

**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 your own personal financial advice immediately 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, 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 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 other than the United Kingdom (including, but not limited to, the United States and other Restricted Jurisdictions) is or may be restricted by law and therefore persons into whose possession any such documents come should inform themselves about and observe any such restrictions. Failure to comply with any such restrictions may constitute a violation of the securities laws of any such jurisdiction.

**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 Rights Issue or the Exchange Offers 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 Rights Issue or the Exchange Offers. The full terms and conditions of the Rights Issue and the Exchange Offers are set out in the Prospectuses. Any decision to subscribe for any Nil Paid Rights, Fully Paid Rights or New Shares under the Rights Issue must be made only on the basis of the information contained in and incorporated by reference into the Rights Issue Prospectus. Any decision to subscribe for New Securities under the Exchange Offers must be made only on the basis of the information contained in and incorporated by reference in the Exchange Offer Memoranda. Copies of the Prospectuses are available from Lloyds Banking Group’s registered office and on Lloyds Banking Group’s website ([www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com)).

Applications will be made to the FSA for the New Shares (nil and fully paid) to be admitted to the Official List and to the London Stock Exchange for the New Shares (nil and fully paid) to be admitted to trading on the main market for listed securities of the London Stock Exchange. It is expected that Admission to the Official List will become effective and that dealings in the New Shares (nil paid) on the London Stock Exchange will commence at 8.00 a.m. (London time) on 27 November 2009.

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LLOYDS  
BANKING  
GROUP



## **Lloyds Banking Group plc**

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

### **Proposed alternative to the Government Asset Protection Scheme comprising a Rights Issue and liability management exercise by way of Exchange Offers, together with the HMT Transactions and Share Subdivision**

### **Circular and Notice of General Meeting**

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Your attention is drawn to the letter from your Chairman which is set out on pages 10 to 35 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 New Shares in the Rights Issue, you are also referred to the Rights Issue Prospectus, which contains further information about the Rights Issue and, in particular, the section headed “Risk Factors” in the Rights Issue Prospectus. If you are an eligible investor or holder and wish to subscribe for New Securities under the Exchange Offers, you are referred to the Exchange Offer Memoranda. You should not rely solely on any key or summarised information set out in this document.

Notice of a General Meeting of the Company, to be held on 26 November 2009 at Hall 12, The Atrium, National Exhibition Centre, Birmingham B40 1NT at 11.00 a.m., 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 Notice of General Meeting (at the end of this document) and the Form of Proxy itself.

Merrill Lynch, which is authorised and regulated in the United Kingdom by the Financial Services Authority, and UBS are acting severally and exclusively for Lloyds Banking Group and for no one else as joint sponsors and joint financial advisers in relation to the Proposals, and will not be responsible to any other person for providing the protections afforded to clients of Merrill Lynch or UBS, respectively, nor for providing advice in connection with any of the Proposals or contents of this document or any other matters referred to in this document, other than to the extent required by law or appropriate regulation in the UK.

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 for the purpose of providing the advice referred to on page 25 of this document and will not be responsible to any other person for providing the protections afforded to clients of J.P. Morgan Cazenove nor for any advice provided to the Lloyds Banking Group by any person in connection with the Proposals or contents of this document or any other matters referred to in this document, other than to the extent required by law or appropriate regulation in the UK. In particular, the advice of J.P. Morgan Cazenove referred to on page 25 of this document has been delivered to the Board for the purpose of their obligations under the Listing Rules.

None of The Commissioners of Her Majesty's Treasury, the Solicitor for the Affairs of Her Majesty's Treasury, UK Financial Investments Limited, the Asset Protection Agency, or any person controlled by or controlling any such person, or any director, officer, official or employee of any such person (each such person, a "Relevant Person") accepts any responsibility for the contents of, or makes any representation or warranty as to the accuracy, completeness or fairness of any information in, any of the Prospectuses or this document. Each Relevant Person expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of any of the Prospectuses or this document (or any supplement or amendment to the any of the Prospectuses or this document). No Relevant Person has authorised or will authorise the contents of the any of the Prospectuses or this document, or has recommended or endorsed the merits of the offering of securities contemplated by any of the Prospectuses and this document.

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 Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or by calling the shareholder helpline on 0871 384 2990<sup>1</sup> (from inside the United Kingdom) or +44 20 8495 4630 (from outside the United Kingdom). Subject to certain exceptions, this document will not be mailed or otherwise distributed into the United States. If you are an Ordinary Shareholder, you may specify to Equiniti Limited that all future documents relating to the Proposals 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.

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<sup>1</sup> Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Other service providers' costs may vary. Calls to the +44 20 8495 4630 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 Rights Issue or to provide legal, business, financial, tax, investment or other professional advice.

## **NOTICE TO US INVESTORS**

The Nil Paid Rights, Fully Paid Rights and New Shares have not been and will not be registered under the U.S. Securities Act of 1933 (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 Nil Paid Rights, Fully Paid Rights and New 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 “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act. There will be no public offer of the Nil Paid Rights, Fully Paid Rights and New Shares in the United States. Neither the SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the Nil Paid Rights, Fully Paid Rights and New Shares or passed an opinion on the adequacy of this document or the Provisional Allotment Letters. Any representation to the contrary is a criminal offence in the United States.

The Exchange Offers have not been and will not be registered under the Securities Act. Securities offered pursuant thereto may not be offered or sold within the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The Non-US Exchange Offer is not being made available to U.S. persons and is not being made, and will not be made, directly or indirectly, in or into, or by use of the mail of, or by any means or instrumentality of interstate or foreign commerce of, or of any facilities of a national securities exchange of, the United States as defined in Regulation S under the Securities Act or to, or for the account or benefit of, U.S. persons. The US Exchange Offer will be made only to qualified institutional buyers in a private transaction in reliance upon an exemption from the registration requirements of the Securities Act for transactions by an issuer not involving a public offering or to persons other than U.S. persons in offshore transactions in reliance upon Regulation S.

## **NOTICE TO INVESTORS IN MALAYSIA**

This document does not constitute an offer of securities, invitation to make available or offer securities or a proposal to make available or offer securities in Malaysia. Please note that this document has not been approved by the Securities Commission of Malaysia or registered or deposited with the Securities Commission of Malaysia and neither the Securities Commission of Malaysia nor any other regulatory authority in Malaysia has approved or disapproved or passed an opinion on the adequacy of this document. Please further take note that the Exchange Offers will not be made available to the shareholders in Malaysia and nothing in this document shall be construed as constituting an offer, invitation or proposal to make available or offer securities pursuant to the Exchange Offers in Malaysia.

## **NOTICE TO INVESTORS IN RESTRICTED JURISDICTIONS**

The securities mentioned herein may not be offered or sold, resold, transferred or delivered, directly or indirectly, 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.

## **LOSS FORECAST**

Save as otherwise stated herein at paragraph 12 of Part I (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”) of this document, no statement in 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.

Percentages have been calculated and disclosed to the extent they provide meaningful information for the convenience of the reader.

## **WEBSITES**

Neither the content of the Group's websites, including HBOS's website, nor any other website nor the content of any website accessible from hyperlinks on the Group's websites, 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 III ("Definitions") of this document.

## FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements with respect to the business, strategy and plans of the Company or 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, projections or expectations of profit attributable to shareholders, provisions, economic profit, dividends, capital structure or any other financial items or ratios; statements of plans, objectives or goals of the Group or its management; statements about the future trends in interest rates, foreign exchange rates, stock market levels and demographic trends and any impact on the Group; statements concerning any future UK or other economic environment or performance including in particular any such statements included in this document or its annual report; statements about strategic goals, competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of 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, interest rates, policies of the Bank of England and other G8 central banks, exchange rate, market and monetary fluctuations; changing demographic developments including mortality and changing customer behaviour including consumer spending, saving and borrowing habits, borrower credit quality, technological changes, natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes, people and systems; terrorist acts, other acts of war, geopolitical, pandemic or other such events; changes in laws, regulations, taxation, government policies or accounting standards or practices, 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 ability to achieve value-creating mergers and/or acquisitions at the appropriate time and prices and the success of the Group in managing the risks of the foregoing, the ability to derive cost savings and other benefits as well as to mitigate exposures from the acquisition and integration of HBOS.

The Group may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the SEC, the Company's annual reviews, half yearly announcements, 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 forward-looking statements in this document are made as of the date hereof, and 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 PROSPECTUSES

The Prospectuses, from which certain information has been incorporated by reference into this document and which provide further detail on the Rights Issue and the Exchange Offers 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 Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or by calling the shareholder helpline on 0871 384 2990<sup>1</sup> (from inside the United Kingdom) or +44 20 8495 4630 (from outside the United Kingdom). Subject to certain exceptions, the Prospectuses 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 acquire New Shares in the Rights Issue and are entitled to do so, you should read the Rights Issue Prospectus as a whole, including, in particular, the risk factors set out in the section headed "Risk Factors" in that document. If you wish to acquire New Securities in the Exchange Offers, you should read the US Exchange Offer Memorandum or the Non-US Exchange Offer Memorandum, as applicable, as a whole, and in particular, the risk factors set out in the section entitled "Risk Factors" in each of those documents.

## RIGHTS ISSUE STATISTICS

Issue Price per New Share	To be announced
Basis of Rights Issue	To be announced
Number of Ordinary Shares in issue as at the date of this document	27,161,682,366
Number of Limited Voting Shares in issue as at the date of this document	78,947,368
Number of Limited Voting Shares to be issued pursuant to the LVS Capitalisation Issue	1,973,683
Number of Ordinary Shares to be issued by Lloyds Banking Group pursuant to the Rights Issue	Up to 90,000,000,000
Number of Ordinary Shares in issue immediately following completion of the Rights Issue <sup>(1)</sup>	Up to 117,161,682,366
New Shares as a percentage of Highest Enlarged Share Capital of Lloyds Banking Group immediately following completion of the Rights Issue <sup>(1)</sup>	Up to 76.8 per cent.
Gross proceeds of the Rights Issue receivable by Lloyds Banking Group	£13,500,000,000
Estimated expenses of the Proposals	£500,000,000

Note:

(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 Rights Issue.



## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

	<i>Date</i>
Record Date for entitlement under the Rights Issue for Qualifying CREST Shareholders and Qualifying Non-CREST Shareholders and for holders of Limited Voting Shares for the LVS Capitalisation Issue	Close of business on 20 November 2009
Expiration of Non-US Exchange Offer and early tender deadline of the US Exchange Offer	20 November 2009 <sup>(1)</sup>
Announcement of early tender results of the US Exchange Offer	23 November
Announcements of results of the Non-US Exchange Offer	23 November 2009
Announcement of Issue Price and entitlements of Qualifying Shareholders pursuant to the Rights Issue	7.00 a.m. on 24 November 2009
Latest time and date for receipt of Forms of Proxy for the General Meeting	11.00 a.m. on 24 November 2009
General Meeting	11.00 a.m. on 26 November 2009
LVS Capitalisation Issue of new Limited Voting Shares to holders of Limited Voting Shares on the Record Date	after the General Meeting on 26 November 2009
LVS Record Date for entitlement under the Rights Issue for Qualifying LV Shareholders	4.30 p.m. on 26 November 2009
Share Subdivision becomes effective	Close of business on 26 November 2009
Despatch of Provisional Allotment Letters (to Qualifying Non-CREST Shareholders only)	26 November 2009
Start of subscription period	26 November 2009
Admission	8.00 a.m. on 27 November 2009
<b>Dealings in New Shares, nil paid, commence on the London Stock Exchange</b>	8.00 a.m. on 27 November 2009
Existing Ordinary Shares marked “ex-rights” by the London Stock Exchange	8.00 a.m. on 27 November 2009
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only)	8.00 a.m. on 27 November 2009
Nil Paid Rights and Fully Paid Rights enabled in CREST	8.00 a.m. on 27 November 2009
Settlement date of the Non-US Exchange Offer	1 December 2009
Recommended latest time for requesting withdrawal of Nil Paid Rights and Fully Paid Rights from CREST (i.e. if your Nil Paid Rights and Fully Paid Rights are in CREST and you wish to convert them to certificated form)	3.00 p.m. on 4 December 2009
Expiration of the US Exchange Offer period	Midnight, New York time on 7 December 2009
Announcement of results of the US Exchange Offer	8 December 2009
Latest time for depositing renounced Provisional Allotment Letters, nil or fully paid, into CREST or for dematerialising Nil Paid Rights or Fully Paid Rights into a CREST stock account (i.e. if your Nil Paid Rights and Fully Paid Rights are represented by a Provisional Allotment Letter and you wish to convert them to uncertificated form)	3.00 p.m. on 8 December 2009
Latest time and date for splitting Provisional Allotment Letters, nil or fully paid	3.00 p.m. on 9 December 2009
<b>Latest time and date for acceptance, payment in full and registration or renunciation of Provisional Allotment Letters</b>	11.00 a.m. on 11 December 2009
<b>Dealings in New Shares, fully paid, commence on the London Stock Exchange</b>	8.00 a.m. on 14 December 2009

<sup>1</sup> Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Other service providers' costs may vary. Calls to the +44 20 8495 4630 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 Rights Issue or to provide legal, business, financial, tax, investment or other professional advice.



	<i>Date</i>
New Shares credited to CREST accounts	by 14 December 2009
Despatch of definitive share certificates for the New Shares in certificated form	by 29 December 2009
Late settlement date of the Non-US Exchange Offer	February 2010

Notes:

- (1) Euroclear deadline will be 4.00 p.m.; CREST deadline will be 1.00 p.m.; early tender deadline will be close of business New York time.
- (2) The ability to participate in the Rights Issue is subject to certain restrictions relating to Qualifying Shareholders with registered addresses outside the United Kingdom, details of which are set out in Part VIII ("Terms and Conditions of the Rights Issue") of the Rights Issue Prospectus.
- (3) The above times and dates are indicative only. The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by Lloyds Banking Group (in consultation with Merrill Lynch, UBS, Citi, Goldman Sachs International, HSBC and J.P. Morgan Cazenove), in which event details of the new times and dates will be notified to the FSA, the London Stock Exchange and, where appropriate, Qualifying Shareholders.
- (4) If you hold your Existing Ordinary Shares through one of the Lloyds Banking Group Employee Share Plans, the Lloyds Banking Group Shareholder Account or a 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 Provisional Allotment Letter or advice from your service provider.
- (5) References to times in this document are to London times unless otherwise stated.

**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 2990<sup>1</sup> (from inside the United Kingdom) or +44 20 8495 4630 (from outside the United Kingdom). Please note the shareholder helpline will be open between 8.30 a.m. and 5.30 p.m. on any Business Day.

*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 Rights Issue 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.**

<sup>1</sup> Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Other service providers costs may vary. Calls to the +44 20 8495 4630 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.

## PART I

### LETTER FROM SIR WINFRIED BISCHOFF, CHAIRMAN OF LLOYDS BANKING GROUP PLC

**Directors:**

Sir Winfried Bischoff (*Chairman*)  
Lord Leitch (*Deputy Chairman*)  
J Eric Daniels (*Group Chief Executive*)  
Archie G Kane  
G Truett Tate  
Tim J W Tookey  
Helen A Weir CBE  
Dr. Wolfgang C G Berndt  
Sir Julian Horn-Smith  
Carolyn J McCall OBE  
T Timothy Ryan, Jr.  
Martin A Scicluna  
Anthony Watson CBE

**Registered Office:**

Henry Duncan House  
120 George Street  
Edinburgh  
EH2 4LH

3 November 2009

Dear Shareholder,

#### **PROPOSED ALTERNATIVE TO THE GOVERNMENT ASSET PROTECTION SCHEME COMPRISING A RIGHTS ISSUE AND LIABILITY MANAGEMENT EXERCISE BY WAY OF EXCHANGE OFFERS TOGETHER WITH THE HMT TRANSACTIONS AND SHARE SUBDIVISION**

#### **1 Introduction**

Today, Lloyds Banking Group plc has announced proposals intended to meet its current and long-term capital requirements. If you, our shareholders, approve these proposals, it will mean that the Group will not participate in the Government Asset Protection Scheme ("GAPS").

