BASE PROSPECTUS

Lloyds Banking Group plc

as Issuer and Guarantor

(incorporated in Scotland with limited liability under the Companies Act 1985 with registered number 95000)

Lloyds TSB Bank plc

as Issuer

(incorporated in England with limited liability under the Companies Act 1862 and the Companies Act 1985 with registered number 2065)

U.S.$35,000,000,000

Senior and Subordinated Medium-Term Notes Due Nine Months or More from Date of Issue

Lloyds Banking Group plc (the "**Company**") and Lloyds TSB Bank plc (the "**Bank**" and, together with the Company, the "**Issuers**" and each an "**Issuer**") may issue at various times up to $35,000,000,000 aggregate principal amount outstanding at any time of senior medium-term notes or dated subordinated medium-term notes with terms intended to qualify as Lower Tier 2 Capital (which term has the meaning given to it from time to time by the FSA (as defined below)) denominated in U.S. dollars or in other currencies or composite currencies. The Issuers are privately placing the notes on a delayed or continuous basis to one or more of the permanent dealers named below or otherwise appointed by an Issuer from time to time (the "**Permanent Dealers**") or through the Permanent Dealers to qualified institutional buyers as described in this Base Prospectus under the section entitled "Plan of Distribution". Each Issuer has also reserved the right to sell, and may solicit and accept offers to purchase, notes directly on its own behalf. This document will be considered a base prospectus ("**Base Prospectus**") for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). Application has been made to the United Kingdom Financial Services Authority (the "**FSA**"), in its capacity as competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the "**U.K. Listing Authority**") for the document to be approved as a Base Prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of notes issued under this programme. Application has been made to admit such notes during the period of 12 months after the date hereof to listing on the Official List of the U.K. Listing Authority (the "**Official List**"). Application has also been made to the London Stock Exchange plc (the "**London Stock Exchange**") for the notes to be admitted to trading on the London Stock Exchange's regulated market, which is a regulated market for the purpose of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

The notes will be issued in series and each series will be the subject of final terms (each "**Final Terms**"). The Issuers may issue notes with the following terms:

- Maturity Date: The notes will mature nine months or more from the date of issue.
- Status: The Issuers will issue either senior notes or subordinated notes, each as further described in this Base Prospectus.
- Redemption or Repayment Option: The notes may be subject to redemption or repayment at the relevant Issuer's option or the holder's option.
- Interest Rate Basis: The notes will bear interest at either a fixed or a floating rate. The floating rate formula may be based on the CD rate, CMS rate, CMT rate, commercial paper rate, federal funds rate, LIBOR, EURIBOR, prime rate, treasury rate or such other basis as are described in an applicable Final Terms.
- Other Features: The Issuers may issue the notes as original issue discount notes, index linked notes or amortising notes, or on such other basis as are described in an applicable Final Terms.
- Form: The Issuers will issue both the senior and the subordinated notes as global notes in fully registered form without coupons.
- Denomination: The Issuers will issue the senior notes in minimum denominations of $100,000 and the subordinated notes in minimum denominations of $250,000 or, in each case, in integral multiples of $1,000 in excess of these minimum denominations, or the equivalent of these amounts in other currencies or composite currencies, and in any other denominations in excess of the minimum denominations as may be specified in the applicable Final Terms.
- Interest Payment Dates: The Issuers will pay interest on the notes on the dates specified in the applicable Final Terms.

See the section entitled "Risk Factors" commencing on page 19 for a discussion of certain risks that prospective purchasers should consider prior to making an investment in the notes. The applicable Final Terms for any series of notes may describe additional risks prospective purchasers should consider.

The Issuers have not registered and will not register the notes or the Guarantees (as defined herein) under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities laws, and are only offering notes to qualified institutional buyers (as defined in and pursuant to Rule 144A under the Securities Act) and outside the United States in reliance on Regulation S or in other transactions exempt from registration under the Securities Act and, in each case, in compliance with applicable securities laws.

In the United Kingdom, this communication is directed only at persons who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "**relevant persons**"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

Each initial and subsequent purchaser of a note will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such note, as described in this Base Prospectus, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. See the section entitled "Transfer Restrictions" for a further description of these restrictions.

One or more Permanent Dealers may purchase notes, as principal, from the Issuers for resale to investors and other purchasers at varying prices relating to prevailing market prices as determined by any such Permanent Dealer at the time of resale or, if so agreed, at a fixed offering price. In addition, the Issuers may agree with a Permanent Dealer that it may utilise its reasonable efforts on an agency basis to submit offers for notes, as specified in the applicable Final Terms. The Issuers reserve the right to cancel or modify the medium-term note programme described in this Base Prospectus without notice. The Issuers, or a Permanent Dealer if it solicits an offer on an agency basis, may reject any offer to purchase notes in whole or in part. For further information, see the section entitled "Plan of Distribution".

The Permanent Dealers expect to deliver the notes in book-entry form through the facilities of The Depository Trust Company ("**DTC**") or through the facilities of Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, *société anonyme,* ("**Clearstream**") as specified in the Final Terms. Beneficial interests in the notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and/or Euroclear and Clearstream (as the case may be) and their respective participants or account holders.

Dealers

BofA Merrill Lynch	**Barclays Capital**
BNP PARIBAS	**Citi**
Credit Suisse	**Deutsche Bank Securities**
Goldman, Sachs & Co.	**HSBC**
J.P. Morgan	**Lloyds TSB Corporate Markets**
Morgan Stanley	**RBS**
UBS Investment Bank	**Wells Fargo Securities**

The date of this Base Prospectus is 11 November 2009

NOTICE TO INVESTORS

The Issuers are furnishing this Base Prospectus in connection with an offering exempt from registration under the Securities Act and applicable state securities laws solely for the purpose of enabling a prospective investor to consider the purchase of the notes. Delivery of this Base Prospectus to any person or any reproduction of this Base Prospectus, in whole or in part, without the Issuers' consent is prohibited. The information contained in this Base Prospectus has been provided by the Issuers and other sources identified in this Base Prospectus. Any information provided by a third party has been accurately reproduced and as far as the Issuers are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Permanent Dealers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Base Prospectus. None of the information contained in this Base Prospectus is, or should be relied upon as, a promise or representation by the Permanent Dealers. Prospective purchasers should be aware that since the date of this Base Prospectus there may have been changes in the affairs of the Issuers or the Group (as defined below) or otherwise that could affect the accuracy or completeness of the information set forth in this Base Prospectus.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption from registration. Prospective purchasers should be aware that they may be required to bear the financial risk of an investment in the notes for an indefinite period of time.

Prospective purchasers must comply with all applicable laws and regulations in force in any jurisdiction in connection with the distribution of this Base Prospectus and the offer or sale of the notes. If a prospective purchaser decides to invest in the notes such a purchaser and any subsequent purchaser will be deemed, by acceptance or purchase of a note, to have made certain acknowledgements, representations and agreements to and with the Issuers and any applicable Permanent Dealer intended to restrict the resale or other transfer of the note as described in this Base Prospectus. In addition, a prospective purchaser and any subsequent purchaser may be required to provide confirmation of compliance with resale or other transfer restrictions in certain cases. See the section entitled "Transfer Restrictions" for more information on these restrictions.

In making the decision whether to invest in the notes, prospective purchasers must rely on their own examination of the Issuers and the terms of this offering, including the merits and risks involved. Prospective purchasers should not construe the contents of this Base Prospectus as legal, business, financial or tax advice. Prospective purchasers should consult their own attorney, business advisor, financial advisor or tax advisor.

The notes and the Guarantees (as defined herein) have not been approved or disapproved by the U.S. Securities and Exchange Commission or any state or foreign securities commission or any regulatory authority. The foregoing authorities have not confirmed the accuracy or determined the adequacy of this Base Prospectus. Any representation to the contrary is a criminal offence.

Prospective purchasers should direct any inquiries relating to the Issuers, this Base Prospectus or the medium-term note programme described in this Base Prospectus to the Permanent Dealers.

This Base Prospectus comprises a base prospectus for the purpose of the Prospectus Directive and for the purpose of giving information with regard to the Issuers, the Company in its capacity as guarantor (the "**Guarantor**") and the Company and its consolidated subsidiaries from time to time (the "**Group**") of the notes issued by the Bank or the Company, as the case may be, which, according to the particular nature of each Issuer, the Guarantor and the notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the relevant Issuer or the Guarantor.

The Company and the Bank accept responsibility for the information contained in this Base Prospectus, and to the best of their knowledge and belief (and each having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Permanent Dealers by the Financial Services and Markets Act 2000 (the "**FSMA**") or the regulatory regime established thereunder, each of the Permanent Dealers accepts no responsibility whatsoever for the contents of this Base Prospectus, any Final Terms and/or the information incorporated herein by reference, including in relation to the accuracy, completeness and/or verification thereof, and/or for any other statement made or purported to be made by any of them, or on behalf of any of them, in connection with the offering or any other matter referred to in this document. Each of the Permanent Dealers accordingly disclaims all and any liability whatsoever arising in tort, contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this document or any such statement.

In connection with the issue of any tranche of notes, the Permanent Dealer or Permanent Dealers (if any) named as the stabilising manager(s) (or persons acting on behalf of any stabilising manager(s)) in the applicable Final Terms may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager(s) (or persons acting on behalf of a stabilising manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant tranche of notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of notes and 60 days after the date of the allotment of the relevant tranche of notes. Any stabilisation action or over-allotment must be conducted by the relevant stabilising manager(s) (or persons acting on behalf of any stabilising manager(s)) in accordance with all applicable laws and rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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 the Group's 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 Base Prospectus 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 G-8 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 Group may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the United States Securities and Exchange Commission (the "**Commission**"), 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 Company or the Bank to third parties, including financial analysts. The forward-looking statements in this Base Prospectus are made as of the date hereof, and the Group undertakes no obligation to update any of the forward-looking statements.

