

Lloyds TSB / HBOS: The UK's Leading Financial Services Company

18 September, 2008

Outline

- Introduction

- Financials

- **Priorities**

Creating the UK's Leading Financial Services Company

- **Brings together two outstanding franchises with market-leading brands**
- **Robust capital and strong liquidity position**
- **Substantial benefits for customers and shareholders**

Unique opportunity to advance Lloyds TSB's value creating strategy

Transaction Overview

- **0.83 Lloyds TSB shares for each HBOS share**
- **At last night's close, equates to 232 pence per HBOS share, valuing HBOS at c.£12 billion**
- **Lloyds TSB / HBOS split of the new group 56%:44%**
- **Sir Victor Blank will be Chairman, and Eric Daniels Chief Executive**
- **Scheme of Arrangement**
- **Expected completion by end of 2008 / early 2009**
- **Subject to**
 - **Lloyds TSB and HBOS shareholder approvals and UK court sanction**
 - **Regulatory and competition approvals**
 - **Other normal transaction conditions**

Lloyds TSB and HBOS – A Compelling Combination

Franchise Strength

- Market-leading brands
- Relationship-focused strategy
- Unrivalled distribution
- Strong customer-centric culture

Robust Capital, Strong Liquidity and Funding

- Robust capital position strengthened through management action
- Liquid reserves of £80 billion
- Largest UK retail deposit base
- Strong access to wholesale markets
- Strong risk management

Substantial Value Accretion

- Estimated cost synergies (pre-tax) significantly in excess of £1 billion p.a.
- EPS accretion from 2011 of over 20%⁽¹⁾
- Substantial uplift in tangible net asset value per Lloyds TSB share

(1) This statement as to financial accretion is not intended to mean that Lloyds TSB's future earnings per share will necessarily exceed or match those of any prior year. These figures are not based on HBOS estimates and have not been approved by HBOS

Franchise Strength

**Largest Retail
Financial Services
Group**

#1 in current accounts

#1 in mortgages

#1 in savings

#1 in personal loans and cards

**Leading Insurance
Distributor**

#1 in household insurance

#1 in bancassurance

**Top 3 Commercial
& Corporate
Franchises**

#3 in commercial banking⁽¹⁾

#3 in mid-corporate banking⁽²⁾

(1) £15-25m turnover

(2) £100-200m turnover

Outline

- Introduction

- Financials

- **Priorities**

Key Financial Benefits

- **Estimated cost synergies (pre-tax) significantly in excess of £1 billion per year by 2011**
 - **£1bn is c.10% of combined cost base**
- **EPS accretion from 2011 of over 20%⁽¹⁾**
- **Double digit post-tax return on investment from 2009⁽¹⁾**
- **Significant revenue synergy opportunities not yet quantified**
- **Substantial uplift in tangible net asset value per Lloyds TSB share**

(1) This statement as to financial accretion is not intended to mean that Lloyds TSB's future earnings per share will necessarily exceed or match those of any prior year. These figures are not based on HBOS estimates and have not been approved by HBOS

Capital Structure and Dividend

- **Pro forma⁽¹⁾ capital ratios at 30 June 2008**
 - **Total capital ratio** 11.4%
 - **Tier 1 capital ratio** 8.0%
 - **Core Tier 1 capital ratio** 5.9%
- **Target Core Tier 1 ratio: in the 6% – 7% range**
- **2008 final dividend for the enlarged group to be paid in shares**
- **2009 dividend based on payout ratio of 40% of 2009 underlying earnings⁽²⁾, and progressive dividend policy thereafter**
- **With estimated fair value adjustments and retained earnings, expect to reach target range during 2010**
- **Actively pursue potential non-core disposal options to accelerate improvement of Core Tier 1 capital**
- **Continued prudent management of the capital base**

(1) *Adjusted for HBOS rights issue and announced AFS reserve of £2.4bn (post-tax)*

(2) *Excludes impact of synergies and achievement costs, insurance volatility and one-off items*

Funding and Liquidity

- **Proven, highly successful Treasury teams**
- **5 securitisations in 2008**
- **Cancara and Grampian successfully funding**
- **55% of funding requirements met from customer deposits**
- **Diversified, innovative retail savings strategy**
- **£80 billion in short term liquid reserves**
- **Incremental capacity to tap Special Liquidity Scheme**

Outline

- Introduction
- Financials
- **Priorities**

Priorities

- **Deliver synergies**
- **Build on franchise strength and customer relationships**
- **Maintain robust capital and strong liquidity**
- **Fulfil unique opportunity created by the acquisition**

Forward looking statements

This announcement contains forward looking statements with respect to the business, strategy and plans of the Lloyds TSB Group, its current goals and expectations relating to its future financial condition and performance. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The Group's actual future results may differ materially from the results expressed or implied in these forward looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, risks concerning borrower credit quality, market related risks such as interest rate risk and exchange rate risk in its banking business and equity risk in its insurance businesses, changing demographic trends, unexpected changes to regulation, the policies and actions of governmental and regulatory authorities in the UK or jurisdictions outside the UK, including other European countries and the US, exposure to legal proceedings or complaints, changes in customer preferences, competition and other factors. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of such factors. The forward looking statements contained in this announcement are made as at the date of this announcement, and the Group undertakes no obligation to update any of its forward looking statements.