under any such offer or agreement as if the power had not ended.

6 To resolve as a special resolution:

That subject to the passing of Resolution 2 above, and conditional upon the completion of the Placing and Compensatory Open Offer, the directors be empowered to allot equity securities (as defined in Section 94(2) of the Act) wholly for cash:

(A) pursuant to the authority given by paragraph (B)(i) of Resolution 2 above or where the allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the Act in each case:

- (i) in connection with a pre-emptive offer; and
- (ii) otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £340,507,871; and

(B) pursuant to the authority given by paragraph (B)(ii) of Resolution 2 above in connection with a rights issue, as if Section 89(1) of the Act did not apply to any such allotment,

such power to expire at the end of the next annual general meeting or on 4 September 2010, whichever is the earlier but so that the Company may make offers and enter into agreements during this period which would, or might, require equity securities to be allotted after the power ends and the Board may allot equity securities under any such offer or agreement as if the power had not ended.

For the purposes of this resolution:

- (a) 'rights issue' has the same meaning as in Resolution 2 above;
- (b) 'pre-emptive offer' means an offer of equity securities open for acceptance for a period fixed by the directors to (a) holders (other than the company) on the register on a record date fixed by the directors of ordinary shares in proportion to their respective holdings and (b) other persons so entitled by virtue of the rights attaching to any other equity securities held by them, but subject in both cases to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory;
- (c) references to an allotment of equity securities shall include a sale of treasury shares; and
- (d) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the company, the nominal amount of such shares which may be allotted pursuant to such rights.

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the member. A proxy need not be a member of the company.

Registered office:
Henry Duncan House
George Street
Edinburgh EH2 4LH

By order of the Board
H F Baines
Company Secretary & General Counsel

20 May 2009

Notes:

- (1) Only shareholders, proxies and authorised representatives of corporations which are shareholders of the Company are entitled to attend and speak at the General Meeting and shareholders' names must be entered in the register of members at 6.00 p.m. on 3 June 2009, so that such shareholders, proxies and authorised representatives of corporations may have the right to vote at the General Meeting. Should the meeting be adjourned, members who wish to attend and vote must have their names entered in the Company's register of members by 6.00 pm two days prior to the date fixed for the adjourned General Meeting.

In order to facilitate voting by corporate representatives at the General Meeting, arrangements will be put in place at the General Meeting so that (i) if a corporate shareholder has appointed the Chairman as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the General Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the General Meeting but the corporate shareholder has not appointed the Chairman as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

- (2) Shareholders are invited to complete and return the enclosed form of proxy to the registrar, Equiniti, Holm Oak Business Park, Woods Way, Goring by Sea, Worthing, West Sussex BN12 4QY or register their appointment of proxy electronically on our registrar's website; www.sharevote.co.uk. A proxy need not be a shareholder of the Company but must attend the General Meeting to represent a shareholder. Appointment of a proxy will not prevent shareholders from attending and voting at the General Meeting. The form of proxy and, if relevant, the power of attorney or other authority under which it is signed, or a certified copy of that power or authority, must be received by Equiniti Limited by 12.00 p.m. on 3 June 2009.
The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Act ("nominated persons"). **Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.**
- (3) CREST participants who wish to appoint and/or give instructions to a proxy or proxies through the CREST electronic proxy appointment service may do so through Equiniti Limited (ID RA19) by 12:00 p.m. on 3 June 2009. The time of receipt by Equiniti Limited will be deemed to be the time (as determined by the time stamp applied to the message by the CREST "applications host") from which Equiniti Limited is able to retrieve the message by enquiry of Euroclear in the manner prescribed by Euroclear. Equiniti Limited may treat as invalid a CREST instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (4) Proxy appointments may be revoked by written notice to Equiniti, Holm Oak Business Park, Woods Way, Goring by Sea, Worthing, West Sussex BN12 4QY, which must be received by 11:00 a.m. on 5 June 2009. Proxy instructions may be amended by notice received by the Company under article 127 of its Articles of Association served at any time up to the time of the relevant poll. CREST participants may also give instructions to revoke or amend by CREST message but only if the message is received by Equiniti Limited by 12.00 p.m. on 5 June 2009.
- (5) It would be helpful if any shareholder intending to come to the General Meeting would remove the attendance card from the form of proxy and bring it to the General Meeting. The shareholder will then be asked to produce the attendance card to show that he or she has the right to attend, speak and vote. The card is not transferable and may only be used by the shareholder attending in person. If you are using our website for the appointment of a proxy, you may also use the website to register your intention to attend the General Meeting.
- (6) If any shareholder intending to come to the General Meeting would like to ask a question, which should relate to the business of the General Meeting, they are asked to register it at the question registration desk which will be located in the reception area at the General Meeting. To assist with these arrangements shareholders may, if they wish, send us advance notice of their question to gm.questions@lloydsbanking.com. If you give us advance notice of your questions, please tell a member of staff at the question registration desk when you arrive at the General Meeting.
- (7) Any electronic communication sent by a shareholder to the Company or the registrar that is found to contain a computer virus will not be accepted.
- (8) As at 13 May 2009 (the last practicable date prior to the date of this notice) the total number of shares issued by the Company with rights to vote which are exercisable in all circumstances at general meetings is 16,753,147,366 ordinary shares of 25 pence each, which includes shares represented by American Depositary Receipts.
- (9) Copies of this notice are available in large print, Braille or on CD-ROM. If you would like a copy in any of these forms, please contact Equiniti, Holm Oak Business Park, Woods Way, Goring by Sea, Worthing, West Sussex BN12 4QY, or by calling the shareholder helpline on 0871 384 2990¹ (from inside the United Kingdom) or +44 208 495 4595 (from outside the United Kingdom) or on 0870 702 0102 (from inside the United Kingdom) or +44 870 702 0102 (from outside the United Kingdom) if you hold your shares through the Lloyds Banking Group Shareholder Account.
- (10) Voting on all resolutions will be decided on a poll. This means that shareholders who attend the General Meeting, as well as those who are not able to attend but have sent proxy forms may have their votes taken into account according to the number of shares they hold. Details of the results of the polls will be announced through the stock exchange information service and will appear on our website, www.lloydsbankinggroup.com.

1 Please note the shareholder helpline will be open between (i) 8.30 a.m. and 5.30 p.m. on any Business Day; and (ii) 9.00 a.m. and 4.00 p.m. on Saturday 23 May 2009, Sunday 24 May 2009 and the bank holiday of Monday 25 May 2009. Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Calls to the 0870 702 0102 number are charged at no more than 6p a minute plus an 8p connection fee from a BT landline. Other service provider's costs may vary. Calls to (i) the +44 208 495 4595 number; or (ii) the +44 870 102 0102 number, from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. For legal reasons, the shareholder helpline will be unable to give advice on the merits of the Placing and Compensatory Open Offer or to provide legal, business, financial, tax, investment or other professional advice.

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