PRIVATE PLACEMENT OF MEDIUM-TERM NOTES

The Issuers have appointed Banc of America Securities LLC, Barclays Capital Inc., BNP Paribas Securities Corp., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman, Sachs & Co., HSBC Securities (USA) Inc., J. P. Morgan Securities Inc., Lloyds TSB Bank plc, Morgan Stanley & Co. Incorporated, RBS Securities Inc., UBS Securities LLC and Wells Fargo Securities, LLC as Permanent Dealers for the offering, from time to time, of the notes. The Issuers will limit the aggregate principal amount of the notes to U.S.$35,000,000,000, or the equivalent of that amount in one or more other currencies or composite currencies, outstanding at any time, subject to increase without the consent of the holders of the notes. The notes have not been registered and will not be registered under the Securities Act and purchasers of the notes may not offer or sell them in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The notes will be offered in the United States only to qualified institutional buyers, as defined in Rule 144A under the Securities Act ("**Rule 144A**"), in transactions exempt from registration under the Securities Act. The notes may be offered outside the United States in accordance with Regulation S. The Issuers hereby notify prospective purchasers that the sellers of the notes, other than the Issuers, may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Prospective purchasers may not transfer notes sold in the United States, except in accordance with the restrictions described under the section entitled 'Transfer Restrictions" of this Base Prospectus. Each purchaser of the notes in the United States will be deemed to have made the representations and agreements contained in this Base Prospectus.

The Issuers may issue additional notes of any series having identical terms to that of the original notes of that series but for the original issue discount (if any) and the public offering price. The period of the resale restrictions applicable to any notes previously offered and sold in reliance on Rule 144A shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional notes.

The Issuers will furnish each initial purchaser of the notes with a copy of this Base Prospectus and each applicable amendment and supplement, including the Final Terms to the Base Prospectus describing the terms related to that series of the medium-term notes. Unless the context otherwise requires, references to the Base Prospectus include this Base Prospectus, together with any amendment and supplements applicable to a particular series of the notes.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a public limited company incorporated under the laws of Scotland and the Bank is a public limited company incorporated under the laws of England and Wales. Most of the directors of the Company and most of the directors of the Bank named in this Base Prospectus are residents of the United Kingdom. A substantial portion of the assets of the Company and the Bank and a substantial portion of the assets of most of the directors are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or upon the Issuers or to enforce against them judgments obtained in U.S. courts, including those based upon the civil liability provisions of the U.S. securities laws. The Issuers' English solicitors, Linklaters LLP, have advised that there is also doubt as to the enforceability in the United Kingdom in original actions or in actions for the enforcement of judgments of U.S. courts predicated upon the civil liability provisions of the U.S. securities laws. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom.

CERTAIN DEFINITIONS

On 16 January 2009, Lloyds TSB Group plc acquired 100 per cent. of the ordinary share capital of HBOS plc (the "**Acquisition**"). Upon completion of the Acquisition, Lloyds TSB Group plc changed its name to Lloyds Banking Group plc. Accordingly in this Base Prospectus, references to:

(i) "**Bank**" are to Lloyds TSB Bank plc;

(ii) "**BOS**" are to Bank of Scotland plc;

(iii) "**Company**" are to Lloyds Banking Group plc;

(iv) "**Guarantor**" are to the Company in its capacity as guarantor of notes issued by the Bank;

(v) "**HBOS**" are to HBOS plc;

(vi) "**HBOS Group**" are to HBOS and its subsidiary undertakings from time to time;

(vii) "**Issuers**" are to the Company and the Bank, each an "**Issuer**";

(viii) "**Lloyds Banking Group**" or the "**Group**" are to the Company and its subsidiary undertakings from time to time;

(ix) "**Lloyds TSB Bank Group**" are to the Bank and its subsidiary undertakings from time to time; and

(x) "**Lloyds TSB Group**" are to the Company and its subsidiary undertakings from time to time but excluding the HBOS Group.

TABLE OF CONTENTS

	Page
DOCUMENTS INCORPORATED BY REFERENCE	8
EXCHANGE RATE INFORMATION	11
PRESENTATION OF FINANCIAL INFORMATION	12
SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION	13
OVERVIEW OF THE PROGRAMME	15
RISK FACTORS	19
DESCRIPTION OF THE NOTES AND THE GUARANTEES	51
DESCRIPTION OF THE GLOBAL NOTES	88
USE OF PROCEEDS	92
LLOYDS BANKING GROUP	93
RECENT DEVELOPMENTS	117
HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS BANKING GROUP	128
A. AUDITED FINANCIAL INFORMATION	128
B. OPERATING AND FINANCIAL REVIEW RELATING TO LLOYDS BANKING GROUP FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006 AND SELECTED STATISTICAL AND OTHER INFORMATION	130
C. UNAUDITED INTERIM FINANCIAL INFORMATION	131
D. OPERATING AND FINANCIAL REVIEW RELATING TO LLOYDS BANKING GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2009 AND 2008	132
HISTORICAL FINANCIAL INFORMATION RELATING TO THE HBOS GROUP	144
A. AUDITED FINANCIAL INFORMATION	144
B. OPERATING AND FINANCIAL REVIEW RELATING TO THE HBOS GROUP	146
C. HBOS GROUP SELECTED STATISTICAL AND OTHER INFORMATION AND REVIEW	147
CAPITAL RESOURCES	148
A. LLOYDS BANKING GROUP	148
B. HBOS GROUP	150
C. CAPITAL RESOURCES AND LIQUIDITY	151
EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING HOLDERS OF NOTES	159
PRO FORMA NET ASSET STATEMENT	160
FORM OF FINAL TERMS	163
TAXATION	171
TRANSFER RESTRICTIONS	185
PLAN OF DISTRIBUTION	188
SETTLEMENT	191
INDEPENDENT AUDITORS	192
LEGAL MATTERS	193
GENERAL INFORMATION	194

DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus should be read and construed in conjunction with the following documents:

Lloyds Banking Group plc financial statements:

(i) The interim management statement (the "**Interim Management Statement**") of the Company for the three months ended 30 September 2009 published on 3 November 2009 save for the sixth paragraph under "Key highlights";

(ii) The condensed statutory consolidated interim financial statements of the Company for the six months ended 30 June 2009, together with the independent review report thereon, as set out on pages 87 to 115 and 117 to 118, respectively, of the Company's 2009 Interim Results News Release (the "**Company's 2009 Interim Statutory Results**");

(iii) The condensed statutory consolidated interim financial statements of the Company for the six months ended 30 June 2008, together with the independent review report thereon, as set out on pages 30 to 45 and 47, respectively, of the Company's 2008 Interim Results News Release (the "**Company's 2008 Interim Statutory Results**");

(iv) The audited consolidated annual financial statements of the Company for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 97 to 181 and 96, respectively, of the Company's Annual Report and Accounts 2008 (the "**Company's 2008 Annual Report**");

(v) The audited consolidated annual financial statements of the Company for the financial year ended 31 December 2007, together with the audit report thereon, as set out on pages 77 to 147 and 76, respectively, of the Company's Annual Report and Accounts 2007; and

(vi) The audited consolidated annual financial statements of the Company for the financial year ended 31 December 2006, together with the audit report thereon, as set out on pages 63 to 120 and 62, respectively, of the Company's Annual Report and Accounts 2006.

Lloyds TSB Bank plc financial statements:

(i) The condensed statutory consolidated interim financial statements of the Bank for the six months ended 30 June 2009, together with the independent review report thereon, as set out on pages 4 to 25 and 27 to 28, respectively, of the Bank's Interim Management Report for the half-year ended 30 June 2009 (the "**Bank's 2009 Interim Statutory Results**");

(ii) The audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 11 to 107 and 9 to 10, respectively, of the Bank's Annual Report and Accounts 2008;

(iii) The audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2007, together with the audit report thereon, as set out on pages 10 to 100 and 8 to 9, respectively, of the Bank's Annual Report and Accounts 2007; and

(iv) The audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2006, together with the audit report thereon, as set out on pages 7 to 73 and 6, respectively, of the Bank's Annual Report and Accounts 2006.

HBOS Group plc financial statements:

(i) The audited consolidated annual financial statements of HBOS for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 41 to 45, 48 to 140 and 40, respectively, of HBOS's Annual Report and Accounts 2008 (the "**HBOS 2008 Annual Report**");

(ii) The audited consolidated annual financial statements of HBOS for the financial year ended 31 December 2007, together with the audit report thereon, as set out on pages 153 to 157, 160 to 223 and 152, respectively, of HBOS's Annual Report and Accounts 2007; and

(iii) The audited consolidated annual financial statements of HBOS for the financial year ended 31 December 2006, together with the audit report thereon, as set out on pages 124 to 128, 131 to 191 and 123, respectively, of HBOS's Annual Report and Accounts 2006.

Other documents incorporated by reference:

(i) The following sections of the annual report of the Company for the financial year ended 31 December 2008 on Form 20-F filed with the Commission on 7 May 2009 pursuant to the United States Securities Exchange Act of 1934 (the "**Exchange Act**") (the "**Company's 2008 Annual Report on Form 20-F**"):

  (a) "Material Contracts" and "Properties" as set out on pages 7 to 9;

  (b) "Operating and Financial Review and Prospects" as set out on pages 14 to 79;

  (c) "Employees", "Compensation" and "Corporate Governance" as set out on pages 82 to 104;

  (d) "Major Shareholders", "Related Party Transactions" and "Information about the Lloyds Banking Group's Relationship with the UK Government as set out on pages 105 to 107; and

  (e) The audited consolidated annual financial statements of the Company for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages F-1 to F-88;

(ii) The following sections of the Company's placing and compensatory open offer prospectus dated 20 May 2009 (the "**Company's Placing and Compensatory Open Offer Prospectus**"):

  (a) The operating and financial review relating to the HBOS Group as set out on pages 118 to 177; and

  (b) The cash flow analysis of the HBOS Group as set out on page 180; and

(iii) Part XIV "Operating and Financial Review of HBOS" as set out on pages 73 to 116 of the HBOS rights issue prospectus dated 19 June 2008 (the "**HBOS Rights Issue Prospectus**")

all of which have been previously published and filed with the FSA and, in the case of the Company's Annual Report on Form 20-F, with the Commission, and which shall be deemed to be incorporated in, and form part of, this Base Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus. Any documents

themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

The Company will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to the Company at its registered office set out at the end of this Base Prospectus. The majority of the documents listed above can be found on the Company's website.

The Company will, in the event of any significant new factor, material mistake or inaccuracy relating to information included or incorporated by reference in this Base Prospectus which is capable of affecting the assessment of any notes, prepare a supplement to this Base Prospectus (a "**Supplementary Prospectus**") or publish a new prospectus for use in connection with any subsequent issue of notes. The Company has undertaken to the Dealers in the Program Agreement (as defined herein) that it will comply with section 87G of the FSMA.