The Group has also released a trading update today. This reinforces the Group's views expressed in its Interim Results News Release in August that the economic environment in the UK has begun to stabilise. Group margins are also beginning to stabilise, cost reductions for the Group remain on track and overall Group impairments have peaked. Based on the Group's trading performance during the year to date, the Board now has increased confidence in the Group's ability to deliver a strongly improving business performance in 2010 and 2011. Further details on the Group's trading update can be found in paragraph 12 of this letter.

Under the Proposals, which are fully underwritten pursuant to the Underwriting Agreements and the HMT Undertaking to Subscribe, the Group will, subject to Ordinary Shareholder approval: (i) raise £13.5 billion (£13 billion net of expenses of the Proposals) by way of a Rights Issue; and (ii) generate at least £7.5 billion in core tier 1 and/or nominal value of contingent core tier 1 capital through the Exchange Offers and/or the related underwriting arrangements. The Board believes that the Proposals provide a significantly more attractive alternative to participating in GAPS and offer superior economic value to shareholders.

HM Treasury, which holds a 43.4 per cent. holding in Lloyds Banking Group, has undertaken to the Company, pursuant to the HMT Undertaking to Subscribe, to procure that the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) will vote in favour of the Resolutions which are being put before Ordinary Shareholders to implement the Proposals and on which it is entitled to vote. HM Treasury has also undertaken to participate in full in respect of its rights in the Rights Issue. The Board welcomes HM Treasury's support. In addition, all the Directors intend to participate in respect of their rights in the Rights Issue.

Alongside the Proposals the Group has agreed, subject to shareholder approval (excluding HM Treasury), to pay to HM Treasury a fee of £2.5 billion for the benefit to the Group's trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group (the

“GAPS Payment”) and the HMT Commitment Commission, being a commission of up to £143.7 million in consideration, *inter alia*, of HM Treasury’s pre-launch commitment to participate in full in respect of its entitlements under the Rights Issue. Payment of a fee in relation to the benefit to the Group’s trading operations as described above is also required by the European Commission as part of the expected state aid remedies. The Group has also agreed to reaffirm the lending commitments that it gave to HM Treasury in March 2009 and to maintain in the 12 months commencing 1 March 2010 similar overall levels of lending as in the 12 months commencing 1 March 2009.

Over the past few months, HM Treasury and the Group have been involved in detailed negotiations with the European Commission in relation to the terms of a restructuring plan which is required in the context of a review resulting from the state aid which has been received by the Group. The Group, together with HM Treasury, has now finalised negotiations with the European Commission around the terms of the restructuring plan and the Group expects to receive a formal decision from the Commission on the state aid position and the restructuring plan by the end of 2009. The Group is confident that the final terms of the restructuring plan will not have a materially negative impact on the Group. However, the Company expects to be prevented from paying dividends on Ordinary Shares for so long as it is prohibited from making coupon payments on certain of its other securities (which is expected to be between 31 January 2010 and 31 January 2012) as a result of the restrictions expected to be required by the European Commission as part of the restructuring plan. Further details on the current state aid position are set out in paragraph 5 of this letter.

## 2 The Proposals

The Proposals comprise:

- (i) an equity raising of £13.5 billion (£13 billion net of the expenses of the Proposals) by way of a Rights Issue. The Rights Issue is fully underwritten pursuant to the Rights Issue Underwriting Agreement and the HMT Undertaking to Subscribe. The Issue Price at which Qualifying Shareholders will be invited to subscribe for New Shares will be determined by the Company and the Joint Bookrunners in advance of the General Meeting and will be at a discount to the Theoretical Ex-Rights Price (“TERP”), taking account of market conditions and other relevant factors; and
- (ii) two separate Exchange Offers. Under the Exchange Offers, eligible holders of Existing Securities will be invited to offer to exchange such Existing Securities for either: (a) new lower tier 2 capital qualifying bonds which will be guaranteed by either the Company and/or Lloyds TSB Bank (“Enhanced Capital Notes” or “ECNs”) and which will convert into Ordinary Shares if the Group’s published consolidated core tier 1 capital ratio falls to less than 5 per cent.; or (b) in the Non-US Exchange Offer only, an Exchange Consideration Amount which shall be settled in new Ordinary Shares or, at the election of the Company, cash or, in certain circumstances, ECNs. The Exchange Offers, and/or the underwriting arrangements related thereto, will create at least £7.5 billion in core tier 1 and/or nominal value of contingent core tier 1 capital. While the Exchange Offers are underwritten up to £7.5 billion, to the extent that the Exchange Offers are successful and that a market develops in ECNs, the Directors believe it is in the best interests of the Company to have the flexibility to issue further ECNs to satisfy demand.

The Proposals are fully underwritten, pursuant to the Underwriting Agreement and the HMT Undertaking to subscribe, as discussed further in paragraph 8 of this letter and sections 8.5 and 8.6 of Part XX (“Additional Information”) of the Rights Issue Prospectus. Each element of the Proposals is conditional on the approval by the Ordinary Shareholders of the Proposals Resolutions which include the HMT Transactions and the Share Subdivision).

A more detailed summary of the terms of the Exchange Offers is set out in paragraph 8 and Part A of the Appendix to this letter. **No offer of Nil Paid Rights, Fully Paid Rights, New Shares or ECNs is being made by means of this document.** Full details of the Rights Issue and the Exchange Offers, as the case may be, will be made available to eligible investors or holders in the Rights Issue Prospectus and PALS and the Exchange Offer Memoranda, respectively.

### 3 Rationale and key benefits of the Proposals

#### **Rationale**

As discussed further in paragraph 7 of this letter, the Board believes that the economic environment in the UK has begun to stabilise and that the UK economy is now expected to return to growth in 2010. This represents a significantly more positive environment for the Group than the conditions prevailing when the FSA Stress Test was carried out in March 2009, the time at which the Group announced its intended participation in GAPS. As previously announced, the Board continues to expect that the Group's overall impairments in the second half of the year will be significantly lower than those incurred in the first half, with progressive reductions expected thereafter.

Claims under GAPS could only be made after the First Loss (as defined in paragraph 6 of this letter) had been exceeded. However, based on the Board's view of the economic outlook for the UK, the Group does not expect that its overall impairments will be high enough to justify entering into GAPS. On this basis the Group would not expect to make any claim were it to participate in GAPS, but would nevertheless still incur significant costs. Even if the UK economy were to deteriorate to the level assumed in the FSA Stress Test, which the Board considers to be unlikely, the Board believes that the net amounts that the Group would have received under GAPS would have been less than the £15.6 billion participation fee which it would have been required to pay to participate in GAPS on the terms announced in March.

Accordingly, the Board is of the view that an alternative approach to meeting its current and long-term capital commitments, in the form of the Proposals, is in the best interests of the Group and its shareholders. The Proposals have been structured in consultation with the FSA. The Board is therefore confident that the Proposals, together with other management actions which the Board considers to be readily actionable, will generate sufficient capital to ensure that the Group no longer requires the asset protection which it would have obtained through participation in GAPS, even if the severe scenario envisaged by the FSA Stress Test were to occur. The Board believes that the Proposals represent a significant step in meeting its long-term objective: that the Group operates as a wholly privately-owned, self-supporting commercial enterprise.

The Board is pleased that it is now able to offer a market-based solution to meet its capital requirements. Such a solution was not available to the Group at the time of the announcement of the Group's intended participation in GAPS in March 2009.

#### **Key benefits**

Were it to participate in GAPS, the Group would benefit from certain loss and regulatory capital relief (as set out in more detail in paragraph 6 of this letter). However, the Board believes that the Proposals offer substantial benefits to shareholders, both on their own merits and as a significantly more attractive option in comparison to GAPS, for the reasons described in more detail below. The Board believes that the Proposals, after taking into account the GAPS Payment, will enhance both earnings per share and returns on equity for the Company relative to GAPS, even if the UK economy deteriorates to the level implied by the FSA Stress Test, which the Board considers to be unlikely.

**Substantial increase in non-amortising core tier 1 equity capital:** The Rights Issue will raise a total of £13.5 billion of immediately available and non-amortising core tier 1 capital, before expenses of the Proposals. Had the Rights Issue been completed as at 30 June 2009, the Group would have had a *pro forma* core tier 1 capital ratio of approximately 8.6 per cent., after taking into account expenses of the Proposals and the GAPS Payment. The Board considers that this implied level of core tier 1 capital represents a strong capital foundation to support the future stability and success of the Group.

Moreover, the core tier 1 capital raised by the Rights Issue will be available to absorb potential losses across all of the Group's assets, as opposed to GAPS which would only protect against losses on those particular assets covered by the scheme. The core tier 1 capital which would be created on conversion of the ECNs (if and when they were to convert) would also be available to absorb potential losses across all the Group's assets.

By contrast, based on the terms announced in March 2009, GAPS would have created an initial £15.6 billion of core tier 1 capital through the subscription by HM Treasury, using the GAPS participation fee, for B Shares. However, the core tier 1 capital benefit of £15.6 billion from the issue of the B Shares would have been largely offset over the subsequent seven-year period by

the GAPS participation fee which would have been amortised through the Group's income statement. After taking tax into consideration, this would have reduced core tier 1 capital by £11.2 billion. Furthermore, although GAPS would offer an additional core tier 1 capital benefit by providing capital relief on the risk-weighted assets that would initially have been included in the scheme, this benefit would have reduced significantly as the assets within GAPS matured or otherwise ceased to be covered by GAPS in the short-to-medium term.

**Improved capital efficiency and lower shareholder dilution:** The ECNs to be issued pursuant to the Exchange Offers have been designed to provide capital to the Group without being dilutive to shareholders at the time of their issue. The ECNs will qualify at the time of their issue as lower tier 2 capital and automatically convert into Ordinary Shares if the Group's published consolidated core tier 1 capital ratio falls to less than 5 per cent. thereby increasing the Group's core tier 1 capital at such time. In the event of a conversion pursuant to this feature, up to £7.5 billion of core tier 1 capital would be generated. This provides protection against unexpected deterioration in the UK economy and the effect that such deterioration would have on the Group's capital ratios. Conversion of the ECNs, and the resulting dilution of Ordinary Shareholders, would only occur if the Group's results (in particular impairments) were significantly worse than the Board currently expects.

By contrast, under GAPS, the B Shares to be issued to HM Treasury, at a cost to HM Treasury of £15.6 billion, would have been available for conversion at HM Treasury's option into 13.6 billion Ordinary Shares, and would have converted automatically if the volume weighted average trading price of the Ordinary Shares equalled or exceeded 150 pence per Ordinary Share for 20 complete trading days in any 30 trading day period. Upon such conversion, HM Treasury's ownership of the Company would have increased to approximately 62.3 per cent. from its current level of 43.4 per cent. This substantial dilution to Ordinary Shareholders (other than HM Treasury) would, therefore, have occurred in the event that the Company's share price increased to such levels or if HM Treasury exercised its option to convert to Ordinary Shares.

**Cost effective:** By implementing the Proposals, although the Group will be required to make the GAPS Payment, the Group will not have to pay the £15.6 billion GAPS participation fee to HM Treasury. In addition, the Company will not issue any B Shares and, accordingly, will not have to pay HM Treasury the proposed annual dividend on the B Shares of at least £1.1 billion, subject to the Company having sufficient distributable reserves.

**Improved EU state aid position relative to GAPS:** Based on discussions with HM Treasury and the European Commission, the Board believes that, should shareholders adopt the Proposals, the total amount of state aid received by the Group will be significantly lower than would have been expected to be the case had the Group participated in GAPS. The Board believes that this will significantly reduce the severity of the final terms of the restructuring plan required by the European Commission to limit distortions of competition resulting from the state aid received by the Group. An update on the Group's current state aid position is set out in paragraph 5 of this letter.

**No additional administrative and operational burden:** Participation in GAPS would have required the Group to create an additional administrative and reporting infrastructure that would have been costly, both from a financial perspective and in terms of management time. This would have inhibited the Group's operational and commercial efficiency and flexibility and absorbed substantial Group resources.

Further detailed information on the background to GAPS and the Proposals, including the reasons for the Board concluding that not participating in GAPS is preferable to renegotiating an amended scheme, is set out in the remaining paragraphs of this letter.

#### **4 GAPS Withdrawal Deed; HMT Undertaking to Subscribe**

##### *GAPS Withdrawal Deed*

Alongside the Proposals, the Company has entered into the GAPS Withdrawal Deed. This agreement sets out the various commitments and terms agreed with HM Treasury including with respect to the implementation of the expected state aid remedies (for further detail, see paragraph 5 of this letter).

The GAPS Withdrawal Deed provides that the Group shall, subject to state aid approval being obtained and to Resolution 4 being approved by the Ordinary Shareholders (excluding HM Treasury) at the General Meeting, make the GAPS Payment. This is a fee which the Group is proposing to pay to HM Treasury for the benefit to the Group's trading operations arising as a



result of HM Treasury proposing to make GAPS available to the Group from the time of the Group's announcement of its intention to participate in GAPS in March 2009 until the announcement of the Proposals. Payment of a fee is also required by the European Commission as part of the expected state aid remedies.

Had the Group not reached agreement with HM Treasury on the amount of the GAPS Payment, the Group would not be able to pursue and implement the Proposals since payment of an agreed fee is a pre-requisite to finalising negotiations with the European Commission in respect of the remedies to address the state aid the Group has received, as described further in paragraph 5 of this letter.

The terms announced in March in connection with the Group's intended participation in GAPS did not address whether a fee should be paid by the Group if it did not ultimately accede to GAPS. Therefore there is no contractual measure by which the Group can determine the level of such fee. Furthermore, whilst the European Commission has required that a commercially appropriate fee be paid, they have not prescribed the amount. The GAPS Payment has been negotiated between the Company and HM Treasury and is expected to be approved by the European Commission.

In order to determine what level of fee it would be appropriate to pay, the Group sought to quantify the benefit to the Group's trading operations arising as a result of HM Treasury making GAPS available to the Group.

The benefit to the Group has been calculated based on an estimate of the cost of capital for the Group equal to the amount of regulatory capital benefit which the Directors consider would have been received by or generated for the Group through GAPS for the period from the announcement of the Group's intention to participate in GAPS until today's date. Had GAPS not been available to the Group it would have needed to raise further capital. The calculation is difficult and, in some material respects, relies upon subjective judgements of some complexity and uncertainty. However, the amount of such regulatory capital benefit is based on: (i) the reduction of risk-weighted assets which would have arisen by virtue of GAPS; and (ii) the issuance of the B Shares. In order to determine the cost of capital for the Group, a range of outcomes can be derived from long-term historical data as well as relevant market transactions during the period. However, in this case, the Board took into account the fact that, in March 2009, the capital markets were under severe stress and the cost of capital for the Group would have been correspondingly materially higher than might have been available were only long-term historical data being used.

There are several other reasonable and supportable bases on which one can seek to quantify the benefit to the Group, and therefore the appropriate amount of the GAPS Payment. Before coming to an agreement with HM Treasury on the amount of the GAPS Payment based on the cost of capital for the Group, the Group carried out a number of analyses, in addition to the analysis referenced above, and determined a range of amounts which the Board believes reflect the amount of benefit received by the Group. The amount of the GAPS Payment negotiated and agreed with HM Treasury falls within the range of such appropriate amounts, albeit at the high end of that range. However, the Board believes that the GAPS Payment is a proportionate fee and reflects the amount of benefit received by the Group's trading operations.

The Board, having assessed carefully the amount of the GAPS Payment and the substantial benefits of the Proposals, believes that the Proposals, after taking into account the GAPS Payment, will enhance earnings per share and returns on equity for the Company relative to GAPS and, therefore, represent superior economic value to shareholders.

The GAPS Withdrawal Deed also includes undertakings by the Company in respect of certain other matters. In particular, with respect to remuneration, the Company has acknowledged its commitment to the principle that, from 2010, it should be at the leading edge of implementing the G20 principles, the FSA code on remuneration and any remuneration provisions accepted by the Government from the Walker Review, provided that this principle shall always allow the Group to operate on a level playing field with its competitors. In addition, the Company has agreed with HM Treasury the specific deferral and clawback terms which will apply to any bonuses in respect of the 2009 performance year.

Furthermore, under the GAPS Withdrawal Deed, the Group has agreed to reaffirm the lending commitments which were originally given in the Lending Commitments Deed entered into by the Group on 6 March 2009 in connection with the Group's then proposed participation in GAPS. Under those lending commitments, the Company agreed 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). The Group has agreed to maintain similar levels of lending in the 12 months commencing 1 March 2010, subject to adjustment of the funding commitments by agreement with HM Treasury, the Department for Business, Innovation and Skills and the Department for Communities and Local Government to reflect circumstances at the start of the 12-month period commencing 1 March 2010.

