

Lloyds/TSB & HBOS confirm details of acquisition

Recommended acquisition of HBOS plc by Lloyds TSB Group plc to be implemented by means of a scheme of arrangement under sections 895 to 899 of the Companies Act 2006. 18 September 2008 Summary & Lloyds TSB and HBOS announce that they have reached agreement on the terms of a recommended acquisition by Lloyds TSB of HBOS. Under the terms of the Acquisition, HBOS Shareholders will receive 0.83 Lloyds TSB Shares for every 1 HBOS Share. The offer values HBOS at £12.2 billion (based on Lloyds TSB's closing price on 17 September 2008 of 279.75 pence). Existing Lloyds TSB Shareholders will own approximately 56 per cent. of the issued share capital of Lloyds TSB as enlarged by the Acquisition and existing HBOS Shareholders approximately 44 per cent. & The Boards of HBOS and Lloyds TSB believe that the Acquisition is a compelling business combination which offers substantial benefits for shareholders and customers. The Acquisition accelerates Lloyds TSB's stated strategic aim to build the UK's leading financial services company by focusing on growing sustainable earnings streams, based on deep customer relationships. & Lloyds TSB's intention is that the combination will strengthen its ability to serve UK customers in these difficult markets. Specifically Lloyds TSB intends that new lending by the new combined bank for both UK mortgages and SMEs will continue at least at current levels and will expand as market conditions improve. In addition, Lloyds TSB intends to increase the range of products on offer on competitive terms to First Time Buyers (& FTBs &), building on the current shared equity and shared ownership offers. & The Enlarged Group will continue to use The Mound as its Scottish headquarters, will continue to hold its Annual General Meeting in Scotland and will continue to print Bank of Scotland bank notes. In addition the management focus is to keep jobs in Scotland. & Sir Victor Blank will be Chairman and Eric Daniels will be Chief Executive of the Enlarged Group. & The Enlarged Group intends to operate a dividend policy which is consistent with attaining its desired capital ratios and financing the growth of the business. In implementation of these objectives, the Enlarged Group intends to pay the final dividend for the 2008 financial year in shares. Thereafter the Group intends to pay a 2009 dividend based on a payout ratio of 40 per cent. of underlying earnings and a progressive dividend policy thereafter. & Lloyds TSB estimates that a combination with HBOS will lead to an additional contribution to earnings before tax from cost synergies significantly in excess of £1 billion per year by 2011. & It is expected that the Acquisition will lead to accretion in Lloyds TSB's earnings per share of over 20 per cent. per annum including cost synergies (before exceptional items) from 2011. 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. & The combined group will benefit from a portfolio of strong and trusted brands including Bank of Scotland, Halifax, C&G and Scottish Widows. & It is intended that the Acquisition will be implemented by means of a scheme of arrangement under sections 895 to 899 of the Companies Act. It is expected that the Scheme Document will be posted by November 2008 and that, subject to the satisfaction, or where relevant waiver, of all relevant conditions, the Scheme will become effective and the Acquisition completed at the end of 2008 or early 2009. & The Board of HBOS, in reviewing the Lloyds TSB offer, has given careful consideration to the current market uncertainties and to their potential impact on HBOS. The directors of HBOS, who have been so advised by Morgan Stanley and Dresdner Kleinwort, consider the terms of the Acquisition to be fair and reasonable. In providing their advice, Morgan Stanley and Dresdner Kleinwort have taken into account the commercial assessments of the directors of HBOS. Accordingly, the HBOS Board intends unanimously to recommend that HBOS Shareholders vote in favour of the Scheme. & The Acquisition is conditional on, among other things, certain approvals by Lloyds TSB Shareholders and HBOS Shareholders and the sanction of the Scheme by the Court. Merger control approvals and regulatory clearances from, inter alia, the Financial Services Authority will also need to be obtained. In order to become effective, the Scheme must be approved by a majority in number of HBOS shareholders voting, representing three-fourths in value of the HBOS Shares that are voted, at the Court Meeting. In addition, a special resolution implementing the Scheme and sanctioning the related reduction of capital must be passed by HBOS Shareholders representing 75 per cent. of the votes cast at the HBOS Extraordinary General Meeting. Commenting on the Acquisition, Sir Victor Blank, Chairman of Lloyds TSB said: & This will be a unique opportunity to accelerate and extend our strategy and create the UK's leading financial services group. Lloyds TSB/HBOS's outstanding franchise will enable it to service more of its customers needs with the balance sheet strength to prosper in challenging markets. This is a good deal for customers and shareholders. & Commenting on the Acquisition, Dennis Stevenson, Chairman of HBOS, said: & This is the right transaction for HBOS and its shareholders. Against the backdrop of the very high levels of volatility our industry is experiencing, the combined group will be one of the strongest players in the UK financial services sector. In addition, the combined group will have excellent brands and a very powerful franchise. We are recommending our shareholders vote for this transaction. & This summary should be read in conjunction with, and is subject to, the full text of this announcement and the appendices hereto. Appendix I to this announcement contains the conditions to, and certain further terms of, the Acquisition. Appendix II to this announcement contains further details of the bases and sources of information contained in this announcement. Appendix III contains definitions of certain expressions used in this summary and in this announcement. Lloyds TSB is being advised by Merrill Lynch who is also providing corporate broking advice. Citi is corporate broker and is also providing financial advice to Lloyds TSB. Lazard is also providing financial advice to Lloyds TSB. HBOS is being advised by Morgan Stanley who is lead financial adviser and joint corporate broker to HBOS. Dresdner Kleinwort is financial

adviser and joint corporate broker to HBOS.