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, average and period-end noon-buying rates in the City of New York for cable transfers in sterling as announced by the Federal Reserve Bank of New York for customs purposes, in each case for the purchase of U.S. dollars, all expressed in U.S. dollars per pound sterling (the "**Market Exchange Rate**").

For the financial year ended	Average[(1)]	Year End
	(U.S. dollars per pound sterling)	
2006	1.8582	1.9586
2007	2.0073	1.9843
2008	1.8424	1.4619

For the month of	Average[(2)]	Month End
May 2009	1.5418	1.6160
June 2009	1.6369	1.6452
July 2009	1.6378	1.6713
August 2009	1.6532	1.6314
September 2009	1.6323	1.6004
October 2009	1.6212	1.6479

Notes:

(1) The average of the noon buying rates on the last business day of each month during the relevant period.

(2) The average of the daily noon buying rates during the relevant period.

PRESENTATION OF FINANCIAL INFORMATION

Rounding adjustments have been made to reach some of the figures included in this Base Prospectus. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

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

Unless otherwise indicated, all references in this Base Prospectus to "pounds sterling", "sterling" and "£" are to the lawful currency of the United Kingdom and all references to "U.S. dollars", "dollars" and "$" are to the lawful currency of the United States.

The audited annual financial information relating to the Group, the Bank and the HBOS Group included or incorporated by reference in this Base Prospectus as of and for the financial years ended 31 December 2008, 2007 and 2006 has been derived from the relevant entity's audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union.

The unaudited statutory interim financial information relating to the Group and the Bank included or incorporated by reference in this Base Prospectus as of and for the six months ended 30 June 2009 and 2008 has been derived from the relevant entity's condensed consolidated financial statements prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("**IAS 34**"), as adopted by the European Union.

The consolidated financial statements of the Group and the Bank as of and for the financial years ended 31 December 2008, 2007 and 2006 have been audited, and the condensed consolidated financial statements of the Group and the Bank as of and for the six months ended 30 June 2009 and 2008 have been reviewed, by PricewaterhouseCoopers LLP ("**PwC**"), independent auditors, as stated in their reports incorporated by reference herein.

The consolidated financial statements of the HBOS Group as of and for the financial years ended 31 December 2008, 2007 and 2006 have been audited by KPMG Audit Plc ("**KPMG**"), independent auditors, as stated in their reports incorporated by reference herein.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated information which has been derived from the Group's audited consolidated financial statements as at and for the financial years ended 31 December 2008, 2007 and 2006 and from the Group's unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2009.

The following data should be read in conjunction with the Group's condensed consolidated interim financial statements and the notes thereto and the Group's audited consolidated financial statements and the notes thereto, all incorporated by reference herein, as well as the sections of this document entitled "Historical Financial Information Relating to Lloyds Banking Group".

Selected Income Statement Information

	Year ended 31 December		
	2008	**2007**	**2006**
	(audited) *(£ millions unless otherwise indicated)*		
Basic earnings per share	14.3p	58.3p	49.9p
Total income	7,013	18,228	19,673
Insurance claims	2,859	(7,522)	(8,569)
Total income, net of insurance claims	**9,872**	**10,706**	**11,104**
Operating expenses	(6,053)	(5,567)	(5,301)
Trading surplus	**3,819**	**5,139**	**5,803**
Impairment	(3,012)	(1,796)	(1,555)
Profit on sale of businesses	–	657	–
Profit before tax	**807**	**4,000**	**4,248**

	Six months ended 30 June	
	2009	**2008**
	(unaudited) *(£ millions unless otherwise indicated)*	
Basic earnings per share	41.9p	9.8p
Total income	12,700	3,280
Insurance claims	(2,902)	1,344
Total income, net of insurance claims	**9,798**	**4,624**
Operating expenses	(6,464)	(2,936)
Trading surplus	**3,334**	**1,688**
Impairment	(8,053)	(1,099)
Share of results of joint ventures and associates	(504)	4
Gain on acquisition	11,173	–
Profit before tax	**5,950**	**593**

Selected Balance Sheet Information

	As at 30 June	As at 31 December		
	2009	2008	2007	2006
	(unaudited)		*(audited)*	
		(£ millions)		
Assets				
Cash and balances at central banks	60,384	5,008	4,330	1,898
Derivatives, trading and other financial assets at fair value through profit or loss	184,821	73,948	66,570	73,260
Loans and receivables	728,139	283,493	244,659	228,923
Available-for-sale financial assets	41,914	55,707	20,196	19,178
Investment property	4,587	2,631	3,722	4,739
Goodwill, other intangible assets and the value of in-force business	12,270	4,346	4,725	5,238
Tangible fixed assets	9,088	2,965	2,839	4,252
Other assets	21.926	7,935	6,305	6,110
Total assets	**1,063,129**	**436,033**	**353,346**	**343,598**
Liabilities				
Deposits from banks	112,909	66,514	39,091	36,394
Customer deposits	429,082	170,938	156,555	139,342
Derivatives, trading and other financial liabilities at fair value through profit or loss	68,807	33,646	10,788	6,947
Debt securities in issue	240,589	75,710	51,572	54,118
Insurance liabilities	69,648	34,062	38,617	42,128
Liabilities arising from non-participating investment contracts	42,921	14,243	18,197	24,370
Other liabilities	31,199	12,194	11,999	14,258
Retirement benefit obligations	1,982	1,771	2,144	2,462
Subordinated liabilities	30,966	17,256	11,958	12,072
Total liabilities	**1,028,103**	**426,334**	**340,921**	**332,091**

	As at 30 June	As at 31 December		
	2009	2008	2007	2006
Selected Capital Ratios[1]				
Tier 1 capital ratio	8.6%	8.0%	9.5%	8.2%
Total capital ratio	10.6%	11.2%	11.0%	10.7%

(1) Capital ratios for 2007, 2008 and 2009 are in accordance with Basel II requirements, ratios for 2006 reflect Basel I.

OVERVIEW OF THE PROGRAMME

This overview highlights important information regarding, but is not a complete description of, the medium term note programme. The Issuers urge prospective purchasers to read the remainder of this Base Prospectus where a description of the medium-term note programme is set out in more detail. Prospective purchasers should also review the applicable Final Terms for additional information about the particular series of notes that they are considering purchasing. The terms of the applicable Final Terms for a series of notes may supersede the description of the notes contained in this Base Prospectus.

The Issuers may offer senior or dated subordinated notes under the medium-term note programme described in this Base Prospectus, depending on the terms of the applicable Final Terms for each series. In this Base Prospectus, references to "notes" mean any senior or dated subordinated medium-term notes that may be issued under the medium-term note programme described in this Base Prospectus, unless the context clearly means otherwise.

Issuers

Lloyds Banking Group plc

Lloyds Banking Group plc (the "**Company**") was incorporated in Scotland on 21 October 1985 (Registration number 95000). The Company's registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH. The Company and its subsidiaries ("**Lloyds Banking Group**" or the "**Group**") is a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services in the UK and a limited number of locations overseas. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

Lloyds TSB Bank plc

Lloyds TSB Bank plc (the "**Bank**") was incorporated in England and Wales on 20 April 1865 (Registration number 2065). The Bank's registered office is at 25 Gresham Street, London EC2V 7HN. The Bank is a wholly owned subsidiary of the Company.

Guarantor

Notes issued by the Bank will be guaranteed by the Company on a senior or subordinated basis as described in "Description of the Notes and the Guarantees".

Permanent Dealers

Banc of America Securities LLC
Barclays Capital Inc.
BNP Paribas Securities Corp.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
J. P. Morgan Securities Inc.
Lloyds TSB Bank plc
Morgan Stanley & Co. Incorporated
RBS Securities Inc.
UBS Securities LLC

	Wells Fargo Securities, LLC
Trustee, Paying Agent and Calculation Agent	The Bank of New York Mellon, London branch
Paying Agent and Note Registrar	The Bank of New York Mellon, New York branch
Paying Agent and Note Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Method of Distribution	The notes are being offered on a continuous basis by the Issuers through the Permanent Dealers. The Issuers may also sell notes to the Permanent Dealers acting as principals for resale to investors or other purchasers. See "Plan of Distribution".
Programme Size	The Issuers may issue up to $35,000,000,000, or the equivalent of that amount in one or more other currencies or composite currencies, outstanding at any time. The Issuers may increase the programme size from time to time without the consent of the holders of the notes.
Currencies	Subject to any applicable legal or regulatory restrictions, the relevant Issuer may issue notes in any currency as it may agree with the relevant Permanent Dealer(s).
Issuance in Series	The Issuers will issue senior notes in series under a Senior Indenture and subordinated notes in series under a Subordinated Indenture. Within each series, they will issue tranches of notes subject to terms identical to those of other tranches in that series, except that the issue date, the issue price and the amount of the first payment of interest may vary.
Status of Senior Notes	The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and, in the case of the Bank, will be unconditionally and irrevocably guaranteed by the Guarantor. The Senior Notes will rank equally without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated obligations of such Issuer, provided that the relevant Issuer's or the Guarantor's other unsecured and unsubordinated indebtedness may contain covenants, events of default and other provisions which differ from or which are not contained in the Senior Notes.
Status of Subordinated Notes	The Subordinated Notes will constitute direct, unsecured and subordinated obligations of the relevant Issuer and, in the case of the Bank, will be irrevocably guaranteed on a subordinated basis by the Guarantor and rank equally without any preference among themselves, all as described in "Description of the Notes and the Guarantees". References to Subordinated Notes are to Subordinated Notes with a fixed maturity date. Unless otherwise stated in the applicable Final Terms, Subordinated Notes issued pursuant to the Subordinated Indenture are intended to constitute lower tier two capital in accordance with the requirements of the FSA. The Subordinated Notes will have a Stated Maturity of at least five years