This additional lending in 2009 and 2010 is expressed to 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 8.2 of Part XX ("Additional Information") of the Rights Issue Prospectus). This lending commitment is part of the Group's ongoing support for UK businesses and homeowners.

The Group has additionally pledged its support for various Government schemes designed to provide additional funding for small businesses, and has also published charters for its small business customers making a range of pledges to help firms through the downturn.

#### *HMT Undertaking to Subscribe*

Under the HMT Undertaking to Subscribe, subject to certain terms and conditions, HM Treasury has irrevocably undertaken to procure that the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) (i) votes in favour of all of the Resolutions in accordance with the recommendation of the Board (except for the related party transaction resolution (Resolution 4) approving the HMT Transactions) and (ii) takes up its rights to subscribe for all of the New Shares to which it is entitled under the Rights Issue. The HMT Undertaking to Subscribe is conditional upon, among other things, the passing of Resolution 4 approving the HMT Transactions. Conditional upon (ii) above and the receipt by the Company of the aggregate subscription proceeds payable by HM Treasury, the Company has agreed to pay to HM Treasury (or to such other person as HM Treasury may direct) the HMT Commitment Commission. If HM Treasury had not committed to participate in full in respect of its entitlements under the Rights Issue, then the Group would have sought to ensure that HM Treasury's entitlement under the Rights Issue would have been covered by the underwriting commitments given by the Underwriters in which case an amount similar to that to be paid to HM Treasury would have been expected to have been paid instead to the Underwriters. Further details of the HMT Undertaking to Subscribe are set out in section 7.2 of Part XX ("Additional Information") of the Rights Issue Prospectus.

#### *Related Party Transaction*

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. Making the GAPS Payment and payment of the HMT Commitment Commission (together the "HMT Transactions") are each "related party transactions" (as defined in the Listing Rules). The HMT Transactions must, pursuant to the Listing Rules, each be approved by the Ordinary Shareholders other than the related party, that is HM Treasury. Resolution 4 seeks approval for the HMT Transactions. However, HM Treasury shall not be entitled to vote on such Resolution. HM Treasury has further undertaken, as required by the Listing Rules, to take all reasonable steps to ensure that its associates, if any, will not vote on that Resolution.

## **5 State Aid**

The Group has previously announced that, as a result of HM Treasury's investment in the Company in the context of the placing and open offer undertaken by the Company in November 2008 and the Group's participation in the Credit Guarantee Scheme, the Group has been required to work with HM Treasury to submit a restructuring plan to the European Commission in the context of a state aid review. Any such plan is required to contain measures to limit any competition distortions resulting from the state aid received by the Group.

The European Commission has made it clear that it will require the Group to divest a standalone UK banking business as a condition of obtaining state aid approval and may also require behavioural restrictions as part of the restructuring plan. Accordingly, over the past few months, HM Treasury and the Group have been involved in detailed negotiations with the European Commission in relation to the terms of the restructuring plan (including the ultimate compensatory measures) in order to reach a mutually acceptable solution.



The ultimate decision regarding the approval of the UK Government's state measures, including the terms of the final restructuring plan, will be taken by the College of Commissioners (which the Board expects to occur before the end of 2009), and therefore at this stage there can be no certainty as to the outcome of the state aid proceedings and the content of the final restructuring plan. See the risk factor described in section 1.3 of Part II ("Risk Factors") of the Rights Issue Prospectus for further discussion of the risks relating to the state aid proceedings. The Board expects, however, based on the outcome of its negotiations with HM Treasury and the European Commission, that the final restructuring plan will consist of the following principal elements:

- (i) the disposal of a retail banking business with at least 600 branches, a 4.6 per cent. share of the personal current accounts market in the UK and approximately 19 per cent. of the Group's mortgage assets. The business would consist of:
  - the TSB brand;
  - the branches, savings accounts and branch based mortgages of Cheltenham & Gloucester;
  - the branches and Branch Based Customers of Lloyds TSB Scotland and a related banking licence;
  - additional Lloyds TSB branches in England and Wales, with Branch Based Customers; and
  - Intelligent Finance,and would need to be disposed of within four years;
- (ii) an asset reduction programme to achieve a £181 billion reduction in a specified pool of assets by 31 December 2014; and
- (iii) behavioural commitments, including commitments:
  - not to make certain acquisitions for approximately three to four years; and
  - not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31 January 2010 until 31 January 2012, which will prevent the Group from paying dividends on its ordinary shares for the same duration.

The assets and liabilities, and associated income and expenses, of the business to be divested (referred to in sub-paragraph (i) above) cannot be determined with precision until nearer the date of sale. However, the Company estimates that, as at 31 December 2008 and after aggregating the elements relating to Lloyds TSB and HBOS, the business to be divested comprised approximately £70 billion of customer lending and £30 billion of customer deposits and, on this basis, approximately £18 billion of risk-weighted assets. For the year ended 31 December 2008, the Board estimates that the business to be divested generated income of approximately £1.4 billion and, after associated direct expenses of approximately £600 million and impairment charges of £300 million, contributed approximately £500 million of profit before tax to the Group.

The Board believes that the restructuring plan as described above is sufficient to obtain approval from the European Commission for the state aid the Group has received, including to the extent that HM Treasury's participation in the placing and compensatory open offer in June 2009 and in the Rights Issue might constitute state aid, as well as any commercial benefit received by the Group following the Group's announcement in March 2009 of its intention to participate in GAPS. The Board is confident that this restructuring plan will not have a materially negative impact on the Group.

The Company has agreed with HM Treasury in the GAPS Withdrawal Deed that the Company will comply with the terms of the European Commission's final decision (see section 7.1 of Part XX ("Additional Information") of the Rights Issue Prospectus for a summary of the GAPS Withdrawal Deed).

## **6 Background to GAPS**

Given the extremely uncertain outlook for the UK economy at the end of 2008 and into 2009, the Group worked with the FSA to identify and analyse the potential impact of an extended and severe UK recession on the Group's regulatory capital ratios. Due to the significant uncertainty at that time over the length and depth of the recession, the Group was tested against the FSA Stress Test.

The FSA has stated that the assumptions underlying the FSA Stress Test were not intended to be a forecast of what was likely to happen, but were designed to be a severe economic scenario. These assumptions included a peak-to-trough fall in UK GDP of over 6 per cent., with growth not returning until 2011 and only returning to trend-rate growth in 2012. They also included assumptions that unemployment would rise to just over 12 per cent., that the UK would experience a 50 per cent. peak-to-trough fall in house prices and that there would be a 60 per cent. peak-to-trough fall in commercial property prices.<sup>1</sup>

The conclusion from this exercise was that the Group would need additional capital to enable it to absorb the future impairments anticipated in such a severe scenario.

As a result, on 7 March 2009, the Group announced its intention to participate in GAPS in respect of certain assets with an aggregate par value of approximately £260 billion. This announcement was made, in part, on the basis of the term sheet published by HM Treasury on 26 February 2009, which set out the expected key terms, conditions and operational principles of GAPS.

As consideration for entering into GAPS, it was expected that the Group would pay a participation fee to HM Treasury of £15.6 billion, to be amortised over an estimated seven-year period. The proceeds of this fee would have been applied by HM Treasury in subscribing for an issue of B Shares by the Company. In addition to the participation fee, the Group would also have had to assume 100 per cent. of the losses relating to the first £35 billion of impairments (including historical impairments and write-downs) relating to the assets covered by GAPS (the "First Loss") and a further 10 per cent. of cumulative losses in the whole portfolio of assets thereafter, up until the date specified as the maturity date of each covered asset.

The £15.6 billion of B Shares would have carried an annual dividend to be paid to HM Treasury (subject to the availability of distributable reserves and any restriction on payment of dividends that might have been required by the European Commission) of the greater of 7 per cent. of the issue price of the B Shares and 125 per cent. of any dividend on Ordinary Shares for each period. It was expected that the dividend payable on the B Shares would have been at least £1.1 billion per annum, subject to the availability of distributable reserves.

The entry into GAPS was intended to provide two key benefits to the Group. First, loss relief, particularly in a scenario of severe economic stress such as would be implied by the FSA Stress Test. Once the First Loss had been utilised the Group would not have been exposed to the full amount of losses it might otherwise have incurred in respect of non-performing assets covered by the scheme. Second, the entry into GAPS was intended to provide regulatory capital relief (or an increase in the Group's core tier 1 capital ratio), arising from a reduction in the Group's risk-weighted assets as well as the generation of new core tier 1 capital through the issuance of the B Shares.

As explained in paragraph 7 of this letter, however, the Board no longer believes that the entry into GAPS, either on the terms announced in March 2009 or on any such revised terms which the Board believes may currently be available to the Group, is in the best economic interests of its shareholders.

## **7 Background to the Proposals**

The Group accepts and agrees with the merits of severe stress testing of regulatory capital, and the Proposals, together with other management actions which the Board considers to be readily actionable, are specifically designed to provide the capital enhancement that the Board believes is necessary to meet the capital requirements of the FSA Stress Test. The Board believes that, since commencing the negotiation of the terms of GAPS, the UK economy has begun to stabilise and is now expected to return to growth in 2010. Accordingly, the Board believes that the likelihood of the UK economy deteriorating to the levels implied by the FSA Stress Test, the assumptions behind which remain unchanged, is now materially lower than was the case in March 2009.

Since March 2009, the Group's core business has proved to be resilient despite the difficult economic circumstances under which it has had to operate.

In addition, the Group has completed detailed credit reviews of the Group's asset portfolio in accordance with the Group's risk management approach, including, most importantly, the legacy HBOS portfolio and file-level credit reviews of the Group's wholesale portfolio. This analysis, in conjunction with management's view of the economic outlook for the UK, underpins the Board's

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<sup>1</sup> Source: FSA statement on its use of stress tests, FSA/PN/068/2009.

belief that the Group's overall impairments peaked in the first half of the current year, and that overall impairments in the second half of the year will be lower than in the first half. It also gives the Board a high level of confidence both in the adequacy of the substantial impairments which it has already taken against these assets (including with respect to the Group's commercial and residential property exposures) and in the scale and timing of expected future impairments. Further detail on Group impairments by division is set out below, and in the Interim Management Statement (set out in full in the appendix to Part IX ("Information on the Group") of the Rights Issue Prospectus).

### **Impairments**

A significant proportion of the Group's impairments to date have originated in the Group's Wholesale division, primarily reflecting the significant and rapid decline in commercial property prices and reducing levels of corporate cash flow. The Group's impairments were also impacted by the exposures in certain legacy HBOS portfolios, which were more sensitive to the downturn in the economic environment. Having analysed the portfolio of wholesale assets, the Board expects a significant overall reduction in the Wholesale impairment charge in the second half of 2009, with a further improving trend in 2010.

In the Retail division, the Company has experienced a change in the mix of impairments in the first half of 2009, as the relative weighting between secured and unsecured impairments returned to a more normal pattern. This change has been more positive than expected due to a variety of factors, including: (i) a stabilising outlook for house prices (which has had a positive impact, primarily on the secured portfolio); (ii) increasing levels of unemployment (which has had a negative impact, primarily on the unsecured portfolio); and (iii) lower than previously expected house repossessions as customers benefit from the low interest rate environment and therefore lower mortgage payments (which has had a positive impact, primarily on the secured portfolio). In light of these trends, and management's expectations with regard to the UK economic outlook, the Board believes that Retail impairments will peak in the second half of 2009, with an improving trend expected in 2010.

In the Wealth and International division, the impairment charge increased in the first half of 2009 reflecting significant provisions against the Group's Irish and Australian commercial real estate portfolios. The Group continues to have ongoing concerns with regard to the outlook for the Irish economy and expects the high level of impairments to continue throughout 2009 and in 2010.

In conclusion, given its view of the economic outlook for the UK, the Board believes that, at the Group, level the overall impairment charge has now peaked and that the overall impairment charge in the second half of 2009 will be significantly lower than the overall impairment charge in the first half of 2009, with a significantly improving trend thereafter.

### **GAPS**

Since 7 March 2009, the Company has been working closely with HM Treasury to finalise the terms and conditions and operational mechanics of the Group's participation in GAPS. However, as these terms and conditions were being negotiated, it became clear that the benefits of GAPS to the Group would have been materially less extensive and that the costs to the Group of participating in the scheme, both financially and in terms of management time, would have been materially higher (and the impact on the Group materially more onerous) than was anticipated by the Board at the time its intended participation in GAPS was announced. The following issues in particular are relevant:

**Capital Relief:** The capital relief arising as a result of the large reduction in risk-weighted assets would have been much lower than had been anticipated by the Board in March 2009. This is due to various factors, including the fact that: (i) in March 2009 significant benefit was expected to arise in respect of the Group's Treasury assets (however, the Group has (with FSA approval) successfully securitised those assets and thereby reduced the risk-weighting of the assets); and (ii) updated, more accurate forecasting has changed the Group's expectations of its quantum of risk-weighted assets. Further, it has become clear to the Board that the operation of GAPS, as it would apply to the Group, would serve to remove certain assets from coverage within a short period after commencement of the scheme which would mean the risk-weighted asset relief afforded by GAPS would reduce more quickly than had been anticipated by the Board in March.

**GAPS Rules:** The development of the detailed scheme rules for GAPS since the GAPS term sheet was published in February 2009 has meant that in many areas the scheme rules are more

disadvantageous for the Group than the position which had been anticipated by the Board when it announced its initial intention to participate. In practice, the Board believes it is highly likely that the operation of GAPS would have been economically unsatisfactory for the Group. For example, although it is expected that under GAPS losses relating to restructuring events would be covered, the Group may not have benefitted from full coverage for certain restructuring and refinancing activities.

### **Consideration of alternative solutions**

These circumstances and improved economic conditions caused the Board to consider alternative solutions that might provide superior economic value to shareholders than entry into GAPS. These potential alternative solutions included:

- renegotiating the commercial terms of GAPS, the type and quantum of assets covered by the scheme and the scheme rules;
- not entering into GAPS at all and instead raising sufficient additional capital on the public capital markets; or
- a combination of either of the above options.

Over the past few months, the Board has had negotiations with HM Treasury and discussions with other relevant authorities in relation to these potential alternatives. The Board gave careful consideration to possible alternative formulations of GAPS, including a possible combination of a smaller version of GAPS with elements of the Proposals. The Board concluded it would not be in the best interests of its shareholders to pursue these alternative formulations for the reasons set out below:

- **State aid:** The alternative formulations of GAPS would, in the view of the Board, constitute additional state aid, which would likely require more severe compensatory measures than is expected to be the case if the Proposals are implemented;
- **Uncertainty of outcome and potential delay:** There was no agreement between the Group and HM Treasury either on the general outline of any specific alternative formulation of GAPS or on the precise commercial terms on which any alternative formulation would have been made available to the Group. While the Board believes that, had negotiations continued, they would have been conducted in good faith, it had no certainty as to the outcome of such negotiations or whether or when such negotiations would have been concluded to the parties' mutual satisfaction, whereas the Proposals can be implemented immediately;
- **Shareholder dilution:** The issue of any B Shares in connection with a renegotiated or reduced form of GAPS would still have resulted in dilution for Ordinary Shareholders (other than HM Treasury) and would have increased the percentage holding of HM Treasury in the Company, thereby potentially delaying and making more difficult any eventual orderly exit by HM Treasury from its shareholding;
- **Non-market-based solution:** The Board's aim is that the Group returns to being a self-standing, wholly privately-financed institution as soon as practicable. The Board believes that the Proposals advance this objective more quickly and effectively than would have been the case had the Group participated in GAPS. At the same time, the Proposals improve the quality of the Group's capital structure in a way that is to the long-term benefit of the Group; and
- **Cost and complexity:** The alternative formulations of GAPS would have involved additional administrative and reporting structures which would, in the Board's view, have inhibited the Group's operational and commercial flexibility.

## **8 Principal terms of the Proposals**

### **Rights Issue**

The Group is proposing to raise £13.5 billion by way of the Rights Issue.