	from the date on which such note is issued (the "**Original Issue Date**").
Issue Price	The Issuers may offer notes at par or at a premium or discount to par as specified in the applicable Final Terms.
Maturities	The notes will mature in 9 months or longer as specified in the applicable Final Terms.
Redemption at Maturity	The Issuers may redeem notes at par on the maturity date or at such other amount as they may specify in the applicable Final Terms.
Early Redemption	The Issuers are permitted to redeem the notes prior to maturity for taxation reasons and as specified in the applicable Final Terms. Additionally, the applicable Final Terms may provide that the notes of a series are redeemable at the relevant Issuer's option and/or the option of the holder.
Interest	Interest may accrue at a fixed rate or a floating rate, which will be calculated by referring to an index and/or formula. The floating rate may be determined by reference to one or more base rates, such as LIBOR, and may be adjusted by a spread or a spread multiplier or other interest rate formula, in each case as the relevant Issuer agrees with the purchaser and as described in the applicable Final Terms.
Interest Payments	The Issuers may pay interest monthly, quarterly, semi-annually, annually or at such other intervals as described in the applicable Final Terms.
Denominations	The Issuers will issue the senior notes in minimum denominations of $100,000 and the subordinated notes in minimum denominations of $250,000 or, in each case, in integral multiples of $1,000 in excess of these minimum denominations, or the equivalent of these amounts in other currencies or composite currencies, and in any other denominations in excess of the minimum denominations as specified in the applicable Final Terms.
Form, Clearance and Settlement	Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes and notes offered outside the United States in reliance on Regulation S will be represented by one or more international global notes. The global notes will be issued in fully registered form and will be either deposited with a custodian for DTC for the benefit of participants in DTC or deposited with a common depository on behalf of Euroclear and Clearstream as specified in the applicable Final Terms. In ordinary circumstances, no temporary documents of title will be issued. Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with the transfer restrictions

	set forth therein. Transfers of interests from a U.S. global note to an international global note are subject to certification requirements.
Governing Law	The notes, the Indentures, the paying agent, currency determination agent and note registrar agreement, the calculation agency agreement and the program agreement for the programme (the "**Program Agreement**") will be governed by, and construed in accordance with, the laws of the State of New York (save that the provisions relating to the subordination and waiver of set-off of the Company's obligations as Issuer and/or Guarantor of Subordinated Notes under the Subordinated Indenture shall be governed by, and construed in accordance with, Scots law and that the provisions relating to the subordination and waiver of set-off of the Bank's obligations as Issuer of Subordinated Notes under the Subordinated Indenture shall be governed by, and construed in accordance with, English law).
Ratings	The ratings for each series of notes will be as set forth in the applicable Final Terms. The rating agencies have agreed to continue to monitor each of the Issuer's credit. A rating reflects only the views of the relevant rating agency and is not a recommendation to buy, sell or hold the notes.
Sales and Transfer Restrictions	The Issuers have not registered the notes under the Securities Act, and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the Securities Act.
Listing	Application has been made to the U.K. Listing Authority for the notes to be admitted to listing on the Official List. Application has also been made to the London Stock Exchange for the notes to be admitted to trading on the London Stock Exchange's regulated market.
Risk Factors	There are certain risks related to any issue of notes under the programme, which investors should ensure they fully understand. See "Risk Factors" on page 19 of this Base Prospectus as well as any additional risk factors that may be contained in any Supplementary Prospectus.
Taxation	Payments of principal of and interest on the notes by the Issuers will be paid without withholding or deduction for, or on account of, taxes in the United States and the United Kingdom except as described in "Taxation" below.
Use of Proceeds	The net proceeds of each issue of notes will be used for the general business purposes of Lloyds Banking Group. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

RISK FACTORS

The Issuers believe that the following factors may affect their ability to fulfil their obligations under the notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Company nor the Bank is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuers believe may be material for the purpose of assessing the market risks associated with notes issued under the Programme in relation to the Group are also described below.

The Issuers believe that the factors described below represent the principal risks inherent in investing in notes issued under the Programme, but the inability of either Issuer to pay interest, principal or other amounts on or in connection with any notes may occur for other reasons and the Issuers do not represent that the statements below regarding the risks of holding any notes are exhaustive. Prospective purchasers should consider carefully the risks and uncertainties described below, together with all other information contained in this document and the information incorporated by reference herein, before making any investment decision. This section of the Base Prospectus is divided into two main sections – "Risks Relating to the Issuers" and "Risks Relating to the Notes".

1. RISKS RELATING TO THE ISSUERS

1.1 The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, such as the current and ongoing crisis in the global financial markets, recession, and further deterioration of general economic conditions, particularly in the UK, have already adversely affected the Group's earnings and profits and could continue to cause its earnings and profitability to decline.

The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom in which the Group's earnings are predominantly generated. Over approximately the past two years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world, that began in August 2007 and has substantially worsened since September 2008, triggered widespread problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK Government and other governments to inject liquidity into the financial system and require (and participate in) recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market.

Despite this intervention, the volatility and market disruption in the banking sector has continued albeit with some easing in the second and third quarters of 2009. This market dislocation has also been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. The global economy is in a severe recession, possibly the worst since World War II, although the rate of deterioration has slowed and there are some signs of improvement in a number of economies. The widespread and severe deterioration in the UK and virtually all other economies throughout the world, including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets,

foreign exchange markets, commodity markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, has already and could continue to reduce the level of demand for, and supply of, the Group's products and services, lead to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and materially and adversely impact its operating results, financial condition and prospects. While certain recent economic forecasts are being revised upwards, there can be no assurance of a return to economic growth and further significant deterioration in the UK and other economies in which the Group operates could have a material adverse impact on the future results of operations of the Group. Moreover, any return to economic growth may be modest and is likely to be insufficient to prevent unemployment rising further. The rate at which deterioration of the global and UK economies has occurred has proven very difficult to predict and this will apply to any further deterioration or any recovery.

Additionally, the profitability of the Group's businesses could be affected by increased insurance and other claims arising from market factors such as increased unemployment which may continue even following a return to economic growth in the markets in which the Group operates. Significantly higher unemployment in the UK and elsewhere, reduced corporate profitability, reduced personal non-salary income levels, increased corporate insolvency rates, increased personal insolvency rates, increased tenant defaults and/or increased interest rates may reduce borrowers' ability to repay loans and may cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Group's loans. This, in turn, would cause increased impairments in the event of default. Poor general economic conditions, lack of market liquidity and lack of transparency of asset structures have depressed asset valuations for the Group and could continue to do so if there is a further deterioration in general economic conditions.

The Group has significant exposures, particularly by way of loans, in a number of overseas jurisdictions, notably Ireland, Spain, Australia and the United States, and is therefore subject to a variety of risks relating to the performance of these economies as well.

The exact nature of the risks faced by the Group is difficult to predict and guard against in view of (i) the severity of the global financial crisis, (ii) difficulties in predicting the rate at which further economic deterioration may occur, and over what duration, and (iii) the fact that many of the related risks to the business are totally, or in part, outside the control of the Group.

1.2 The Commissioners of Her Majesty's Treasury ("HM Treasury") is the largest shareholder of the Company. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business.

HM Treasury currently owns 43.4 per cent. of the ordinary share capital of the Company. The Group expects that, upon completion of the rights issue announced by the Group on 3 November 2009 (the "**Rights Issue**"), HM Treasury's shareholding will remain at 43.4 per cent. In addition, one of the two exchange offers announced by the Group on 3 November 2009 (the "**Exchange Offers**" and, together with the Rights Issue, the "**Proposals**") involves the potential issue of ordinary shares to investors outside the United States who choose this form of consideration, as would the conversion of the enhanced capital notes (the "**Enhanced Capital Notes**" or "**ECNs**"), which are being offered for exchange, into ordinary shares pursuant to their terms. It is not possible to estimate with any certainty the total dilutive effect of these transactions on HM Treasury's ownership interest in the Company. Nevertheless, following any such events, HM Treasury is expected to remain a significant shareholder in the Company.

In the longer term, it may become necessary for the Group to raise further capital or seek the support of the UK Government (as described in Risk Factor 1.5). Any such capital raising or support from the UK Government could result in an increase in HM Treasury's shareholding in the Company.

No formal "relationship agreement" has been concluded between the Group and the UK Government in respect of its shareholding in the Company and no specific measures are in place to limit the level of control which may be exercised by HM Treasury. However, the relationship falls within the scope of the revised framework document between HM Treasury and UK Financial Investments Limited published on 13 July 2009. Nevertheless, there is a risk that HM Treasury might seek to exert influence over the Group, and may disagree with the commercial decisions of the Group, including over such matters as the implementation of synergies, commercial and consumer lending policies and management of the Group's assets and/or business.

There is also a risk that, through its interests in the Company, the UK Government and HM Treasury may be able to influence the Group in other ways that would have a material adverse effect on the Group's business, including among other things, the election of directors, the appointment of senior management at the Company, staff remuneration policies, lending policies and commitments, management of the Group's business including, in particular, management of the Group's assets such as its existing retail and corporate loan portfolios, significant corporate transactions and the issue of new ordinary shares. Shareholders may disagree as to whether an action opposed or supported by HM Treasury is in the best interests of the Group generally. Furthermore, HM Treasury also has interests in other UK financial institutions, as well as an interest in the health of the UK banking industry and other industries generally, and those interests may not always be aligned with the commercial interests of the Group or its shareholders.

1.3 The aid given by HM Treasury to the Group is subject to European state aid review. The outcome of this review is uncertain and may involve the prohibition of some elements of the aid, the requirement for the Group to repay the aid or the imposition of conditions on the Group that may be materially adverse to its interests. The Group also expects that the outcome of the state aid review will prevent the Group from paying dividends on its ordinary shares until 31 January 2012.

As a result of the Group's placing and open offer in November 2008 and the Group's participation in HM Treasury's credit guarantee scheme (the "**Credit Guarantee Scheme**"), which was announced on 8 October 2008, the Group has been required to cooperate with HM Treasury to submit a restructuring plan to the European Commission setting out the Group's plans to restructure and return to a position of viability in which it no longer relies on state aid.

HM Treasury has submitted a restructuring plan for the Group to the European Commission and there have been detailed negotiations between HM Treasury, the Group and the European Commission with a view to agreeing the final contents of this restructuring plan. As part of its review of this plan, the European Commission is required to consider whether the plan demonstrates that the Group's long-term viability will be assured, that the Group makes a sufficient contribution to the costs of its restructuring and that measures are taken to limit distortions of competition arising from the aid to the Group. The Group, together with HM Treasury, has now finalised negotiations with the European Commission around the final terms of the restructuring plan. Based on these negotiations, the Group expects that the final restructuring plan will consist of the principal elements set out in the Capital Raising Announcement which the Group is confident will address competition distortions from all

elements of state aid that the Group has received, including HM Treasury's participation in the placing and compensatory open offer in June 2009 and in the Rights Issue, 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 expected prohibition on the making of discretionary coupon payments on hybrid securities or making voluntary calls on such securities from 31 January 2010 to 31 January 2012 will prevent the Company from paying dividends on its ordinary shares for the same duration.

Notwithstanding the above, as 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, 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. However, the Company has agreed with HM Treasury in the deed of withdrawal to be entered into between the Company and HM Treasury relating to the Company's withdrawal from GAPS (the "**GAPS Withdrawal Deed**") that it will comply with the terms of the European Commission's decision.

If the College of Commissioners does not approve the restructuring plan in substantially the form submitted by HM Treasury, then the European Commission would likely instead open a formal investigation into state aid given to the Group. At the conclusion of this investigation, the European Commission could impose conditions that are more disadvantageous, potentially materially so, to the Group than those in the proposed restructuring plan. In particular, the Group could be required to dispose of a significantly larger proportion of its assets and/or agree to a significantly more stringent divestment timetable or more onerous behavioural restrictions than those contemplated in the restructuring plan submitted by HM Treasury. Any more extensive remedies could have a greater and materially more negative impact on the Group's business, operations and competitive position than would be the case if the Group implemented the restructuring plan submitted by HM Treasury. Unless, during the course of the formal investigation, HM Treasury were to submit a restructuring plan that was acceptable to the Commission, the Commission may, instead of imposing more disadvantageous conditions as described above, require HM Treasury to recover the state aid from the Group. In either case, the Group could challenge any adverse Commission decision in the European Courts. However, should the Group ultimately be unsuccessful in any such challenge, under the terms of the GAPS Withdrawal Deed the Company would be required to comply with the Commission's decision. The consequences for the Group could therefore, as described above, be significantly adverse to the Group's interests.

In addition, it is possible that if the College of Commissioners does approve the restructuring plan in substantially the form submitted by HM Treasury a third party may challenge that decision in the European Courts. The Group does not believe that any such challenge would be likely to succeed, but if it were to succeed the Commission would need to reconsider its decision, which may result in any of the adverse outcomes described above.

The Group will also be subject to a variety of risks as a result of implementing the restructuring plan in the form submitted by HM Treasury. There is no assurance that the price that the Group receives for any assets sold pursuant to the restructuring plan will be at a level the Group considers adequate or which it could obtain in circumstances in which the Group was not required to sell such assets in order to implement a state aid restructuring plan or if such sale were not subject to the restrictions contained in the terms thereof. In particular, should the Group fail to complete the disposal of the retail banking business that the Group expects to be required to divest within four years, a divestiture trustee would be appointed to conduct the sale, with a mandate to complete the disposal with no minimum price (including at a negative price). In implementing the plan, the Group will lose existing customers, deposits and other

assets (both directly through the sale and potentially through damage to the rest of the Group's business arising from implementing the restructuring plan) and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals. Such implementation may also result in disruption to the retained business, impacting on customers and separation costs which could potentially be substantial.

The effect of implementing the restructuring plan submitted by HM Treasury may be the emergence of one or more new viable competitors in the UK banking market or a material strengthening of one or more of the Group's competitors in that market. There can be no assurance that the Group will be able to continue to compete as effectively (whether against existing or new or strengthened competitors) and maintain or improve its revenues and margins in the resulting competitive environment, which could adversely affect the Group's results of operations and financial condition and its business generally. If any or all of the risks described in this paragraph, or any other currently unforeseen risks, materialise, there could be a negative impact, which could be material, on the Group's business, operations and competitive position.

1.4 Future legislative and regulatory changes could force the group to comply with certain operational restrictions, take steps to raise further capital, or divest assets.

In July 2009, the UK Government issued a White Paper (the "White Paper") which builds on and responds to the previously published Turner Review (March 2009) and Bank of England Financial Stability Report (June 2009), both of which contained proposals for reform of the structure and regulation of the banking system. The proposals set out in these reports, if implemented, could have a significant impact on the operations, structure and costs of the Group.

Proposals in the White Paper include: enhanced regulatory powers for the FSA; introducing pre-funding for the UK's deposit guarantee scheme by 2012; requiring banks to develop and maintain detailed plans for winding down (or resolution); and more stringent capital and liquidity requirements for systemically significant firms. The Government's stated aim in linking capital requirements to the size and complexity of systemically significant firms, is that, "The capital requirements in place for systemically significant institutions would need to be sufficient to change incentives of banks to over-indulge in risky activities throughout the economic cycle. This should encourage them to reduce or at least better understand the riskier activities they undertake (for example, proprietary trading) and reduce the moral hazard problem by removing the incentive for firms to become systemically significant".

There is a risk that the regulation or legislation that may be developed over time to implement this proposal could force the Group to divest core assets, withdraw from or not engage in some activities, and/or increase its capital. Such regulations or legislation, taken with the more regular and detailed reporting obligations which are expected to accompany regulatory reform, the development and maintenance of a wind down plan, and the move to pre-funding of the deposit protection scheme in the UK, would result in additional costs for the Group, and such costs could be material.

Such measures could have a material adverse effect on the Group's results of operations, financial condition and prospects.

On 5 October 2009, the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms' liquidity risk management practices. Procedures to comply with the FSA's liquidity proposals are already incorporated within the Group's liquidity funding plans. These will result in more

stringent requirements, which may lead to additional costs for the Group. See Risk Factor 1.14 for a fuller discussion of liquidity risks affecting the Group.

1.5 Regulatory capital requirements affect the Group's business.

The Group is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. Currently, the Group meets and exceeds its regulatory capital requirements. Following the implementation of the Rights Issue and the Exchange Offers, the Group expects to continue to meet both its regulatory capital requirements and the additional capital requirements imposed by the FSA Stress Test. However, the FSA could apply increasingly stringent stress case scenarios in determining the required capital ratios for the Group and other banks, increase the minimum regulatory requirements imposed on the Group, introduce liquidity restrictions, introduce new ratios and/or change the manner in which it applies existing regulatory requirements to recapitalised banks including those within the Group. In order to meet additional regulatory capital requirements, the Group may be forced to raise further capital.

Further, within the Group, the heritage Lloyds TSB Group and HBOS Group businesses may have approaches to the Basel II modelling of regulatory capital requirements which may differ according to the assumptions used. As the two model methodologies are aligned over time this may result in changes to the Group's combined reported level of regulatory capital.

The Group's ability to maintain its targeted and regulatory capital ratios in the longer term could be affected by a number of factors, including net synergies and implementation costs following the Acquisition, and its level of risk-weighted assets, post-tax profit and fair value adjustments. In addition to the fair value adjustments, the Group's core tier 1 capital ratio will be directly impacted by any shortfall in forecasted after-tax profit (which could result, most notably, from greater than anticipated asset impairments and/or adverse volatility relating to the insurance or lending businesses). Furthermore, under Basel II, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen.

If the regulatory capital requirements, liquidity restrictions or ratios applied to the Group are increased in the future, any failure of the Group to maintain such increased regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on the Group's operating results, financial condition and prospects. A shortage of available capital would also affect the Group's ability to pay dividends, continue organic growth or pursue acquisitions or other strategic opportunities. In particular, changes in regulatory capital requirements imposed by the Group's regulators could cause the Group to defer the re-introduction of ordinary dividends or change its dividend policy.

The Group's life assurance and general insurance businesses in the UK are subject to capital requirements prescribed by the FSA, and the Group's life and general insurance companies outside the UK are subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary legislation to define broad 'framework' principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. Solvency II is still in development, but there is a risk that the final regime could increase the amount of regulatory capital the Group's life assurance and general insurance businesses are required to hold, thus decreasing the amount of capital available for other uses.

1.6 The Company has agreed to certain undertakings with HM Treasury in relation to the operation of its business in connection with the Company's placing and open offers in November 2008 and May 2009, in connection with the Group's participation in the Credit Guarantee Scheme and as part of its possible participation in GAPS. The implications of some of these undertakings remain unclear and they could have a material adverse effect on the Group's results of operations, financial condition and prospects. The Group also agreed to certain other commitments in the GAPS Withdrawal Deed.

In connection with HM Treasury's participation in the placing and open offers in November 2008 and May 2009, the Group's participation in the Credit Guarantee Scheme and its possible participation in GAPS, the Company provided certain undertakings aimed at ensuring that the acquisition by HM Treasury of the Company's shares and the participation of the Group in the UK Government funding scheme as part of its support for the banking industry is consistent with the European state aid clearance. The state aid rules aim to prevent companies from being given an artificial or unfair competitive advantage as a result of governmental assistance. It is the Group's understanding that the undertakings are also aimed at supporting certain objectives of HM Treasury in providing assistance to the UK banking industry. These undertakings include (i) supporting UK Government policy in relation to mortgage lending and lending to businesses through the end of February 2011, (ii) regulating the remuneration of management and other employees and (iii) regulating the rate of growth of the Group's balance sheet. There is a risk that these undertakings or any further requirements introduced by HM Treasury could have a materially adverse effect on the operations of the Group.

On 6 March 2009, in connection with the Group's then proposed participation in GAPS, the Company entered into a commitment to increase lending by approximately £14 billion in the twelve months commencing 1 March 2009 to support UK businesses (£11 billion) and homeowners (£3 billion). As part of withdrawing from GAPS, the Group has agreed in the GAPS Withdrawal Deed to reaffirm its overall lending commitments and to maintain in the 12 months commencing 1 March 2010 similar levels of lending as in the 12 months commencing 1 March 2009, subject to adjustment of the lending commitments by agreement with the UK Government to reflect circumstances at the start of the twelve month period commencing 1 March 2010. This additional lending in 2009 and 2010 is expected 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. This commitment could, however, limit the operational flexibility of the Group.