The Rights Issue is fully underwritten pursuant to the Rights Issue Underwriting Agreement and the HMT Undertaking to Subscribe. The Issue Price at which Qualifying Shareholders will be invited to subscribe for New Shares will be determined by the Company and the Underwriters in advance of the General Meeting and will be at a discount to TERP. The Issue Price is expected to be announced on 24 November 2009, two days before the General Meeting.



Under the Rights Issue, the New Shares will be offered by way of rights to all Qualifying Shareholders (other than, subject to certain exceptions as set out in section 2.5 of Part VIII (“Terms and Conditions of the Rights Issue”) of the Rights Issue Prospectus, Qualifying Shareholders with a registered address or resident in the United States or any other Restricted Jurisdictions).

Entitlements to New Shares will be rounded down to the nearest whole number and fractions of New Shares will not be allotted to Qualifying Shareholders but will be aggregated and the resulting New Shares will be issued to subscribers in the market for the benefit of the Company. Holdings of Existing Qualifying Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue, as will holdings under different designations and in different accounts.

The New 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 New Shares, as described below.

Applications will be made to the UK Listing Authority for the New Shares to be admitted to the Official List and to the London Stock Exchange for the New 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 New Shares on the London Stock Exchange will commence at 8.00 a.m. on 27 November 2009.

Some questions and answers, together with details of further terms and conditions of the Rights Issue including the procedure for application and payment, are set out in Parts VII (“Some Questions and Answers about the Rights Issue”) and VIII (“Terms and Conditions of the Rights Issue”) of the Rights Issue Prospectus and, for Qualifying Non-CREST Shareholders, will also be set out in the Provisional Allotment Letters and the Shareholder Guide.

#### **Exchange Offers**

The Group will generate at least £7.5 billion of core tier 1 and/or nominal value of contingent core tier 1 capital through the Exchange Offers and/or the related underwriting arrangements.

The Exchange Offers comprise two separate offers in respect of Existing Securities issued by various members of the Group, as follows:

- (i) an offer to be conducted in certain countries outside the United States and will be available only to non-US persons with respect to 52 series of Existing Securities, comprising upper tier 2 capital securities in an aggregate principal amount of £2.52 billion, innovative tier 1 securities in an aggregate principal amount of £7.68 billion and preference shares (or equivalents) in an aggregate liquidation preference/principal amount of £4.09 billion; and
- (ii) a separate offer to the holders of six series of Existing Securities, comprising upper tier 2 capital securities in an aggregate principal amount of £1.74 billion and tier 1 securities in an aggregate principal amount of £0.46 billion, which is being made in certain countries outside the United States and to certain sophisticated holders in the United States who are “qualified institutional buyers” as defined in Rule 144A of the Securities Act.

Certain eligible holders of the Existing Securities will be invited to offer to exchange their Existing Securities for either: (i) Enhanced Capital Notes on a par-for-par basis; or (ii) (in the Non-US Exchange Offer only) an Exchange Consideration Amount (up to a limit of £1.5 billion) which shall be settled in Ordinary Shares or, at the election of the Company, cash or, in certain circumstances ECNs.

Eligible holders of those Existing Securities which are accepted for exchange into the relevant Exchange Consideration Amount will receive, following a delayed settlement period of 90 days, such Exchange Consideration Amount in the form of Ordinary Shares or, at the election of the Company, cash (or, in the limited circumstances described below, ECNs). The number of Ordinary Shares to be delivered in satisfaction of such Exchange Consideration Amount shall be based on the higher of (i) the arithmetic average of the volume-weighted average trading price of the Ordinary Shares to be determined over a five trading day period towards the end of the delayed settlement period (the “VWAP”) and (ii) 90 per cent. of the Ordinary Share closing price on 11 February 2010. The Company may satisfy some or all of the Exchange Consideration Amount (being an amount up to £1.5 billion) in either cash or Ordinary Shares, provided that the maximum number of Ordinary Shares to be issued for this purpose will not exceed a number, the value of which is equal to £1.5 billion (or, if the total Exchange Consideration Amount is less than £1.5

billion, such lesser amount) divided by 75 per cent. of the Unadjusted Conversion Price, subject to adjustment for the impact of the Rights Issue. To the extent that the value of all such Ordinary Shares is less than £1.5 billion, holders will, on the delayed settlement date, receive ECNs on the same par-for-par basis as described above to satisfy any such short fall.

The Exchange Offers described above are not being made by means of this document. The Non-US Exchange Offer is not being made available to U.S. persons. The Non-US Exchange Offer is not being made, directly or indirectly in or into, or by use of the mail of, or by any means or instrumentality or foreign commerce of, or of any facilities of a national securities exchange of, the United States as defined under Regulation S of the Securities Act, or for the account or benefit of, U.S. persons.

The Exchange Offers have not been registered under the Securities Act. Securities offered pursuant thereto may not be offered or sold within the United States absent registration or an applicable exemption from the registration requirement of the Securities Act.

### **Underwriting**

The Proposals are being fully underwritten pursuant to the Underwriting Agreements.

### **Rights Issue**

The Rights Issue is fully underwritten pursuant to the Rights Issue Underwriting Agreement and the HMT Undertaking to Subscribe. The New Shares will be issued at price equal to the higher of (i) 15 pence per New Share and (ii) a price which is within a range of 38 per cent. to 42 per cent. discount to TERP, taking account of market conditions and other relevant factors. Sufficient New Shares will be issued to ensure that the gross proceeds of the Rights Issue receivable by the Company, including pursuant to the HMT Undertaking to Subscribe, are not less than £13.5 billion. To the extent that any New Shares are not subscribed for or are otherwise deemed not to be taken up or placed within the Rump Placing, the Joint Bookrunners, the Senior Co-Lead Managers and the Co-Lead Managers will severally subscribe for such number of New Shares (excluding any New Shares to be subscribed by HM Treasury pursuant to the HMT Undertaking to Subscribe) at the Issue Price as is required to ensure that the gross proceeds of the Rights Issue received by the Company, including pursuant to the HMT Undertaking to Subscribe, are not less than £13.5 billion.

A summary of the principal terms and conditions of the Rights Issue Underwriting Agreement is set out in section 8.5 of Part XX (“Additional Information”) of the Rights Issue Prospectus.

### **Exchange Offers**

The Exchange Offers are also fully underwritten pursuant to the Additional ECN Issues Underwriting Agreement. This means that, to the extent that the Exchange Offers, together with any other liability management transactions that might be undertaken by the Group (acting reasonably and in consultation with the Underwriters) prior to 30 April 2010, do not generate £7.5 billion or more of core tier 1 capital and/or nominal value of contingent core tier 1 capital, the Additional ECN Underwriters will underwrite one or more further issues of additional ECNs in an aggregate amount sufficient to reduce such shortfall to zero.

A summary of the principal terms and conditions of the Additional ECN Issues Underwriting Agreement is set out in section 8.6 of Part XX (“Additional Information”) of the Rights Issue Prospectus.

Once the Resolutions relating to the Proposals have been approved, each of the Proposals shall proceed independently of one another.

## **9 Impact of conversion**

The ECNs will convert into Ordinary Shares in certain circumstances. This could have the effect of materially diluting the interests of Ordinary Shareholders at the time of any conversion. **For further details on how such dilution might impact Ordinary Shareholders, please refer to Part C of the Appendix to this letter.**

## **10 Share Subdivision**

Under the Companies Act, it is not permissible for a company to issue shares at a discount to their nominal value, which, in respect of the Existing Ordinary Shares is currently 25 pence per share. It is proposed that the Company carries out the Share Subdivision which will reduce the

nominal value to 10 pence per share. This provides the Company and the Joint Bookrunners with greater certainty that the Issue Price will be able to be set at a 38 per cent. to 42 per cent. discount to TERP irrespective of market conditions. The Board believes that the Share Subdivision also provides the Company access to the best available underwriting structure and terms. Although no decision has currently been made as to the Issue Price, in no circumstances will the Issue Price be below 15 pence. As noted in paragraph 8 of this letter, the Issue Price is expected to be announced on 24 November 2009, two days before the General Meeting. The Proposals are conditional on, amongst other things, the completion of the Share Subdivision.

It is proposed that, pursuant to the Share Subdivision, each existing Ordinary Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided into one ordinary share of 10 pence in the capital of the Company (a "10p Ordinary Share") and one deferred share of 15 pence in the capital of the company (a "Deferred Share"). The purpose of the issue of Deferred Shares is to ensure that the reduction in the nominal value of the Ordinary Shares does not result in a reduction in the capital of the Company.

Each Ordinary Shareholder's proportionate interest in the Company's issued ordinary share capital will remain unchanged as a result of the Share Subdivision. Aside from the change in nominal value, the rights attaching to 10p Ordinary Shares (including voting and dividend rights and rights on a return of capital) will be identical in all respects to those of existing Ordinary Shares. No new share certificates will be issued in respect of the 10p Ordinary Shares as existing share certificates for existing Ordinary Shares will remain valid in respect of the same number of 10p Ordinary Shares arising from the Share Subdivision. The number of Ordinary Shares of the Company listed on the Official List and admitted to trading on the London Stock Exchange's main market for listed securities shall not change as a result of the Share Subdivision. The Share Subdivision will not affect the Group's or the Company's net assets. Consequently, the market price of a 10p Ordinary Share immediately after completion of the Share Subdivision should, theoretically, be the same as the market price of an Ordinary Share immediately prior to the Share Subdivision.

In addition, it is proposed that, pursuant to the Share Subdivision and as required by Article 3.1.4(i) of the Articles of Association, each existing Limited Voting Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided into one limited voting share of 10 pence (a "10p Limited Voting Share") and one Deferred Share. Aside from the change in nominal value, the rights attaching to 10p Limited Voting Shares will be identical in all respects to those of existing Limited Voting Shares. No new share certificates will be issued in respect of the 10p Limited Voting Shares as existing share certificates for existing Limited Voting Shares will remain valid in respect of the same number of 10p Limited Voting Shares arising from the Share Subdivision.

The Deferred Shares created on the Share Subdivision becoming effective will have no voting or dividend rights and, on a return of capital on a winding up of the Company, will have the right to receive the amount paid up thereon only after Ordinary Shareholders have received, in aggregate, any amounts paid up thereon plus £10 million per Ordinary Share.

No share certificates will be issued in respect of the Deferred Shares, nor will CREST accounts of shareholders be credited in respect of any entitlement to Deferred Shares, nor will they be admitted to the Official List or to trading on the London Stock Exchange or any other investment exchange. The Deferred Shares shall not be transferable at any time, other than with the prior written consent of the Directors. The rights attaching to, and restrictions upon, the Deferred Shares are set out in Resolution 6.

At the appropriate time, the Company may repurchase the Deferred Shares, make an application to the High Court for the Deferred Shares to be cancelled, or cancel, or seek the surrender of the Deferred Shares using such other lawful means as the Directors may determine.

## **11 Integration of HBOS and synergies update**

The Group has completed the planning of its key integration activities and the execution of a broad range of over 100 integration programmes is well underway just over nine months after the acquisition of HBOS. The Board is pleased with the progress made so far and remains confident that the Group will meet its commitment to deliver cost synergies and other operating efficiencies from the Acquisition of greater than £1.5 billion per annum by the end of 2011, notwithstanding the business impact of the expected state aid remedies as referred to in paragraph 5 of this letter. The Company's unaudited interim results announcement on 5 August 2009 highlighted that over £100



million of cost synergies were realised by the Group in the first half of 2009. On the basis of first half initiatives and programmes to be implemented during the second half of the financial year, the Group expects to finish 2009 with annualised run-rate cost savings of £750 million.

The integration of such a large enterprise as HBOS inevitably takes time, but once the full extent of the benefits of such integration are realised, particularly in light of the Group's view that the economic environment in the UK has begun to stabilise, the Board believes the Group will be in a strong position to create significant value for you, our shareholders.

## **12 Current trading, trends and prospects**

On 5 August 2009, Lloyds Banking Group announced its interim results for the half year ended 30 June 2009. Despite the significant impairments which were announced at that time, the Group was able to demonstrate the continued resilience of its core business.

As announced in the Interim Management Statement, the Group has continued to deliver a good revenue performance in the third quarter of 2009, with similar trends, excluding gains on liability management, to those delivered in the first half of the year. The Group's banking net interest margin has shown clear signs of stabilising in the third quarter of 2009, compared to the first half of the year. The Group continues to deliver a strong cost performance and, in addition, the Board feels that excellent progress has continued to be made on the integration of the enlarged Group, with the achievement of a higher run-rate of cost synergies than those previously announced. The overall run-rate of impairments has slowed in the third quarter of the year. As a result, the Group continues to expect impairments to fall significantly in the second half of 2009, compared to the first half of the year. As previously announced, the Group continues to expect to report a loss before tax for 2009, excluding the impact of the £11.2 billion credit relating to negative goodwill.

As reported in the Interim Results News Release, the Group has identified approximately £300 billion of assets associated with non-relationship lending and investments, including business which is outside its current risk appetite, which may have been earmarked for GAPS protection were the Group to participate in the scheme. The Group's approach to managing these assets would be the same whether or not it moves forward with the Proposals or participates in GAPS. It is the Group's intention to manage such assets for value and run them down over time given the current economic climate. Over the next five years, the Group expects to achieve a reduction in such assets of approximately £200 billion, which equates to approximately 20 per cent of the Group's total balance sheet assets as at 30 June 2009. The impact of running down those assets is not expected to have a materially negative impact on the Group's income over the five year period.

The full text of the Interim Management Statement is set out on pages 109 to 111 of the Rights Issue Prospectus.

## **13 Group capital and liquidity policies**

In September 2008, the Group set out a target that its core tier 1 capital ratio be in the range of 6 to 7 per cent. Reflecting the increase in expected levels of core tier 1 capital across the industry since that time, the Board's target has now been increased to be more than 7 per cent.

As discussed above, the Rights Issue will raise a total of £13.5 billion of core tier 1 capital before expenses of the Proposals and before the making of the GAPS Payment. Had the Rights Issue been completed as at 30 June 2009, this would have resulted in a pro forma core tier 1 capital ratio for the Group of approximately 8.6 per cent. after expenses of the Proposals and the GAPS Payment. Further details on the Group's capital resources and liquidity can be found in Part XV ("Capital Resources") of the Rights Issue Prospectus.

## **14 Working Capital**

The Company is of the opinion that, after taking into account existing available bank and other facilities, the Exchange Offers and the net proceeds of the Rights Issue, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

## **15 Dividends and dividend policy**

As a result of the expected state aid remedies referred to in paragraph 5 of this letter, the Company expects to be prevented from making discretionary (contractually deferrable or waivable) coupon and dividend payments on hybrid capital securities or making voluntary calls on such

securities from 31 January 2010 until 31 January 2012. Should the Group be prevented from making such payments, the Company will be restricted by the terms of such hybrid capital securities from paying dividends on its Ordinary Shares for the duration of such restrictions. However, the Board intends to resume dividend payments on its Ordinary Shares as soon as market conditions and the financial position of the Group permit, subject to the expiry of the restrictions outlined above. See also the risk factor described in section 1.5 of Part II (“Risk Factors”) of the Rights Issue Prospectus.

## **16 Lloyds Banking Group General Meeting**

The Proposals are conditional upon the approval of the Proposals Resolutions by the Ordinary Shareholders at the General Meeting. These Resolutions, together with other Resolutions intended to update the Directors’ authorities to allot shares generally and on a non-pre-emptive basis, to effect a capitalisation issue for holders of Limited Voting Shares as required by the Articles, and to buy back certain 6.3673 per cent. preference shares in order to simplify the Group’s capital structure, are set out in the notice convening a General Meeting of the Company to be held on 26 November 2009 at Hall 12, The Atrium, National Exhibition Centre, Birmingham B40 1NT at 11:00 a.m., 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 consider and, if thought fit, pass the Resolutions, a summary of which is set out in Part B of the Appendix to this letter.

As mentioned in paragraph 4 above, since the HMT Transactions involve Lloyds Banking Group’s substantial shareholder, HM Treasury (which at 30 October 2009, (being the last practicable date prior to the date of this document) indirectly held 11,798,531,471 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 HMT Transactions are conditional on the approval of Resolution 4 by the Ordinary Shareholders (other than HM Treasury, which, in accordance with the Listing Rules, may not vote on Resolution 4 and has agreed to take all reasonable steps to ensure that its associates, if any, do not vote on Resolution 4).