1.7 The Group could fail to attract or retain senior management or other key employees.

The Group's success depends on the ability and experience of its senior management and other key employees. The loss of the services of certain key employees, particularly to competitors, could have a material adverse effect on the Group's results of operations, financial condition and prospects. In addition, as the Group's businesses develop, both in the UK and in other jurisdictions, future success will depend on the ability to attract and retain highly-skilled and qualified personnel, which cannot be guaranteed, particularly in light of the increased regulatory intervention in financial institutions and management compensation arrangements coming under government prescription. For example, the Group's remuneration arrangements will need to comply with the FSA's Rule and supporting Code on remuneration (which only apply to certain financial institutions) with effect from 1 January 2010 for the 2009 performance year. In addition, in the GAPS Withdrawal Deed, the Group has acknowledged to HM Treasury its commitment to the principle that, from 2010, it should be at the leading edge

of implementing the G20 principles, the FSA code 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. Furthermore, the Group has agreed with HM Treasury the specific deferral and clawback terms which will apply to any bonuses in respect of the 2009 performance year and these may affect the Group's ability to offer competitive remuneration arrangements. In the event that the Group were to enter into GAPS, additional restrictions could apply which would further restrict the Group's ability to offer competitive remuneration arrangements.

Therefore, depending on the nature of the remuneration arrangements developed, staff retention and recruitment may become more difficult. The failure to attract or retain a sufficient number of appropriate personnel could significantly impede the Group’s financial plans, growth and other objectives and have a material adverse effect on its business, financial position and results of operations.

In addition, failure to manage trade union relationships effectively may result in disruption to the business and its operations causing potential financial loss.

1.8 The Group’s businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on the Group’s operating results, financial condition and prospects.

The Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector, which the Group expects to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Group and could materially adversely affect the Group’s business.

Areas where changes could have an adverse impact include, but are not limited to:

(i) the monetary, interest rate and other policies of central banks and regulatory authorities;

(ii) general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Group operates, may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;

(iii) changes to prudential regulatory rules relating to capital adequacy and liquidity frameworks;

(iv) external bodies applying or interpreting standards or laws differently to those applied by the Group historically;

(v) changes in competition and pricing environments;

(vi) further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation;

(vii) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and

(viii) other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Group's products and services.

In particular, the July 2009 White Paper contained a wide range of legislative proposals. Although many of the proposals are explicitly characterised as requiring further discussion, and being subject to the achievement of a wider international consensus, see Risk Factor 1.4 for a further discussion of liquidity proposals which are expected to proceed in advance of any international consensus. There is a risk that if the Government chooses to proceed with certain of its proposals more quickly than anticipated, this could adversely affect the competitive position of UK banks, including the Group.

In addition, under the Banking Act, substantial powers over the Group's business, including the ability to take control of the Group's business, have been granted to HM Treasury, the Bank of England and the FSA. In the longer term, if the position of a relevant entity in the Group were to decline so dramatically that it was considered to be failing, or likely to fail, to meet threshold authorisation conditions in the FSMA, it could become subject to the exercise of powers by HM Treasury, the Bank of England or the FSA under the special resolution regime (the "**SRR**"). There can be no assurance that, if economic conditions deteriorate significantly in the future and/or if the financial position of the Group deteriorates significantly in the future, further UK Government or other intervention will not take place, including pursuant to the Banking Act. For a discussion of the Banking Act see "Lloyds Banking Group — Regulation — Other Relevant Legislation and Regulation — UK Government") herein.

In the United Kingdom and elsewhere, there is also increased political and regulatory scrutiny of the banking industry and, in particular, retail banking. Increased regulatory intervention may lead to requests from regulators to carry out wide ranging reviews of past sales and/or sales practices. In the United Kingdom, the Competition Commission, the FSA and the Office of Fair Trading ("OFT") have recently carried out, or are currently conducting, several inquiries. In recent years, regulators have increased their focus on consumer protection and there have been several issues in the UK financial services industry in which the FSA has intervened directly, including the sale of investment products, personal pensions and mortgage-related endowments. See "Lloyds Banking Group — Regulation" herein. Under the GAPS Withdrawal Deed, the Group has, among other things, agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry.

In light of the ongoing market uncertainty, the Group expects to face increased regulation and political and regulatory scrutiny of the financial services industry. The UK Government, the FSA or other regulators in the United Kingdom or overseas may intervene further in relation to the areas of industry risk already identified, or in new areas, which could adversely affect the Group.

In addition, the Group faces increased political and regulatory scrutiny as a result of the Acquisition. Such scrutiny may focus on or include review of the historical or future operations of the HBOS Group as well as the characteristics of the enlarged Group and future operation of the markets concerned. Regulatory reviews and investigations may result in enforcement actions and public sanction, which could expose the Group to an increased risk of litigation in addition to financial penalties and/or the deployment of such regulatory tools as the relevant regulator deems appropriate in the circumstances. The outcome of any regulatory review, proceeding or complaint against the Group or the heritage HBOS Group is inherently uncertain and difficult to predict particularly at the early stages and could have a material adverse effect on the Group's operations and/or financial condition, especially to the extent the scope of any

such proceedings expands beyond its original focus. See "Lloyds Banking Group — Regulation — Regulatory Approach of the FSA — FSA Supervisory Review into Historical HBOS Disclosures" and "Lloyds Banking Group-Regulation — Other Relevant Legislation and Regulation" herein.

Such increased scrutiny may result in part from the Group's increased size and systemic importance following the Acquisition. For example, in clearing the Acquisition without a reference to the UK Competition Commission, the Secretary of State noted that there were some competition concerns identified by the OFT in the markets for personal current accounts and mortgages in Great Britain and the market for SME banking in Scotland. The Secretary of State then asked the OFT to keep relevant markets under review in order to protect the interests of UK consumers and the British economy. Partly in response to this request, in April 2009 the OFT launched a consultation on its plans for keeping UK financial markets under review. At this time, the OFT has indicated its intention to focus its efforts in the financial services markets on the banking sector, including credit, leasing and debt recovery activities. The OFT has also reiterated that it will consider whether to refer any banking markets to the Competition Commission if it identifies any prevention, restriction or distortion of competition. On 29 July 2009, following consultation on its proposed plans, the OFT published a final plan for its activities in the financial services markets in 2009. The outcome of any reviews by the OFT or referrals to the Competition Commission could adversely affect the Group.

Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase the Group's costs, impede the efficiency of its internal business processes, limit its ability to pursue business opportunities, or diminish its reputation. Any of these consequences could have a material adverse effect on the Group's operating results, financial condition and prospects.

1.9 The Group's businesses are inherently subject to the risk of market fluctuations, which could materially adversely affect its operating results, financial condition and prospects.

The Group's businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices and the risk that its customers act in a manner which is inconsistent with business, pricing and hedging assumptions.

Market movements have had and will have an impact on the Group in a number of key areas. For example, adverse market movements have had and would have an adverse effect, which could be material, upon the financial condition of the pension schemes of the Group. Banking and trading activities that are undertaken by the Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. Since August 2007, there has been a period of unprecedented high and volatile interbank lending margins over official rates (to the extent banks have been willing to lend at all), which has exacerbated these risks. The margins over official rates have recently reduced to historically more normal levels but volatility and increases in margins may return. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

The insurance businesses of the Group face market risk arising, for example, from equity, bond and property markets in a number of ways depending upon the product and associated contract;

for example, the annual management charges received in respect of investment and insurance contracts fluctuate, as do the values of the contracts, in line with the markets. Some of these risks are borne directly by the customer and some are borne by the insurance businesses. Some insurance contracts involve guarantees and options that have increased in value in the current adverse investment markets and may continue to do so. There is a risk that the insurance businesses will bear some of the cost of such guarantees and options. The insurance businesses also have capital directly invested in the markets that are exposed to market risk. The performance of the investment markets will thus have a direct impact upon the embedded value of insurance and investment contracts and the Group's operating results, financial condition and prospects. Adverse market conditions affect investor confidence, which in turn can result in lower sales and/or reduced persistency.

Changes in foreign exchange rates affect the value of assets and liabilities denominated in foreign currencies and such changes and the degree of volatility with respect thereto may affect earnings reported by the Group. In the Group's international businesses, earnings and net assets are denominated in local currency, which will fluctuate with exchange rates in Pounds sterling terms. It is difficult to predict with any accuracy changes in economic or market conditions, and such changes could have a material adverse effect on the Group's operating results, financial condition and prospects.

1.10 Market conditions have resulted, and are expected to result in the future, in material changes to the estimated fair values of financial assets of the Group. Negative fair value adjustments have had, and may continue to have in the future, a further material adverse effect on the Group's operating results, financial condition and prospects.

Financial markets have been subject to significant stress conditions resulting in steep falls in perceived or actual financial asset values, particularly due to the current and ongoing crisis in the global financial markets.

The Group has material exposures to securities and other investments, including, but not limited to, asset-backed securities, structured investments and private equity investments, that are recorded at fair value and are therefore exposed to further negative fair value adjustments, particularly in view of current market dislocation and the recessionary environment. Although the Board of Directors of the Company (the "**Board**") believes that overall impairments for the Group have peaked, asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Group's financial assets and these may also translate into increased impairments. In addition, the value ultimately realised by the Group for its securities and other investments may be lower than the current fair value. Any of these factors could require the Group to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects.

The Group has calculated its provisional fair value adjustment in connection with the identifiable net assets of the HBOS Group that it acquired on 16 January 2009. In connection with its ongoing review, which the Group is required to complete within one year of the Acquisition, further fair value adjustments could be required and such adjustments could be material.

The Group has made asset redesignations as permitted by recent amendments to IAS 39. The effect of such redesignations has been, and would be, that any effect on the income statement of movements in the fair value of such redesignated assets that have occurred since 1 July 2008,

in the case of assets redesignated prior to 1 November 2008, or may occur in the future, may not be recognised until such time as the assets become impaired or are disposed of.

In addition, to the extent that fair values are determined using financial valuation models, the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of substantial instability such as the current economic crisis. In such circumstances, the Group's valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain, particularly in light of the uncertainty resulting from the current and ongoing crisis in the global financial markets, and any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, financial condition and prospects.

1.11 The Group may fail to realise the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from, or may incur unanticipated costs associated with, the Acquisition. As a consequence, the Group's results of operations, financial condition and prospects may suffer.

The continued integration of the HBOS Group into the Group is complex, expensive and presents a number of challenges for the management of both the heritage Lloyds TSB Group, the HBOS Group and their respective staff and potentially their respective customers. The Group believes that it will achieve its reported anticipated cost synergies as well as other operating efficiencies and business growth opportunities, revenue benefits and other benefits from the Acquisition. However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and other benefits may not develop, including because the assumptions upon which the Group determined the Acquisition consideration may prove to be incorrect. For example, the expected cost synergies were calculated by the Group on the basis of the existing and projected cost and operating structures of the Group and its estimate of the existing and projected cost and operating structures of the HBOS Group. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

The Group may also face a number of other risks with respect to the Acquisition including retaining key employees; redeploying resources in different areas of operations to improve efficiency; unifying financial reporting and internal control procedures, minimising the diversion of management attention from ongoing business concerns, overcoming integration challenges (particularly as the Company's management may be unfamiliar with some aspects of the HBOS Group's business and operations) and addressing possible differences between the Bank's business culture, risk management, compliance systems and processes, controls, procedures, systems, accounting practices and implementation of accounting standards and those of the HBOS Group.

Under any of these circumstances, the business growth opportunities, revenue benefits, cost synergies and other benefits anticipated by the Group to result from the Acquisition may not be achieved as expected, or at all, or may be delayed. To the extent that the Group incurs higher integration costs or achieves lower revenue benefits or fewer cost savings than expected, its operating results, financial condition and prospects may suffer.

1.12 The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and are expected to continue to affect the recoverability and value of assets on the Group's balance sheet.

As one of the UK's largest lenders with substantial business and operations overseas, the Group has exposures to many different products and counterparties, and the credit quality of its exposures can have a significant impact on its earnings. The Group makes both secured and unsecured loans to retail and corporate customers and the Group's businesses are subject to inherent risks regarding the credit quality of, the recovery of loans to and amounts due from, customers and market counterparties. Adverse changes in the credit quality of the Group's UK and/or international borrowers and counterparties, or in their behaviour, would be expected to reduce the value of the Group's assets, and materially increase the Group's write-downs and allowances for impairment losses.

The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to its results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how these economic conditions might impair the ability of its borrowers to repay their loans. As is the case with any such assessments, there is always a chance that the Group will fail to identify the proper factors or that it will fail to estimate accurately the impact of factors that it identifies.

As a result of the Acquisition, the composition of the Group's wholesale portfolio has materially changed, with much larger sectoral concentrations (for example in real estate, leveraged lending, asset-backed securities and floating rate notes issued by financial institutions) and higher levels of credit risk including substantially greater exposures, particularly in Ireland, Australia and the US.

At the time of the Acquisition, the average rating of the HBOS Group's corporate lending portfolio was significantly weaker than that of the heritage Lloyds TSB Group, and this continues to be the case. HBOS had substantial lending to mid-sized and private companies, a greater exposure than the heritage Lloyds TSB Group to leveraged finance and subordinated loans, as well as significant exposure to the commercial real estate sector, including hotels and residential property developers, which has been particularly adversely affected by the current recessionary environment. These concentrations in cyclically weak sectors, as well as exposure at various levels of the capital structure, mean that the heritage HBOS wholesale business is exposed to high and volatile levels of impairments.

It should be noted that the heritage HBOS portfolio in Ireland is heavily exposed to the commercial and residential real estate sectors, which have been negatively impacted by the current economic recession, the portfolio in Australia has material exposure to real estate and leveraged lending, and in the United States there are notable exposures to sectors such as gaming and real estate which are cyclically weak and have been negatively impacted by the current economic recession. As in the UK, the heritage HBOS portfolio overseas is also particularly exposed to a small number of long-term customer relationships and these single name concentrations place the Group at risk of loss should default occur.

UK house prices have declined significantly, albeit at a slower rate in recent months, reflecting a correction of severely inflated asset values, triggered by the economic downturn and lower availability of credit. Economic or other factors may lead to further contraction in the mortgage market and further decreases in housing prices. Many borrowers in the UK borrow on short-term fixed or discounted floating rates and when such rates expire the continued reduced supply and stricter terms of mortgages, together with the potential for higher mortgage rates, could

lead to higher default and delinquency rates. The Group provides mortgages to buy-to-let investors where increasing unemployment, an excess supply of rental property or falls in rental demand could also impact the borrowers' income and ability to service the loans. If the current economic downturn continues with further decreases in house prices and/or increases in unemployment, the Group's retail portfolios could generate substantial impairment losses which could materially affect its operations, financial condition and prospects. Furthermore, the Group has direct exposure to self-certification and sub-prime mortgages in the UK and is therefore subject to the risks inherent in this type of mortgage lending in the event of decreases in house prices, increases in unemployment or a reduction in borrowers' incomes and the risk that the Group has incorrectly assessed the credit quality or willingness to pay of borrowers as a result of incomplete or inaccurate disclosure by those borrowers. At present, mortgage default and delinquency rates are cushioned by unprecedented low rates of interest which have improved customer affordability, and this has created the risk of increased defaults and delinquency rates as the economy recovers from the recession and interest rates start to rise.

Although the Board believes that overall impairments for the Group have peaked, there is a risk of further increases in the impairment charges for some businesses and there remain ongoing concerns with regard to the outlook for the Irish economy in particular. Moreover, there remains a risk that further material impairments in the Group's portfolios could come to light, particularly in the event of any further significant deterioration in the economic environment although the performance of some of the Group's exposures might deteriorate further even in the absence of further economic decline, particularly in Ireland or Australia. Any such unforeseen material further impairments could have a material and adverse effect on the Group's operations, financial condition and prospects.

1.13 Concentration of credit and market risk could increase the potential for significant losses.

The Group has exposure to concentration risk where its business activities focus particularly on a similar type of customer or product or geographic location including the UK market, which could be adversely affected by changes in economic conditions. Additionally, the heritage HBOS strategy of supporting UK entrepreneurs together with its joint venture model and its focus on commercial property lending has given rise to significant single name and risk capital exposure. Given the Group's high concentrations of property exposure, further decreases in residential or commercial property values and/or further tenant defaults are likely to lead to higher impairment losses, which could materially affect its operations, financial condition and prospects.

The Group's efforts to diversify or hedge its credit portfolio against concentration risks may not be successful and any concentration of credit risk could increase the potential for significant losses in its credit portfolio. In addition, the disruption in the liquidity or transparency of the financial markets may result in the Group's inability to sell or syndicate securities, loans or other instruments or positions held, thereby leading to increased concentrations of such positions. These concentrations could expose the Group to losses if the mark-to-market value of the securities, loans or other instruments or positions declines causing the Group to take write-downs. Moreover, the inability to reduce the Group's positions not only increases the market and credit risks associated with such positions, but also increases the level of risk-weighted assets on the Group's balance sheet, thereby increasing its capital requirements and funding costs, all of which could adversely affect the Group's operating results, financial condition and prospects. The Acquisition has in some cases increased the Group's exposure to concentration risk, since the combination of two portfolios inevitably gives rise to some greater concentrations than would otherwise have been permitted. Market conditions at present mean that it is difficult to achieve sales to ameliorate these concentrations.

1.14 The Group's businesses are subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale money markets continues to be limited or becomes more limited. The Group continues to be reliant on various government liquidity schemes and since certain of these schemes are not expected to be renewed or extended, the Group will face refinancing risk as transactions under these schemes mature.

The Group's businesses are subject to risks concerning liquidity, which are inherent in banking operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Group's profitability. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank funding and liquidity support) could affect the Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Group's solvency. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding (including, for example, securitisations, covered bonds, foreign markets and short-term and overnight money markets), changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Group or to all banks which could increase the Group's cost of funding and limit its access to liquidity. In addition, the funding structure employed by the Group may prove to be inefficient giving rise to a level of funding cost that is not sustainable in the long run. The funding needs of the Group will increase to the extent that customers, including conduit vehicles of the Group, draw down under existing credit arrangements with the Group and such increases in funding needs may be material. In order to continue to meet its funding obligations and to maintain or grow its businesses generally, the Group relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets, central bank liquidity facilities (for example, Bank of England, European Central Bank and Federal Reserve Bank of New York), the Credit Guarantee Scheme and the UK Government funding scheme. The ability of the Group to access wholesale and retail funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the UK banking system any of which could affect the Group's profitability or, in the longer term under extreme circumstances, its ability to meet its financial obligations as they fall due.

Medium-term growth in the Group's lending activities will depend, in part, on the availability of retail funding on appropriate terms, for which there is increasing competition. See Risk Factor 1.23 for a discussion of the competitive nature of the banking industry and competitive pressures that could have a negative impact on the availability of customer deposits and retail funding. This reliance has increased in the recent past given the difficulties in accessing wholesale funding. Increases in the cost of such funding will impact on the Group's margins and affect profit, and a lack of availability of such retail deposit funding could impact on the Group's future growth.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Group's control, such as general economic conditions and market volatility, the confidence of retail depositors in the economy in general and in the Group in particular, the financial

services industry specifically and the availability and extent of deposit guarantees. These or other factors could lead to a reduction in the Group's ability to access retail deposit funding on appropriate terms in the future. Any loss in consumer confidence in the banking businesses of the Group could significantly increase the amount of retail deposit withdrawals in a short space of time and this may have an adverse effect on the Group's profitability. Should the Group experience an unusually high and unforeseen level of withdrawals, in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Group's solvency.

Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank funding and liquidity support) could prevent the Group from meeting its regulatory minimum liquidity requirements.

In addition, if the current difficulties in the wholesale funding markets are not resolved or central bank provision of liquidity to the financial markets is abruptly curtailed, it is likely that wholesale funding will prove even more difficult to obtain. Such liquidity constraints could affect the Group's profitability. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to these traditional sources of liquidity could have a material adverse effect on the Group's business, financial position and results of operations, and in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access and which, in turn, could have a material impact on the Group's solvency.

Whilst various governments, including the UK Government, have taken substantial measures to ease the crisis in liquidity (for example, the UK Government funding schemes, such as the Special Liquidity Scheme and the Credit Guarantee Scheme), there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks, including the Group in the long term. In addition, the availability and the terms on which any such measures will continue to be made available to the Group in the longer term are uncertain. The Group does not have influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Group. The Group has substantially relied on the Bank of England liquidity facilities as well as the UK Government funding scheme.