## **17 Use of proceeds**

The primary motive behind the Proposals is to raise core tier 1 and contingent core tier 1 capital, and as such any net cash proceeds will be used in the day-to-day operations of the Group. The proceeds raised and/or capital generated from the Rights Issue are expected to, in aggregate, increase the Group’s core tier 1 capital ratio by approximately 230 basis points to around 8.6 per cent. on a *pro forma* basis as at 30 June 2009 taking into account expenses of the Proposals and the GAPS Payment.

## **18 Action to be taken by Ordinary 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 Notice of General Meeting.

Completed Forms of Proxy should be returned in accordance with the instructions printed on them as soon as possible, but in any event no later than 11.00 a.m. on 24 November 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.

## **19 Fees and Expenses relating to the Proposals**

Fees and expenses relating to the Proposals are expected to be approximately £500 million.

## **20 Further information**

Your attention is drawn to the further information set out in Parts A, B and C of the Appendix to this letter. You should read the whole of this document and not rely solely on the information set out in the Letter.

## **21 Consents**

Merrill Lynch, whose address is Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ, 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.

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.

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.

## **22 Importance of the Vote**

The Board believes that the Proposals provide a more attractive alternative to participating in GAPS and offer superior economic value to shareholders. Should any of the Proposals Resolutions (which include the resolution to approve the HMT Transactions) not be approved by the relevant Ordinary Shareholders, the Proposals will not proceed. Should the Proposals not proceed, the Group may not be able to meet the regulatory capital ratios required to be maintained by the FSA in the medium and long term and, should that be the case, will need to raise additional capital. For the avoidance of doubt, should any of Resolutions 3, 5, 10 and 12 not be approved by Ordinary Shareholders, the Proposals may still proceed.

The options available to the Board in such circumstances are not yet clear. However, it is highly likely that the Group would need to reopen discussions with HM Treasury regarding its possible participation in GAPS or approach the UK Government for alternative support, although there can be no assurance that the Group would be permitted to enter into GAPS, or what form any alternative UK Government support may take. Furthermore, there can be no certainty that any such participation by the Group in GAPS would not be on terms which are more onerous to the Company than the terms announced in March 2009. In addition, such participation or alternative support could require additional state aid remedies. If the Group were permitted to participate in GAPS in these circumstances, it would seek to finalise the terms of its participation as soon as practicable, although there can be no assurance that it would be possible to do so in the near future.

## **23 Directors' Recommendation**

The Board, which has been so advised by Merrill Lynch and UBS, considers that the HMT Commitment Commission payable in relation to HM Treasury's entry into the HMT Undertaking to Subscribe (proposed in Resolution 4 and which is a related party transaction for the purposes of the Listing Rules) is fair and reasonable so far as shareholders are concerned. In providing their advice, Merrill Lynch and UBS have taken into account the Board's commercial assessments.

The Board, which has been so advised by J.P. Morgan Cazenove, considers that the GAPS Payment (proposed in Resolution 4 and which is a related party transaction for the purposes of the Listing Rules) is fair and reasonable so far as shareholders are concerned. In providing their advice, J.P. Morgan Cazenove has taken into account the Board's commercial assessments.

Shareholders are reminded of the importance of the disclosure contained in paragraph 4 above.

**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 holdings at the time of the General Meeting.**

Yours faithfully,

Sir Winfried Bischoff  
Chairman

# APPENDIX TO THE LETTER FROM SIR WINFRIED BISCHOFF, CHAIRMAN OF LLOYDS BANKING GROUP PLC

## Part A

### Summary terms of the Enhanced Capital Notes

The ECNs represent a new form of capital, known as “contingent core tier 1 capital”, which allow enhanced efficiency in the Group’s capital structure. The FSA has determined that the Enhanced Capital Notes are eligible to be classified as upper or lower tier 2 capital, depending on their features, in respect of the current Pillar 1 and 2 regime. In the context of the FSA’s stress testing framework, these instruments can count as core tier 1 for the purposes of such stress tests when the stressed projection shows 5 per cent. core tier 1, which is the trigger for conversion into Ordinary Shares. Therefore, while these instruments are not treated as core tier 1 prior to conversion, they can count as core tier 1 in the context of a stress test and count as core tier 1 for Pillar 1 and Pillar 2 purposes upon conversion.

Each series of ECNs to be issued as a result of the Exchange Offers will therefore have terms eligible to qualify as lower tier 2 capital for the Group upon their issue and will automatically convert into Ordinary Shares in the event that the Group’s published core tier 1 capital ratio falls to less than 5 per cent. The conversion price for such conversion will be the higher of (i) the arithmetic average of the daily volume-weighted average trading price of the Ordinary Shares for the five trading day period ending on 17 November 2009 and (ii) 90 per cent. of the Ordinary Share closing price on 17 November 2009 (the “Unadjusted Conversion Price”), subject to adjustment for the impact of the Rights Issue and other customary adjustments from time to time for certain corporate events.

The conversion of the ECNs occurs only if the Group publishes the fact that its consolidated core tier 1 capital ratio is less than 5 per cent. The Group expects to publish its consolidated core tier 1 capital ratio at least twice each year and otherwise as required to do so in order to meet all applicable legal and regulatory requirements.

The ECNs rank *pari passu* with lower tier 2 obligations of Lloyds TSB Bank plc on a winding up of Lloyds TSB Bank plc.

## **Part B – Summary of the Resolutions**

The Proposals are conditional upon the approval of the Proposals Resolutions by the relevant Ordinary Shareholders at the General Meeting. The Proposals Resolutions, together with other Resolutions intended to update the Directors' authorities to allot shares generally and on a non-pre-emptive basis, to effect a capitalisation issue for holders of Limited Voting Shares, as required by the Articles, and to buy back certain 6.3673 per cent. preference shares in order to simplify the Group's capital structure, are set out in the notice convening a General Meeting of the Company to be held on 26 November 2009 at Hall 12, The Atrium, National Exhibition Centre, Birmingham B40 1NT at 11.00 a.m., 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 consider and, if thought fit, pass all 12 Resolutions, a summary of each of which is set out below.

### **Approval of the Share Subdivision**

#### *Resolution 1*

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 1.

This Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour, in accordance with Article 5 of the Articles of Association.

Resolution 1 proposes that the Share Subdivision be approved. As described in paragraph 10 of this letter, pursuant to the Share Subdivision, each existing Ordinary Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided into one 10p Ordinary Share and one Deferred Share. Furthermore, as required by Article 3.1.4(i) of the Articles of Association, each existing Limited Voting Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided into one 10p Limited Voting Share and one Deferred Share.

The Proposals are conditional on the passing of this Resolution.

### **Directors' authority to allot shares and rights to subscribe for shares pursuant to the Rights Issue and the Exchange Offers**

#### *Resolution 2*

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 2.

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

Resolution 2 proposes to authorise the Board to allot shares or grant rights to subscribe for shares, in accordance with section 551 of the 2006 Act:

- (a) up to a nominal amount of £9 billion in connection with the issue of new Ordinary Shares to Qualifying Ordinary Shareholders and to Qualifying LV Shareholders in relation to their entitlements under Article 3.1.3 of the Articles which requires that a 'like offer' to that made to Ordinary Shareholders is made to holders of Limited Voting Shares at the relevant time, which is equivalent to approximately 132.2 per cent. of the issued equity share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document; and
- (b) up to a nominal amount of up to £10 billion in connection with the issue of the Enhanced Capital Notes pursuant to the Exchange Offers, its related Underwriting Agreements (which require issues of ECNs in certain circumstances) and other issues of ECNs, and up to a nominal amount of £1.5 billion in connection with the issue of new Ordinary Shares pursuant to the Exchange Offers, which is, in aggregate, equivalent to approximately 168.9 per cent. of the issued equity share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document. While the Exchange Offers are underwritten up to £7.5 billion, to the extent that the Exchange Offers are successful and that a market develops in ECNs, the Directors believe it is in the best interests of the Company to have the flexibility to issue further ECNs, to satisfy demand.



No Ordinary Shares are held in treasury. This authority will expire on 25 November 2010.

The Proposals are conditional on the passing of this Resolution.

### **Directors' authority to allot shares generally**

#### *Resolution 3*

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

Resolution 3 proposes that, conditional upon the completion of the Rights Issue, the Board will be authorised to exercise all the powers of the Company to allot shares or grant rights to subscribe for or to convert any security into shares, in accordance with section 551 of the 2006 Act, up to a nominal amount of: (I) £3,908,086,780.50 in Ordinary Shares, (II) £100,000,000, US\$40,000,000 €40,000,000, and ¥1,250,000,000 in preference shares and (III) £3,908,086,780.50 in connection with an offer by way of a rights issue. Each of the authorities referred to in (I) and (III) above is equivalent to approximately 57.4 per cent. of the issued equity share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document, and approximately 33.3 per cent. of the Highest Enlarged Share Capital.

Corporate governance guidelines prescribe that this authority be limited to one third of a company's issued ordinary share capital (and up to a further one third of a company's issued ordinary share capital in connection with a rights issue. As described in paragraphs 8 and 10 of this letter, the Issue Price can in no circumstances be lower than 15 pence per New Share. Accordingly, the number of New Shares to be issued on completion of the Rights Issue is dependent on the Issue Price and may result in the Actual Enlarged Share Capital being lower than the Highest Enlarged Share Capital if the Issue Price is greater than 15 pence per New Share. In order to comply with these corporate governance guidelines, Resolution 3 proposes that this authority be limited apply to the issue of up to one third of the Actual Enlarged Share Capital and to a further one third of Actual Enlarged Share Capital in connection with an offer by way of a rights issue.

This authority will expire at the end of the annual general meeting of the Company in 2010. Resolution 3 is proposed to replace the authority given at the general meeting of the Company on 5 June 2009, following the completion of the Rights Issue. The Directors have no present intention of exercising the authority granted by this Resolution 3, other than, if necessary, to satisfy the rights of holders of Limited Voting Shares in respect of the placing and compensatory open offer undertaken by the Company in May 2009, and to maintain Lloyds Banking Group's present capital position. The Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business needs and opportunities as they arise.

None of the Proposals are conditional on the passing of this Resolution.

### **Approval of the HMT Transactions**

#### *Resolution 4*

This Resolution is conditional on the passing of each of the Proposals Resolutions other than this Resolution 4.

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

As described in paragraph 4 of this letter, the Group has agreed, subject to shareholder approval, to make the GAPS Payment and to pay the HMT Commitment Commission (together, the "HMT Transactions").

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 HMT Transactions are each "related party transactions" (as defined in the Listing Rules). Rule 11.1.7(3) of the Listing Rules provides 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 Resolution 4. HM Treasury has further undertaken to take all reasonable steps to ensure that its associates, if any, will not vote on Resolution 4.

Resolution 4 proposes that the HMT Transactions be approved.

The Proposals are conditional on the passing of this Resolution.



## **Capitalisation issue of New Limited Voting Shares**

### *Resolution 5*

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

Following the capitalisation issue to Ordinary Shareholders which became effective on 11 May 2009 (the "Capitalisation Issue"), the Company is required to issue new Limited Voting Shares to holders of Limited Voting Shares in accordance with article 122 of the Articles on the same basis as new Ordinary Shares were issued to the then Ordinary Shareholders of the Company pursuant to the Capitalisation Issue.

Resolution 5 proposes that, pursuant to article 122 of the Articles, £493,420.75 standing to the credit of any of the Company's share premium account, capital redemption reserve or other undistributable reserve be immediately capitalised for the purposes of paying up 1,973,683 New Limited Voting Shares and that the Board be authorised to issue such shares pursuant to section 551 of the 2006 Act to the holders of Limited Voting Shares on the Record Date *pro rata* to their existing holdings.

None of the Proposals are conditional on the passing of this Resolution.

## **Amendment to the Articles of Association to incorporate the rights attaching to the Deferred Shares**

### *Resolution 6*

This Resolution is conditional on the passing of each of the Proposals Resolutions other than this Resolution 6.

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

Resolution 6 proposes that the Articles of Association be amended to include a new sub-article specifying the limited rights attaching to the Deferred Shares to be issued pursuant to the Share Subdivision.

The Deferred Shares created on the Share Subdivision becoming effective will have no voting or dividend rights and, on a return of capital on a winding up of the Company, will have the right to receive the amount paid up thereon only after Ordinary Shareholders have received, in aggregate, any amounts paid up thereon plus £10,000,000 per Ordinary Share.

The Deferred Shares shall not be transferable at any time, other than with the prior written consent of the Directors. Further details on the rights attaching to, and restrictions upon, the Deferred Shares are set out in Resolution 6.

The Proposals are conditional on the passing of this Resolution.

## **Market purchases of preference shares in relation to the Exchange Offers**

### *Resolution 7*

This Resolution is conditional on the passing of each of the Proposals Resolutions other than this Resolution 7.

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

Resolution 7 proposes to grant the Company authority to repurchase the Preference Shares in connection with the Exchange Offers, in accordance with section 701 of the 2006 Act but subject to certain parameters as set out in the resolution itself. This authority is required as the Exchange Offers for Preference Shares technically comprise two individual transactions; the repurchase of the relevant Preference Shares for cash and the issue of the relevant exchange securities in consideration for this cash. This authority will expire on 25 November 2010.

The Proposals are conditional on the passing of this Resolution.

## **Off-market purchases of preference shares from Equiniti in relation to the Exchange Offers**

### *Resolution 8*

This Resolution is conditional on the passing of each of the Proposals Resolutions other than this Resolution 8.

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

In order to allow the Company the flexibility to effect off-market purchases of Existing Securities in relation to the Exchange Offers and otherwise, the Board is seeking approval, as required by section 694 of the 2006 Act, of the terms of the contract (as set out below) relating to such off-market purchases.

Resolution 8 proposes that the terms of a proposed contract between Lloyds Banking Group and Equiniti be approved in accordance with section 694 of the 2006 Act. This contract is necessary for the off-market purchase of certain series of Existing Preference Shares which are put on trust with Equiniti pursuant to the terms of the Exchange Offers (the "Equiniti Existing Preference Shares"), a draft of which will be produced at the General Meeting and will be made available for inspection at the Company's registered office for not less than 15 days before the General Meeting.

Pursuant to the terms of the proposed contract, Equiniti has the right to require the Company to purchase, by way of an off-market purchase, any Equiniti Existing Preference Shares held by Equiniti as trustee for holders of the Equiniti Existing Preference Shares, at any time during the 18 months following the date of the General Meeting at a purchase price equal to: (i) in the case of an offer by a holder to exchange its Equiniti Existing Preference Shares for ECNs, at the price as set out in Appendix 8 of the Non-US Exchange Offer Memorandum; or (ii) in the case of an offer by a holder to exchange its Equiniti Existing Preference Shares for the relevant Exchange Consideration Amount, the relevant Exchange Consideration Amount as set out in Part III of the Non-US Exchange Offer Memorandum.

This authority will expire on 25 May 2011.

The Proposals are conditional on the passing of this Resolution.

#### **Off-market purchase of preference shares from BNY Corporate Trustee Services Limited ("BNY Trustee") in relation to the Exchange Offers**

##### *Resolution 9*

This Resolution is conditional on the passing of each of the Proposals Resolutions other than this Resolution 9.

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

As described in Resolution 8 above, in order to allow the Company the flexibility to effect off-market purchases of certain series of Existing Preference Shares in relation to the Exchange Offers and otherwise, the Board is seeking approval, as required by section 694 of the 2006 Act, of the terms of the contract (as set out below) relating to such off-market purchases.

Resolution 9 proposes that the terms of a proposed contract between Lloyds Banking Group and BNY Trustee be approved in accordance with section 694 of the 2006 Act. This contract is necessary for the off-market purchase of certain Existing Preference Shares which are put on trust with BNY Trustee pursuant to the terms of the Exchange Offers (the "BNY Existing Preference Shares"), a draft of which will be produced at the General Meeting and will be made available for inspection at the Company's registered office for not less than 15 days before the General Meeting.

Pursuant to the terms of the proposed contract, BNY Trustee has the right to require the Company to purchase, by way of off-market purchase, any BNY Existing Preference Shares held by BNY Trustee as trustee for holders of the BNY Existing Preference Shares at any time during the 18 months following the date of the General Meeting at a purchase price equal to: (i) in the case of an offer by a holder to exchange its BNY Existing Preference Shares for ECNs, at the price as set out in Appendix 8 of the Non-US Exchange Offer Memorandum; or (ii) in the case of an offer by a holder to exchange its BNY Existing Preference Shares for the relevant Exchange Consideration Amount, the relevant Exchange Consideration Amount as set out in Part III of the Non-US Exchange Offer Memorandum; or (iii) in respect of BNY Existing Preference Shares not listed in Appendix 8 or Part III of the Non-US Exchange Offer Memorandum, at a price of 70 cents per US\$1 of liquidation preference of the relevant BNY Existing Preference Shares.

This authority will expire on 25 May 2011.

The Proposals are conditional on the passing of this Resolution.

## **6.3673 per cent. Preference Share off-market buy-back from two service companies affiliated to Allen & Overy LLP**

### *Resolution 10*

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

Resolution 10 proposes to approve the terms of a proposed contract between Lloyds Banking Group and Allen & Overy Service Company Limited and Fleetside Legal Representative Services Limited (two service companies wholly owned by Allen & Overy LLP) (the “Sellers”), in accordance with Section 694 of the 2006 Act in relation to the purchase of two 6.3673 per cent. non-cumulative fixed-to-floating rate preference shares of £0.25 each preference shares (the “6.3673% Preference Shares”), a draft of which will be produced at the General Meeting and will be made available for inspection at the Company’s registered office for not less than 15 days before the General Meeting. Pursuant to the terms of the proposed contract, the Sellers each agree to sell, and the Company agrees to purchase the 6.3673% Preference Shares for the consideration of £2. This repurchase is not connected with the Proposals in any way but helps the Company to manage its capital structure efficiently. The 6.3673% Preference Shares were issued to the Sellers in exchange for HBOS preference shares that were issued to them with a view to avoiding legal uncertainty around voting procedures in respect of the scheme of arrangement sanctioned by the Court on 12 January 2009 that provided for the replacement of HBOS preference shares with Lloyds Banking Group preference shares. This authority will expire on 25 November 2010.

None of the Proposals are conditional on the passing of this Resolution.

## **Disapplication of pre-emption rights pursuant to the Proposals**

### *Resolution 11*

This Resolution is conditional on the passing of each of the Proposals Resolutions other than this Resolution 11.

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

Resolution 11 proposes that, without prejudice to any existing power, the Board be empowered to allot equity securities (as defined in section 560 of the 2006 Act):

- (a) up to a nominal amount of £9 billion in relation to the Rights Issue; and
- (b) up to a nominal amount of £10 billion in relation to the Exchange Offers and other issues of ECNs and up to a nominal amount of £1.5 billion in relation to the issue of new Ordinary Shares in relation to the Exchange Offers,

wholly for cash or otherwise, which is equivalent to approximately 301 per cent. of the issued equity share capital of the Company as at 30 October 2009, being the last practicable date before the publication of this document, as if section 561 of the 2006 Act, to the extent applicable, did not apply to any such allotment.

This Resolution will allow the Company flexibility to allot equity securities pursuant to the Proposals without the need to comply with the strict requirements of the statutory pre-emption provisions.

This power will expire on 25 November 2010.

The Proposals are conditional on the passing of this Resolution.

## **Disapplication of pre-emption rights generally**

### *Resolution 12*

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

Resolution 12 proposes, subject to the completion of the Rights Issue, and in addition to the specific power conferred on the Directors by Resolution 3, to renew the power of the Board to issue shares for cash, for example in a rights issue, or to persons other than existing holders of Ordinary Shares, up to a nominal value of £586,213,017, which is equivalent to approximately 8.6 per cent. of the issued ordinary share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document, and approximately 5 per cent. of the Highest Enlarged Share Capital.

Corporate governance guidelines prescribe that this authority be limited to the issue of up to five per cent. of a company's issued equity share capital. As described in paragraphs 8 and 10 of this letter, the Issue Price can in no circumstances be lower than 15 pence per New Share. Accordingly, the number of New Shares to be issued on completion of the Rights Issue is dependent on the Issue Price and may result in the Actual Enlarged Share Capital being lower than the Highest Enlarged Share Capital if the Issue price is greater than 15 pence per New Share. In order to comply with these corporate governance guidelines, Resolution 12 proposes that this authority be limited to the issue of up to five per cent. of the Actual Enlarged Share Capital.

If the Company were to purchase Ordinary Shares and hold them in treasury, Resolution 12 would give the Board 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 12 authorises the Board to issue shares for cash in connection with a rights issue on a non-pre-emptive basis.

The Board considers the authority in Resolution 12 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions and, if necessary, to satisfy the rights of holders of Limited Voting Shares in respect of the placing and compensatory open offer undertaken by the Company in May 2009.

In applying the power to be granted by virtue of Resolution 12, the Company intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares for cash on a non pre-emptive basis (other than pursuant to the Proposals or a separate rights issue or pre-emptive offer) in excess of an amount equal to 7.5 per cent. of the total issued ordinary share capital of the Company within 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. Resolution 12 is proposed to replace the power given at the general meeting of the Company on 5 June 2009, following the completion of the Rights Issue.

None of the Proposals are conditional on the passing of this Resolution.

### **Risks of the Proposals**

The Directors are aware of the following material risks relating to the Proposals which they wish to draw to the attention of Ordinary Shareholders when considering how to vote on the Resolutions.

#### **There is a risk that the Proposals may not achieve their objectives.**

Even if the Proposals are approved at the General Meeting and are successfully completed, the Group may require further capital in the longer term. The FSA has conducted a detailed analysis of the Group's capital and financial position and performed stress tests with a view to determining what it considers to be the appropriate level of regulatory capital in the business in order to withstand a potential further economic downturn. The proceeds raised and/or capital generated from the Rights Issue is expected, in aggregate, to increase the Group's core tier 1 capital ratio strength by approximately 230 basis points to approximately 8.6 per cent. on a *pro forma* basis as at 30 June 2009 after expenses of the Proposals and the GAPS Payment. Following the implementation of the Proposals, the Group expects to continue to meet both its regulatory capital requirements and the additional capital requirement imposed by the FSA Stress Test. If the assumptions underlying the FSA Stress Test change, the additional capital expected to be generated by the Proposals could be insufficient in the longer term to meet the Group's needs. In such circumstances, the Group may need to raise further capital in the future which may not be available on acceptable terms, if at all. Any such further capital raising could have a dilutive effect on the holders of Ordinary Shares.

Finally, even if the Proposals result in the Group meeting its regulatory capital ratio requirements in the short term, there is a risk that changes in general economic conditions or a deterioration in the Group's economic condition could cause its capital ratios to fall and could necessitate further capital raising in the longer term. See the risk factor described in section 1.5 of Part II ("Risk Factors") of the Rights Issue Prospectus for a discussion of the Group's regulatory capital requirements.

**The dilutive effect of the Proposals is difficult to predict but they could result in material dilution for shareholders.**

The mix and/or quantum of securities proposed to be issued pursuant to each component part of the Proposals is not fixed and, therefore, there can be no certainty as to the total amount of Ordinary Shares that will ultimately be issued if the Proposals are effected or as to the overall dilutive effect on holders of Ordinary Shares, including shareholders who take up New Shares. The number of Ordinary Shares that will be issued under the Exchange Offer outside the United States is dependent in particular upon the level of participation by holders of existing securities and upon whether participants in such exchange offer are allocated Ordinary Shares. The dilutive effect of the Proposals also depends on whether Enhanced Capital Notes convert in accordance with their terms. On such conversion, the Enhanced Capital Notes will convert into a number of Ordinary Shares in accordance with their terms. This will have a dilutive effect on holders of Ordinary Shares at the time of such conversion.

It is, therefore, not possible either to estimate with certainty the number of Ordinary Shares that will be issued pursuant to the Proposals, or the dilutive effect of such an issue on holders of Ordinary Shares, including those who take up New Shares under the Rights Issue. Given the uncertain nature of the wider economic environment, the likelihood of the Enhanced Capital Notes converting into Ordinary Shares also cannot be predicted with any certainty. Any such dilution could materially adversely affect the holders of Ordinary Shares. Further information on the potential dilutive impact of the conversion of the Enhanced Capital Notes is contained in Part C of the Appendix to this letter.

## Part C

### Impact of conversion

The Group is proposing to raise £13.5 billion by way of the Rights Issue. The Rights Issue is fully underwritten pursuant to the Rights Issue Underwriting Agreement and the HMT Undertaking to Subscribe. The Issue Price at which Qualifying Shareholders will be invited to subscribe for New Shares will be set by the Company and the Joint Bookrunners in advance of the General Meeting and will be at a discount to TERP, taking account of market conditions and other relevant factors, including the results of the Exchange Offers at the time. The Issue Price is expected to be announced on 24 November 2009. In no circumstances, however, can the Issue Price be below 15 pence. Accordingly, following the Rights Issue, the maximum number of Ordinary Shares which the Company will have in issue will be 117,161,682,366. Save for the issue of Ordinary Shares to Qualifying LV Shareholders, Qualifying Shareholders who subscribe in full for their entitlements under the Rights Issue, will own the same percentage of the issued ordinary share capital of the Company as they did prior to the Rights Issue.

The ECNs will only convert into new Ordinary Shares in the event that the Group's published consolidated core tier 1 capital ratio falls below 5 per cent. In the event of the conversion of the ECNs (assuming the aggregate principal amount of ECNs issued pursuant to the Exchange Offers is the underwritten amount of £7.5 billion), the number of new Ordinary Shares to be issued would be equal to £7.5 billion divided by the ECN Conversion Price. The Group expects to publish its core tier 1 capital ratio twice yearly, and additionally, as otherwise required by the FSA or in order to meet all applicable disclosure requirements.

As part of the Non U.S. Exchange Offer, holders of certain existing eligible securities may elect to exchange for an Exchange Consideration Amount, to be settled in new Ordinary Shares, or, at the election of the Company, cash or, in certain limited circumstances, ECNs. In the event that holders of such existing eligible securities elected to receive the Exchange Consideration Amount and the maximum number of Ordinary Shares that could be issued as a result were so issued and there was no additional allocation of ECNs, then the number of new Ordinary Shares to be issued in satisfaction of the Exchange Consideration Amount would be equal to £1.5 billion divided by 75 per cent. of the Unadjusted Conversion Price, such number to be adjusted for the impact of the Rights Issue.

While the Board does not anticipate that the Group's published core tier 1 capital ratio will fall to less than 5 per cent. and therefore trigger the automatic conversion of the ECNs into new Ordinary Shares, if circumstances were to change such that the Board considered this to be a more likely outcome, then the Board could implement a number of management actions that it believes are readily actionable and would seek to generate such additional core tier 1 capital as would avoid the conversion of the ECNs.



## PART II

### DOCUMENTS INCORPORATED BY REFERENCE

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 Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by calling the shareholder helpline on 0871 384 2990<sup>1</sup> (from inside the United Kingdom) or +44 20 8495 4630 (from outside the United Kingdom). Please note the shareholder helpline will be open between 8.30 a.m. and 5.30 p.m. on any Business Day. Please have the accompanying Form of Proxy available, as you will be asked to quote the shareholder reference 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.

<i>Document</i>	<i>Section</i>	<i>Page number in such document</i>
Rights Issue Prospectus	Part XVI ("Unaudited Pro Forma Net Assets Statement of the Group as at 30 June 2009")	153-156
Rights Issue Prospectus	Section 1 ("the Company") of Part XX ("Additional Information")	183
Rights Issue Prospectus	Section 5 ("Major Shareholders of Lloyds Banking Group") of Part XX ("Additional Information")	203
Rights Issue Prospectus	Sections 8.3 to 8.6 ("Material Contracts") of Part XX ("Additional Information")	216-219
Rights Issue Prospectus	Section 16 ("Significant Change") of Part XX ("Additional Information")	225
Rights Issue Prospectus	Section 19 ("Documents Available for Inspection") of Part XX ("Additional Information")	226
2008 Circular	Section 9.1.3 of Part XIII ("Additional Information")	256-257
2008 Circular	Section 9.1.4 of Part XIII ("Additional Information")	257-258
2008 Circular	Section 9.2.4 of Part XIII ("Additional Information")	259-261
2008 Circular	Section 9.2.5 of Part XIII ("Additional Information")	261-262
May 2009 Prospectus	8.7 of Part XX ("Additional Information")	245-246
May 2009 Prospectus	8.8 of Part XX ("Additional Information")	246

<sup>1</sup> Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Other service providers' costs may vary. Calls to the +44 20 8495 4630 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 Rights Issue or to provide legal, business, financial, tax, investment or other professional advice.



## PART III

### DEFINITIONS

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

<b>10p Limited Voting Shares</b>	has the meaning given to it in paragraph 10 of Part I (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”) of this document.
<b>10p Ordinary Shares</b>	has the meaning given to it in paragraph 10 of Part I (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”) of this document.
<b>2008 Circular</b>	the document sent, with certain exceptions, to Ordinary Shareholders dated 3 November 2008 in relation to the acquisition of HBOS plc and the placing and open offer by the Company in November 2008.
<b>6.3673% Preference Shares</b>	two 6.3673% non-cumulative fixed-to-floating rate preference shares of £0.25 each in the capital of the Company held by Allen & Overy Service Company Limited and Fleetside Legal Representative Services Limited, respectively, to be repurchased by the Company pursuant to Resolution 10.
<b>Actual Enlarged Share Capital</b>	the issued ordinary share capital of the Company (including Limited Voting Shares) following the issue of the New Shares pursuant to the Rights Issue.
<b>Acquisition</b>	the acquisition by Lloyds Banking Group of HBOS, which was effected by way of a Court approved Scheme of Arrangement.
<b>Additional ECN Issues Underwriting Agreement</b>	the underwriting agreement dated 3 November 2009 relating to the Exchange Offers and further described in paragraph 8.6 of Part XX (“Additional Information”) of the Rights Issue Prospectus.
<b>Additional ECN Underwriters</b>	Merrill Lynch, UBS, Citigroup Global Markets Limited, Goldman Sachs International, HSBC and J.P. Morgan Securities Limited.
<b>Admission</b>	admission of the New Shares (nil and fully paid) 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.
<b>Admission and Disclosure Standards</b>	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.
<b>Articles or Articles of Association</b>	the articles of association of the Company, details of which are set out in section 4 of Part XX (“Additional Information”) of the Rights Issue Prospectus.
<b>B Shares</b>	the B shares which were contemplated to be created in the capital of the Company as disclosed in the May 2009 Prospectus and “B Share” means any one of them.
<b>Base Fee</b>	2.25 per cent.
<b>BNY Existing Preference Shares</b>	certain Existing Preference Shares which are put on trust with BNY Trustee pursuant to the terms of the Exchange Offers.
<b>BNY Trustee</b>	BNY Corporate Trustee Services Limited.
<b>Board</b>	the board of directors of Lloyds Banking Group as at the date of this document.

<b>Branch Based Customers</b>	branch based retail personal and certain SME customers.
<b>Business Day</b>	a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London and Edinburgh.
<b>certificated or in certificated form</b>	where a share or other security is not in uncertificated form.
<b>Chairman</b>	the Chairman of Lloyds Banking Group.
<b>Citi</b>	Citigroup Global Markets U.K. Equity Limited.
<b>Co-Lead Managers</b>	Banco Santander, S.A., Macquarie Capital (Europe) Limited, Natixis, Royal Bank of Canada Europe Limited, and Unicredit Group (Bayerische Hypo-und Vereinsbank AG).
<b>College of Commissioners</b>	the European Commission's College of Commissioners.
<b>Companies Act or 2006 Act</b>	the UK Companies Act 2006 (as amended) in so far as in force.
<b>Company</b>	Lloyds Banking Group (as defined in this Part III ("Definitions")) of this document.
<b>CREST</b>	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations).
<b>CREST participant</b>	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations).
<b>CREST Regulations</b>	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.
<b>Deferred Shares</b>	has the meaning given to it in paragraph 10 of Part I ("Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc") of this document.
<b>Directors</b>	the directors of Lloyds Banking Group as at the date of this document, and "Director" means any one of them.
<b>Disclosure and Transparency Rules</b>	the Disclosure and Transparency Rules made by the FSA under section 73A(3) of the FSMA.
<b>Enhanced Capital Notes or ECNs</b>	new lower tier 2 or upper tier 2 capital qualifying bonds that automatically convert into Ordinary Shares in certain prescribed circumstances.
<b>Equiniti</b>	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.
<b>Equiniti Existing Preference Shares</b>	certain Existing Preference Shares which are put on trust with Equiniti pursuant to the terms of the Exchange Offers.
<b>Euroclear</b>	Euroclear UK & Ireland Limited, the operator of CREST.
<b>European Commission</b>	the Commission of the European Union.
<b>Exchange Consideration Amount</b>	In respect of each series of Existing Securities, the amount per £1,000, €1,000, U.S.\$1,000 or JPY1,000 (as the case may be) in principal amount/liquidation preference of Existing Securities, of Exchange Consideration which will be delivered to holders whose Offers to Exchange are accepted by the relevant ECN issuer or Lloyds Banking Group (as the case may be), and equal to the amounts specified in the column headed "Exchange Consideration Amount" in Part III ("Summary Offering Table and Exchange Options Overview") of the Exchange Offer Memorandum.

<b>Exchange Offers</b>	the Non-US Exchange Offer, the US Exchange Offer, any other exchange offer for, or purchase of, Existing Securities which may be carried out from time to time, and the proposed Retail Holdings Offer.
<b>Exchange Offer Memoranda</b>	the Non-US Exchange Offer Memorandum and the US Exchange Offer Memorandum.
<b>Exchange Offers Restricted Jurisdictions</b>	in the case of the the US Exchange Offer, any jurisdiction other than the United States, and in the case of the Non-US Exchange Offer, any jurisdiction other than Austria, Cyprus, Denmark, France, Germany, Greece, Ireland, Luxembourg, Malta, Norway, Portugal, Spain, Sweden, the Netherlands, the United Kingdom, Guernsey, Jersey, South Africa and Switzerland.
<b>Existing Limited Voting Shares</b>	the Limited Voting Shares in issue at the LVS Record Date, and “Existing Limited Voting Share” means any one of them.
<b>Existing Ordinary Shares</b>	the Ordinary Shares in issue at the Record Date and “Existing Ordinary Share” means any one of them.
<b>Existing Qualifying Shares</b>	Existing Ordinary Shares and/or Existing Limited Voting Shares.
<b>Existing Preference Shares</b>	£299,987,729 9.25 per cent. Non-Cumulative Irredeemable Preference Shares; £99,999,942 9.75 per cent. Non-Cumulative Irredeemable Preference Shares; £186,190,532 6.475 per cent. Non-Cumulative Preference Shares; £745,431,000 6.0884 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares; £334,951,000 6.3673 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares; U.S.\$750,000,000 6.413 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares; U.S.\$750,000,000 5.92 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares; U.S.\$750,000,000 6.657 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares; U.S.\$1,000,000 Fixed to Floating Rate Non-Cumulative Callable Dollar Preference Shares; U.S.\$1,250,000,000 7.875 per cent. Non-Cumulative Preference Shares; €500,000,000 7.875 per cent. Non-Cumulative Preference Shares; and £600,000,000 Fixed to Floating Rate Callable Non-Cumulative Preference Shares.
<b>Existing Securities</b>	existing tier 1 and upper tier 2 securities issued by members of the Group.
<b>Financial Services Authority or FSA</b>	the Financial Services Authority of the United Kingdom.
<b>Form of Proxy</b>	the form of proxy relating to the General Meeting.
<b>FSA Stress Test</b>	the result of the Lloyds Banking Group modelling which is based on the economic assumptions published by the FSA in March 2009.
<b>the FSMA</b>	the Financial Services and Markets Act 2000, as amended.
<b>Fully Paid Rights</b>	rights to acquire the New Shares, fully paid.
<b>GAPS Payment</b>	has the meaning given to it in paragraph 1 of Part I (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”) of this document.
<b>GAPS Withdrawal Deed</b>	the deed of withdrawal to be entered into between the Company and The Lords Commissioners of Her Majesty’s Treasury relating to the Company’s withdrawal from GAPS and providing for, <i>inter alia</i> , (i) the payment by the Group of the GAPS Payment, (ii) the reaffirmation by the Company of the lending commitments given by the Company in connection with the Group’s then proposed participation in GAPS on 6 March 2009, and (iii) the implementation by the Company of a restructuring plan, upon

	such plan's approval by the College of Commissioners of the European Commission.
<b>G8</b>	the group of eight nations of the northern hemisphere constituted by Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States.
<b>General Meeting</b>	the general meeting of Lloyds Banking Group to be held at 11.00 a.m. on 26 November 2009 at Hall 12, The Atrium, National Exhibition Centre, Birmingham B40 1NT, or any adjournment thereof, to consider and, if thought fit, to approve and to pass various resolutions in connection with the Proposals among other things.
<b>Goldman Sachs International</b>	Goldman Sachs International.
<b>Government or UK Government</b>	the Government of the United Kingdom.
<b>Government Asset Protection Scheme or GAPS</b>	the asset protection scheme to be established by HM Treasury.
<b>Group</b>	Lloyds Banking Group and its subsidiary undertakings from time to time.
<b>HBOS</b>	HBOS plc, a company incorporated under the laws of Scotland (registered under no. 218813).
<b>HBOS Group</b>	HBOS and its subsidiary undertakings.
<b>Highest Enlarged Share Capital</b>	the highest potential issued ordinary share capital of the Company (including Limited Voting Shares) following the issue of the New Shares pursuant to the Rights Issue based on an Issue Price of 15 pence per New Share.
<b>HMT Commitment Commission</b>	a fee equal to: (A) the Base Fee multiplied by the aggregate amount paid for the New Shares for which it has subscribed, plus (B) the Per Share Discretionary Fee multiplied by the aggregate number of New Shares for which it has subscribed, payable pursuant to the HMT Undertaking to Subscribe.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, where the context requires).
<b>HMT Undertaking to Subscribe</b>	the undertaking entered into by HM Treasury whereby, subject to certain terms and conditions, HM Treasury has irrevocably undertaken to procure that the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) (i) votes in favour of all of the Resolutions in accordance with the recommendation of the Board (except for the related party transaction resolution regarding the HMT Transactions) and (ii) takes up its rights to subscribe for all of the New Shares to which it is entitled under the Rights Issue, and pursuant to which Lloyds Banking Group has agreed to pay HM Treasury the HMT Commitment Commission, further details of which are set out in section 7.2 of Part XX ("Additional Information") of the Rights Issue Prospectus.
<b>HSBC</b>	HSBC Bank plc.
<b>Interim Results News Release</b>	the news release published by Lloyds Banking Group on 5 August 2009 containing the interim financial statements of Lloyds Banking Group for the six months ended 30 June 2009, together with the independent review report thereon.
<b>Issue Price</b>	the price per New Share to be determined, and publicly announced, prior to the General Meeting.
<b>Joint Sponsors or joint sponsors</b>	Merrill Lynch and UBS

<b>Joint Bookrunners</b>	Merrill Lynch, UBS, Citi, Goldman Sachs International, HSBC and J.P. Morgan Cazenove.
<b>J.P. Morgan Cazenove</b>	J.P. Morgan Cazenove Limited.
<b>Lending Commitments Deed</b>	the deed poll entered into by Lloyds Banking Group on 6 March 2009 pursuant to which it undertook to support lending to creditory borrowers in the UK in a commercial manner.
<b>Limited Voting Shareholders</b>	holders of Limited Voting Shares and “Limited Voting Shareholder” means any of them.
<b>Limited Voting Shares</b>	limited voting shares of 25 pence each in the capital of Lloyds Banking Group or, following the Share Subdivision becoming effective, the 10p Limited Voting Shares, as the context requires.
<b>Listing Rules or LR</b>	the Listing Rules made by the FSA under Part VI of the FSMA.
<b>Lloyds Banking Group</b>	Lloyds Banking Group plc, formerly known as Lloyds TSB Group plc, registered in Scotland (no. 95000).
<b>Lloyds Banking Group ADSs</b>	the American Depositary Shares of Lloyds Banking Group, each representing four Ordinary Shares and evidenced by American Depositary Receipts.
<b>Lloyds Banking Group Employee Share Plans</b>	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.
<b>Lloyds Banking Group Shareholder Account</b>	the name given to the service under which Halifax Nominees Limited holds Ordinary Shares for customers.
<b>Lloyds TSB Bank</b>	Lloyds TSB Bank plc.
<b>Lloyds TSB Group</b>	Lloyds Banking Group and its subsidiaries from time to time but excluding the HBOS Group.
<b>London Stock Exchange</b>	London Stock Exchange plc.
<b>LVS Capitalisation Issue</b>	the proposed issue of New Limited Voting Shares pursuant to Article 122 of the Articles.
<b>LVS Record Date</b>	close of business on 26 November 2009.
<b>May 2009 Prospectus</b>	the prospectus dated 20 May 2009 in relation to, amongst other things, the placing and compensatory open offer by the Company in May 2009.
<b>Merrill Lynch</b>	Merrill Lynch International.
<b>New Securities</b>	the Enhanced Capital Notes and Ordinary Shares issued in exchange for Existing Securities pursuant to the Exchange Offers.
<b>New Shares</b>	up to 90,000,000,000 new Ordinary Shares to be issued pursuant to the Rights Issue, and “New Share” means any of them.



<b>New Limited Voting Shares</b>	the 1,973,683 new Limited Voting Shares to be issued as set out in Resolution 5.
<b>Nil Paid Rights</b>	rights to acquire the New Shares, nil paid.
<b>Non-US Exchange Offer</b>	the offer to be conducted in certain countries outside the United States only with respect to 52 series of existing securities, comprising existing upper tier 2 securities in an aggregate principal amount of £2.52 billion, innovative tier 1 securities in an aggregate principal amount of £7.68 billion and preference shares with an aggregate liquidation preference of £4.09 billion.
<b>Non-US Exchange Offer Memorandum</b>	the exchange offer memorandum published in connection with the Non-US Exchange Offer dated 3 November 2009.
<b>Official List</b>	the official list of the FSA pursuant to Part VI of the FSMA.
<b>Ordinary Shareholders</b>	holders of Ordinary Shares and “Ordinary Shareholder” means any one of them.
<b>Ordinary Shares</b>	ordinary shares of 25 pence each in the capital of Lloyds Banking Group or, following the Share Subdivision becoming effective, the 10p Ordinary Shares, as the context requires (including shares underlying Lloyds Banking Group ADSs and if the context requires, the New Shares) and “Ordinary Share” means any one of them.
<b>Per Share Discretionary Fee</b>	the total discretionary fee (if any) paid by the Company to any or all of the Joint Bookrunners pursuant to and in accordance with the Rights Issue Underwriting Agreement, divided by the aggregate number of New Shares taken up by HM Treasury pursuant to the HMT Undertaking to Subscribe.
<b>Pounds, pence, Sterling, £ and p</b>	the lawful currency of the United Kingdom.
<b>Proposals</b>	the Rights Issue and the Exchange Offers taken together which are fully underwritten in respect of the proceeds.
<b>Proposals Resolutions</b>	Resolutions 1, 2, 4, 6, 7, 8, 9 and 11.
<b>Prospectuses</b>	the Rights Issue Prospectus, the US Exchange Offer Memorandum and the Non-US Exchange Offer Memorandum.
<b>Prospectus Rules</b>	the prospectus rules made by the FSA pursuant to Part VI of the FSMA.
<b>Provisional Allotment Letter or PAL</b>	the renounceable provisional allotment letter expected to be sent to Qualifying Non-CREST Shareholders in respect of the New Shares to be allotted to them pursuant to the Rights Issue.
<b>Qualifying CREST Shareholders</b>	Qualifying Shareholders holding Ordinary Shares in uncertificated form in CREST and “Qualifying CREST Shareholder” means any one of them.
<b>Qualifying Non-CREST Shareholders</b>	Qualifying Shareholders holding Ordinary Shares in certificated form and “Qualifying Non-CREST Shareholder” means any one of them.
<b>Qualifying LV Shareholders</b>	holders of Limited Voting Shares on the register of members of Lloyds Banking Group at the LVS Record Date.
<b>Qualifying Ordinary Shareholders</b>	holders of Ordinary Shares on the register of members of Lloyds Banking Group at the Record Date.
<b>Qualifying Shareholders</b>	Qualifying Ordinary Shareholders and Qualifying LV Shareholders and “Qualifying Shareholder” means any one of them.
<b>Record Date</b>	close of business on 20 November 2009.
<b>Registrar</b>	Equiniti or such other registrar as is identified on a relevant Provisional Allotment Letter and references to “Registrar” or “relevant Registrar” will be construed accordingly.

<b>Regulatory Information Service</b>	any of the services authorised from time to time by the Financial Services Authority for the purposes of disseminating regulatory announcements.
<b>Resolution 1</b>	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, approving the Share Subdivision.
<b>Resolution 2</b>	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Directors authority to allot shares and grant rights to subscribe for ordinary shares in connection with the Proposals and otherwise.
<b>Resolution 3</b>	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Directors authority to allot y shares and grant rights to subscribe for ordinary shares generally.
<b>Resolution 4</b>	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, to approve the HMT Transactions as related party transactions for the purposes of the Listing Rules.
<b>Resolution 5</b>	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, authorising the capitalisation issue of New Limited Voting Shares to the holders of Limited Voting Shares at the Record Date and granting the Directors authority to allot such shares, pursuant to Article 122 of the Company's Articles.
<b>Resolution 6</b>	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, approving the amendment of the Company's Articles to record the rights of the Deferred Shares to be created pursuant to the Share Subdivision.
<b>Resolution 7</b>	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Company authority to make market purchases of the Existing Preference Shares.
<b>Resolution 8</b>	The special resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Company authority to make off-market purchases of the Equiniti Preference Shares.
<b>Resolution 9</b>	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Company the authority to make off-market purchases of the BNY Existing Preference Shares.
<b>Resolution 10</b>	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Company authority to make off-market purchases of the 6.3673% Preference Shares.
<b>Resolution 11</b>	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 shares in connection with the Proposals on a non-pre-emptive basis.
<b>Resolution 12</b>	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 shares generally on a non-pre-emptive basis.
<b>Resolutions</b>	Resolution 1, Resolution 2, Resolution 3, Resolution 4, Resolution 5, Resolution 6, Resolution 7, Resolution 8, Resolution 9, Resolution 10, Resolution 11 and Resolution 12.

<b>Restricted Jurisdictions</b>	the Rights Issue Restricted Jurisdictions and the Exchange Offers Restricted Jurisdictions and “Restricted Jurisdiction” means any one of the Rights Issue Restricted Jurisdictions or of the Exchange Offers Restricted Jurisdictions.
<b>Retail Holdings Offer</b>	the proposed invitation to be made to certain individuals in the United Kingdom who are holders of Existing Securities (being such holders who (i) are not investment professionals, (ii) do not meet the minimum existing holding criterion required to participate in the Non-US Exchange Offer and (iii) hold a series or class of securities (either directly or through the Lloyds Banking Group Shareholder Account) accepted for exchange in the Non-US Exchange Offer) to sell their Existing Securities for a cash amount equivalent to the relevant Exchange Consideration Amount set out in the Non-US Exchange Offer Memorandum together with an amount representing the accrued interest or the accrued dividends payable up to but excluding the date of repurchase.
<b>Rights Issue</b>	the proposed issue by way of rights of New Shares to Qualifying Shareholders on the basis described in the Prospectus and, in the case of Qualifying Non-CREST Shareholders, in the Provisional Allotment Letter.
<b>Rights Issue Prospectus</b>	the prospectus dated 3 November 2009 prepared in connection with the Rights Issue.
<b>Rights Issue Restricted Jurisdictions</b>	The United States, Hong Kong, Israel, Japan and Thailand.
<b>Rights Issue Underwriting Agreement</b>	the underwriting agreement dated 3 November 2009 relating to the Rights Issue and further described in paragraph 8.5 of Part XX (“Additional Information”) of the Rights Issue Prospectus.
<b>Rump Placing</b>	the proposed placing of any New Shares (other than New Shares subject to the HMT Undertaking to Subscribe) Nil Paid Rights which are not (or are deemed not to be or are otherwise treated as not having been) taken up under the Rights Issue by the Joint Bookrunners, as agent of the Company;
<b>SEC</b>	United States Securities and Exchange Commission.
<b>Securities Act</b>	the United States Securities Act of 1933, as amended.
<b>Senior Co-Lead Managers</b>	Banca IMI S.p.A., Barclays Bank plc, Calyon, Commerzbank Aktiengesellschaft, ING Bank N.V., and RBS Hoare Govett Limited.
<b>Shareholder Guide</b>	the guide enclosed with the Provisional Allotment Letters containing instructions as to the completion of the Provisional Allotment Letters.
<b>Share Subdivision</b>	the proposed subdivision of: (i) the existing ordinary shares of 25 pence each in the capital of the Company into 10p Ordinary Shares and Deferred Shares, and (ii) the existing limited voting shares of 25 pence each in the capital of the Company into 10p Limited Voting Shares and Deferred Shares, in each case as more particularly described in paragraph 10 of Part I (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”) of this document.
<b>UBS</b>	UBS Limited.
<b>UKFI or UK Financial Investments</b>	UK Financial Investments Limited.
<b>UK Listing Authority</b>	the UK Financial Services Authority in its capacity as the competent authority for listing under Part VI of the FSMA.
<b>uncertificated or in uncertificated form</b>	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 (girodepot) 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.

**Underwriters**

in the case of the Rights Issue, Merrill Lynch, UBS, Citi, Goldman Sachs International, HSBC and J.P. Morgan Securities Ltd., the Senior Co-Lead Managers and the Co-Lead Managers, and, in the case of the Exchange Offers, the Additional ECN Underwriters..

**Underwriting Agreements**

the Rights Issue Underwriting Agreement and the Additional ECN Issues Underwriting Agreement.

**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 Exchange Offer**

a separate offer to the holders of six series of existing securities, comprising existing upper tier 2 securities in an aggregate principal amount of £1.74 billion and innovative tier 1 securities in an aggregate principal amount £0.46 billion, which is being made in certain countries outside the United States and to certain sophisticated holders in the United States who are 'qualified institutional buyers' as defined in Rule 144A of the Securities Act

**US Exchange Offer Memorandum**

the exchange offer memorandum published in connection with the US Exchange Offer dated 3 November 2009.

**VWAP**

has the meaning given to it in Part B of the Appendix of Part I ("Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc") of this document.

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 26 November 2009 at Hall 12, The Atrium, National Exhibition Centre, Birmingham B40 1NT at 11.00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions:

### To resolve as an ordinary resolution

- 1 That, conditional on the passing of Resolutions 2, 4, 6, 7, 8 and 9 and 11:
- (a) each of the ordinary shares of 25 pence each in the capital of the Company in issue at the close of business on the date of this meeting (or such other time and date as the Directors (or a duly authorised committee of the Directors) may determine) be sub-divided into one ordinary share of 10 pence in the capital of the Company, having the same rights, being subject to the restrictions and ranking *pari passu* in all respects with the existing ordinary shares of 25 pence each in the capital of the Company (save as to nominal value), and one deferred share, having the rights and being subject to the restrictions set out in Resolution 6 below; and
  - (b) each of the limited voting shares of 25 pence each in the capital of the Company in issue at the close of business on the date of this meeting (or such other time and date as the Directors (or a duly authorised committee of the Directors) may determine) be sub-divided into one limited voting share of 10 pence in the capital of the Company, having the same rights, being subject to the restrictions and ranking *pari passu* in all respects with the existing limited voting shares of 25 pence each in the capital of the Company (save as to nominal value), and one deferred share, having the rights and being subject to the restrictions set out in Resolution 6 below.

### To resolve as an ordinary resolution:

- 2 That, conditional on the passing of Resolutions 1, 4, 6, 7, 8, 9 and 11, the Directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 (the "2006 Act") to exercise all the powers of the Company to allot shares or grant rights to subscribe for shares:
- (a) up to a nominal amount of £9 billion in connection with the issue of new ordinary shares to Qualifying Shareholders pursuant to the Rights Issue; and
  - (b) up to a nominal amount of £10 billion in relation to the issue of Enhanced Capital Notes in connection with the Exchange Offers, the related underwriting agreements and otherwise, and up to a nominal amount of £1.5 billion in relation to the issue of new ordinary shares in connection with the Exchange Offers,
- (each as defined in the circular issued by the Company dated 3 November 2009 (the "Circular")),
- such authority to apply in addition to all previous authorities pursuant to section 80 of the Companies Act 1985 and to expire on 25 November 2010 but so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority ends.

### To resolve as an ordinary resolution:

- 3 That in addition to and without prejudice to the authority conferred on the Directors pursuant to Resolution 2 above, and conditional on the completion of the Rights Issue, the Directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the 2006 Act to exercise all the powers of the Company to allot shares or grant rights to subscribe for or to convert any security into shares:
- (a) up to a nominal amount of (I) £3,908,086,780.50 in ordinary shares and (II) £100,000,000, US\$40,000,000, €40,000,000 and ¥1,250,000,000 in preference shares;
  - (b) comprising equity securities (as defined in section 560(1) of the 2006 Act) up to a further nominal amount of £3,908,086,780.50 in connection with an offer by way of a rights issue;



provided that such authority shall be limited to apply to shares up to a nominal amount of up to:

- (i) one third of the issued ordinary share capital (including limited voting shares) of the Company immediately following the completion of the Rights Issue (the “Actual Enlarged Share Capital”); and
- (ii) a further one third of the Actual Enlarged Share Capital 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 Companies Act 1985 and to expire at the end of the next annual general meeting of the Company in 2010 but, in each case, so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority ends.

For the purposes of this Resolution, “rights issue” means an offer to:

- (I) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- (II) people who are holders of other 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 or legal, regulatory or practical problems in, or under the laws of, any territory.

#### **To resolve as an ordinary resolution**

- 4 That, conditional on the passing of Resolutions 1, 2, 6, 7, 8, 9 and 11, the HMT Transactions (as defined in the Circular) being related party transactions for the purposes of the Listing Rules of the United Kingdom Listing Authority, be and are hereby approved.

#### **To resolve as an ordinary resolution**

- 5 That, pursuant to article 122 of the articles of association of the Company (the “Articles”), £493,420.75 out of the sums standing to the credit of any of the Company’s share premium account, capital redemption reserve or other undistributable reserve, be immediately capitalised for the purposes of paying up 1,973,683 new limited voting shares of 25 pence each in the capital of the Company, and that the Board be authorised to apply such amount in paying up the new limited voting shares and to take all such other steps as it may deem necessary, expedient or appropriate to implement such capitalisation and issue such new limited voting shares to the holders of limited voting shares on the register of the Company on 26 November 2009 2009, *pro rata* to their existing holdings of limiting voting shares, in accordance with Article 122.2 of the Articles, such authority to expire on 25 November 2010.

#### **To resolve as a special resolution**

- 6 That, conditional on the passing of Resolutions 1, 2, 4, 7, 8, 9 and 11, the Articles of Association of the Company be amended by:

- (a) inserting the following definitions into Article 2 as follows:

“**deferred shares**” the deferred shares of 15p each of the company described in article 3;’ to be inserted after the definition of “deed of covenant”;

“**limited voting shares**” the limited voting shares of 10p each of the company;’ to be inserted in place of the current definition of limited voting shares, which shall be deleted in its entirety; and

“**ordinary shares**” the ordinary shares of 10p each of the company;’ to be inserted in place of the current definition of ordinary shares, which shall be deleted in its entirety;

(b) deleting the caption '**Limited voting shares and preference shares**' to article 3, and inserting the caption '**Limited voting shares, preference shares and deferred shares**' in its place;

(c) inserting of a new article 3.3 as follows:

**3.3** The deferred shares shall confer upon the holder such rights, and shall be subject to the restrictions, as follows:

**3.3.1** notwithstanding any other provision of these articles, a deferred share:

- (i) does not entitle its holder to receive any dividend or distribution declared, made or paid or any return of capital (save as provided in article 3.3.1(ii)) and does not entitle its holder to any further or other right of participation in the assets of the company;
- (ii) entitles its holder to participate on a return of assets on a winding up of the company, such entitlement to be limited to the repayment of the amount paid up or credited as paid up on such share and shall be paid only after the holders of any and all ordinary shares and limited voting shares then in issue shall have received (a) payment in respect of such amount as is paid up or credited as paid up on those ordinary shares and/or limited voting shares held by them at that time plus (b) the payment in cash or in specie of £10,000,000 on each such ordinary share and/or limited voting share;
- (iii) does not entitle its holder to receive a share certificate in respect of his or her shareholding, save as required by law;
- (iv) does not entitle its holder to receive notice of, nor attend, speak or vote at, any general meeting of the company; and
- (v) shall not be transferable at any time other than with the prior written consent of the directors;

**3.3.2** the company shall have the irrevocable authority to authorise and instruct the secretary (or any other person appointed for the purpose by the board) as agent for the holders of deferred shares to surrender the deferred shares to the company for no consideration and to execute on behalf of such holders such documents as are necessary in connection with such surrender without obtaining the sanction of the holder or holders thereof, and pending such surrender to retain the certificates, to the extent issued, for such deferred shares;

**3.3.3** any request by the company to surrender the deferred shares may be made by the directors depositing at the registered office of the Company a notice addressed to such person as the directors shall have nominated on behalf of the holders of the deferred shares;

**3.3.4** the company shall have the irrevocable authority to appoint a single holder or any other person on behalf of all holders of deferred shares to exercise any vote to which holders of deferred shares may be entitled in any circumstances or for any other matter connected to the deferred shares;

**3.3.5** the rights attached to the deferred shares shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking in priority to or *pari passu* with or subsequent to such shares, any amendment or variation of the rights of any other class of shares of the company, the company reducing its share capital or the surrender, or purchase of any share, whether a deferred share or otherwise; and

**3.3.6** the company shall have the irrevocable authority to cancel any deferred share without making any payment to the holder and such cancellation shall not be deemed to be a variation or abrogation of the rights attaching to such deferred share.'

#### **To resolve as a special resolution**

**7** That, conditional on the passing of Resolutions 1, 2, 4, 6, 8, 9 and 11 the Company be and is hereby unconditionally and generally authorised for the purpose of section 701 of the 2006 Act to make market purchases (as defined in section 693 of the 2006 Act) of the following issuances of securities:

- (a) £299,987,729 9.25 per cent. Non-Cumulative Irredeemable Preference Shares;

- (b) £99,999,942 9.75 per cent. Non-Cumulative Irredeemable Preference Shares;
- (c) £186,190,532 6.475 per cent. Non-Cumulative Preference Shares;
- (d) £745,431,000 6.0884 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares;
- (e) £334,951,000 6.3673 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares;
- (f) U.S.\$750,000,000 6.413 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares;
- (g) U.S.\$750,000,000 5.92 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares;
- (h) U.S.\$750,000,000 6.657 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares;
- (i) U.S.\$1,000,000,000 6.267 per cent. Fixed to Floating Rate Non-Cumulative Callable Dollar Preference Shares;
- (j) U.S.\$1,250,000,000 7.875 per cent. Non-Cumulative Preference Shares;
- (k) €500,000,000 7.875 per cent. Non-Cumulative Preference Shares; and
- (l) £600,000,000 Non-Cumulative Fixed to Floating Rate Callable Preference Shares,

(together, the "Preference Shares"), in accordance with, amongst other things, the terms of the Exchange Offers provided that:

- (i) the maximum number of Preference Shares which may be purchased is all such Preference Shares in issue;
- (ii) the minimum price which may be paid for each Preference Share is the nominal value of the relevant Preference Share;
- (iii) the maximum price which may be paid for a share is an amount equal to 120 per cent. of the liquidation preference of the relevant Preference Share;
- (iv) this authority shall expire on 25 November 2010, unless this authority be further renewed before then; and
- (v) the Company may make a contract to purchase the Preference Shares under this authority before its expiry which would or might be executed wholly or partly after the expiry, and may make a purchase of the Preference Shares under that contract.

**To resolve as a special resolution**

- 8** That, conditional on the passing of Resolutions 1, 2, 4, 6, 7, 9 and 11, that the terms of a proposed contract between (1) the Company and (2) Equiniti Limited, providing for the purchase by the Company of certain existing Preference Shares held by Equiniti Limited on behalf of holders of such securities be and are hereby approved and authorised for the purposes of section 694 of the Companies Act 2006 and otherwise but so that such approval and authority shall expire on 25 May 2011.

**To resolve as a special resolution**

- 9** That, conditional on the passing of Resolutions 1, 2, 4, 6, 7, 8 and 11, that the terms of a proposed contract between (1) the Company and (2) BNY Corporate Trustee Services Limited, providing for the purchase by the Company of certain existing Preference Shares held by BNY Corporate Trustee Services Limited on behalf of holders of such securities be and are hereby approved and authorised for the purposes of section 694 of the Companies Act 2006 and otherwise but so that such approval and authority shall expire on 25 May 2011.

**To resolve as a special resolution**

- 10** That the terms of a proposed contract between (1) the Company, (2) Allen and Overy Service Company Limited, and (3) Fleetside Legal Representative Services Limited providing for the purchase by the Company of certain 6.3673 per cent. Non-Cumulative Fixed to Floating Rate Preference Shares in the capital of the Company (a draft of which has been produced to this

meeting) be and are hereby approved and authorised for the purposes of section 694 of the Companies Act 2006 and otherwise but so that such approval and authority shall expire on 25 May 2011.

**To resolve as a special resolution**

**11** That, conditional on the passing of Resolutions 1, 2, 4, 6, 7, 8 and 9 above, and without prejudice to any existing authority, the Directors be empowered to allot equity securities (as defined in section 560(1) of the 2006 Act) wholly for cash, pursuant to the authority given by Resolution 2 above:

- (a) up to a nominal amount of £9 billion in connection with the issue of new ordinary shares pursuant to the Rights Issue; and
- (b) up to a nominal amount of £10 billion in connection with the issue of Enhanced Capital Notes pursuant to the Exchange Offers and otherwise, and up to a nominal amount of £1.5 billion in relation to the issue of new ordinary shares in connection with the Exchange Offers,

as if section 561(1) of the 2006 Act did not apply to any such allotment, such power to expire on 25 November 2010 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.

**To resolve as a special resolution**

**12** That conditional on the completion of the Rights Issue and the passing of Resolution 3, the Directors be empowered to allot equity securities (as defined in sSection 560(1) of the 2006 Act) wholly for cash:

- (a) pursuant to the authority given by paragraph (a) of Resolution 3 above or where the allotment constitutes an allotment of equity securities by virtue of section 560(2)(b) of the 2006 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 £586,213,017, provided that such authority shall be limited to apply to shares up to an aggregate nominal amount constituting no more than five per cent. of the Actual Enlarged Share Capital; and
- (b) pursuant to the authority given by paragraph (b) of Resolution 3 above in connection with a rights issue,

as if section 561(1) of the 2006 Act did not apply to any such allotment;

such power to expire at the end of the next annual general meeting of the Company in 2010, 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.

For the purposes of this Resolution:

- (a) "rights issue" has the same meaning as in Resolution 3 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 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 or 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  
120 George Street  
Edinburgh EH2 4LH

By order of the Board  
Harry Baines  
Company Secretary & General Counsel

3 November 2009

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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 24 November 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 p.m. two days prior to the date fixed for the adjourned General Meeting.
- (2) Shareholders are invited to complete and return the enclosed form of proxy to the registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZL or register their appointment of proxy electronically on our registrar's website; [www.sharevote.co.uk](http://www.sharevote.co.uk). A proxy need not be a shareholder of the Company but must attend the General Meeting to represent a shareholder. A shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that 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 11.00 a.m. on 24 November 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 11.00 a.m. on 24 November 2009 by following the procedures described in the CREST manual available at [www.euroclear.com/CREST](http://www.euroclear.com/CREST). 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 Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZL, which must be received by 10.00 a.m. on 26 November 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 11.00 a.m. on 26 November 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) Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or good order of the meeting that the question be answered. 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](mailto: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 30 October 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 27,161,682,366 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 Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, or by calling the shareholder helpline on 0871 384 2990 (from inside the United Kingdom) or +44 20 8495 4630 (from outside the United Kingdom). A copy of this notice and other information required by section 311A of the Companies Act 2006 can be found at



www.lloydsbankinggroup.com. Calls to the 0871 384 2990 number are charged at 8p per minute (including VAT) from a BT landline. Other service providers' costs may vary. Calls to the +44 20 8495 4630 number are charge at applicable international rates.

- (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](http://www.lloydsbankinggroup.com).