The Group does not expect that there will be any extension or renewal of the Special Liquidity Scheme (which was closed for new transactions in January 2009) or the Credit Guarantee Scheme (which will close for new issuance in December 2009). Accordingly, the Group will face a refinancing concentration during 2010 and 2011 associated with the maturity of the Special Liquidity Scheme transactions and Credit Guarantee Scheme issuance undertaken by the Group prior to the closure of those schemes. While the Group expects that the impact of this refinancing concentration can be mitigated by a combination of alternative funding over the course of the next two years and reductions in the Group's net wholesale funding requirement over the same period, there can be no assurance that these mitigation efforts will be successful. Under the GAPS Withdrawal Deed, the Group has agreed to develop with the FSA a medium term funding plan aimed at reducing dependence on short term funding, to be regularly reviewed by the FSA, HM Treasury and the Bank of England. If the Group's funding plan is not successful in mitigating the impact of this refinancing concentration in 2011, the

Group could at that time face serious liquidity constraints, which would have a material adverse impact on its solvency.

At the time of the Acquisition, the HBOS Group had a funding profile that involved the need to refinance a higher volume of maturing wholesale funding than that of the heritage Lloyds TSB Group. As this continues to be the case, the funding profile of the Group involves substantially higher refinancing risk than the funding profile of the heritage Lloyds TSB Group on a stand-alone basis because the funding profile of the HBOS Group has involved the need to refinance a higher volume of maturing wholesale funding. The Group will also continue to be dependent on its credit ratings in order to be able to attract wholesale investors into its debt issuance programmes; should the ratings fall, the cost of refinancing will increase and it may not be possible to refinance borrowings as they mature on favourable terms. Such increased refinancing risk, in isolation or in concert with the related liquidity risks noted above, could have a material adverse effect on the Group's profitability and, in the longer term under extreme and unforeseen circumstances, its ability to meet its financial obligations as they fall due.

1.15 The Group has been and could continue to be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties, and which could materially adversely affect the Group's results of operations, financial condition and prospects.

Against the backdrop of the lack of liquidity and high cost of funds relative to official rates in the interbank lending market, which is unprecedented in recent history, the Group is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the United Kingdom. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Group interacts on a daily basis, all of which could have an adverse effect on the Group's ability to raise new funding.

The Group routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration. The Group is exposed to counterparty risk as a result of recent financial institution failures and nationalisations and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the financial resilience of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material and adverse effect on the Group's results of operations, financial condition and prospects.

1.16 If the perceived creditworthiness of monoline insurers and other market counterparties does not improve or continues to deteriorate, the Group may be forced to record further credit valuation adjustments on securities insured or guaranteed by such parties, which could have a material adverse effect on the Group's results of operations, financial condition and prospects.

The Group has credit exposure to monoline insurers and other market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter derivative contracts, mainly credit default swaps

("CDSs") which are carried at fair value. The fair value of these underlying CDSs and other securities, and the Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought as well as on the creditworthiness of the relevant monoline or other insurer. Monoline and other insurers and other market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived creditworthiness has deteriorated significantly since 2007. They may continue to be substantially adversely impacted by such or other events. Their creditworthiness may further deteriorate as a consequence of the deterioration of the value of underlying assets. Although the Group seeks to limit and manage direct exposure to monoline or other insurers and other market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of monoline or other insurers or market counterparties or their perceived creditworthiness deteriorates further, the Group may record further credit valuation adjustments on the underlying instruments insured by such parties in addition to those already recorded. In addition, to the extent that asset devaluations lower the creditworthiness of monoline insurers, the Group would be further exposed to diminished creditworthiness of such insurers themselves. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Group.

1.17 The Group's insurance businesses and employee pension schemes are subject to risks relating to insurance claims rates, pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour.

The life and pensions insurance businesses of the Group and its employee pension schemes are exposed to short-term and longer-term variability arising from uncertain longevity and ill-health rates. Adverse developments in any of these factors will increase the size of the Group's insurance and employee pension scheme liabilities and may adversely affect the Group's financial condition and results of operations.

Customer behaviour in the life and pensions insurance business may result in increased propensity to cease contributing to or cancel insurance policies at a rate in excess of business assumptions. The consequent reduction in policy persistency and fee income has an adverse impact upon the profitability of the life and pensions business of the Group. The behaviour of employee pension scheme members affects the levels of benefits payable from the schemes. For example, the rate at which members cease employment affects the aggregate amount of benefits payable by the schemes. This rate may differ from applicable business assumptions. Adverse variances may increase the size of the Group's aggregate pension liabilities and may adversely affect the Group's financial condition and results of operations.

The general insurance businesses of the Group are exposed to the risk of uncertain insurance claim rates. For example, extreme weather conditions can result in high property damage claims, higher levels of theft can increase claims on property, contents and motor vehicle insurance and changes to unemployment levels can increase claims on loan protection insurance. These claims rates may differ from business assumptions and negative developments may adversely affect the Group's financial condition and results of operations.

UK banks recognise an insurance asset in their balance sheets representing the value of in-force business ("VIF") in respect of long-term life assurance contracts, being insurance contracts and investment contracts with discretionary participation features. This asset represents the present value of future profits expected to arise from the portfolio of in-force life assurance contracts. Adoption of this accounting treatment results in the earlier recognition of profit on new

business, but subsequently a lower contribution from existing business, when compared to the recognition of profits on investment contracts under IAS 39 (Financial Instruments: Recognition and Measurement). Differences between actual and expected experience may have a significant impact on the value of the VIF asset, as changes in experience can result in significant changes to modelled future cash flows. The VIF asset is calculated based on best-estimate assumptions made by management, including mortality experience and persistency. If these assumptions prove incorrect, the VIF asset could be materially reduced, which in turn could have a material adverse effect on the Group's financial condition and results of operations.

Also, as further described in Risk Factor 1.9, the Group's insurance assets are subject to the risk of market fluctuations.

1.18 The Group's borrowing costs and access to the capital markets depend significantly on the Company's credit ratings and market perception of the Company's financial resilience and those of the Bank, HBOS and BOS and any deterioration could materially adversely affect the Group's results of operations, financial condition and prospects.

As at 11 November 2009, the long-term credit ratings for the Company were A1 from Moody's Investors Service Limited, A from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and A (high) from DBRS. As at 11 November 2009, the long-term credit ratings for the Bank were Aa3 from Moody's Investors Service Limited, A+ (A plus) from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS. As at 11 November 2009, the long-term credit ratings for HBOS were A1 from Moody's Investors Service Limited, A from Standard & Poor's Rating Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS. As at 11 November 2009, the long-term credit ratings for BOS were Aa3 from Moody's Investors Service Limited, A+ (A plus) from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS.

As at 11 November 2009, the Company also had short-term ratings of A-1 from Standard & Poor's Ratings Services and F1+ from Fitch Ratings Ltd. The Bank had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS. HBOS had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS. BOS had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS.

Reduction in the credit ratings of the Group or deterioration in the capital market's perception of the Group's resilience, could significantly increase its borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Therefore, any further reduction in credit ratings or deterioration of market perception could materially adversely affect the Group's access to liquidity and competitive position, increase its funding costs and, hence, have a material adverse effect on the Group's business, financial position and results of operations. These material adverse effects could also follow from a reduction in the credit ratings of the Bank, HBOS or BOS.

1.19 In the United Kingdom, firms within the Group are responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.

In the United Kingdom, the Financial Services Compensation Scheme ("FSCS") was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including firms within the Group. The recent arrangements put in place to protect the depositors of Bradford & Bingley and other failed deposit-taking institutions involving the FSCS are expected to result in a significant increase in the levies made by the FSCS on the industry. The Group has made a provision of £122 million in its 2008 accounts in respect of its current obligation to contribute its share of the management expenses levy and the estimated interest cost on the FSCS borrowings. Going forward, further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain although it may be significant and the associated costs to the Group may have a material adverse effect on its results of operations and financial condition.

There is also uncertainty over how the FSCS arrangements will develop as a consequence of regulatory reform initiatives in the United Kingdom and internationally. The FSCS and the arrangements which support it are potentially subject to changes which could impose additional costs and expose the Group to risks. For example, the FSA has proposed that UK deposit-taking institutions develop systems by 31 December 2010 to produce a Single Customer View ("SCV"), providing an aggregated view of each customer's eligibility for compensation in the event of a failure. As this proposal proceeds, and depending on how the FSA requires firms to execute it, the SCV has the potential to divert management attention from competing priorities such as the continued integration of HBOS. In the event that the Group fails to deliver such a project to the regulator's standards or timetables, there is the risk of public sanction, financial penalty and/or the deployment by the FSA of such other regulatory tools as it deems appropriate to the circumstances. Other potential changes to the FSCS arrangements with the potential to require the Group to incur additional costs or expose the Group to risks may arise from ongoing discussions at the national and European Union levels around the future design of deposit protection schemes, including but not limited to potentially increasing the level of protection which is accorded to deposits and/or moving to pre-funding of compensation schemes. HM Treasury intends to carry out a consultation exercise before introducing any proposals relating to pre-funding of the FSCS.

1.20 The Group's financial statements are based in part on assumptions and estimates which, if wrong, could cause losses in the future.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgements and estimates, include impairment of financial assets, valuation of financial instruments, pensions, goodwill, insurance and taxation. If the judgement, estimates and assumptions used

by the Group in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material impact on the Group's results of operations.

1.21 The Group is exposed to various forms of legal and regulatory risk, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a material adverse effect on its results or its relations with its customers.

The Group is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

(i) certain aspects of the Group's business may be determined by the authorities, the Financial Ombudsman Service ("FOS") or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of FOS, with what is fair and reasonable in the Ombudsman's opinion. For more information on additional constraints that may be imposed as a result of the European state aid clearance process, see also Risk Factor 1.3;

(ii) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of the Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers; all of which may require additional provisions;

(iii) contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;

(iv) the Group holds accounts for a number of customers that might be or are subject to interest from various regulators and authorities including the Serious Fraud Office, those in the US and others. The Group is not aware of any current investigation into the Group as a result of any such enquiries but cannot exclude the possibility of the Group's conduct being reviewed as part of any such investigations;

(v) the intellectual property of the Group (such as trade names) may not be adequately protected; and

(vi) the Group may be liable for damages to third parties harmed by the conduct of its business.

In addition, the Group faces risk where legal or regulatory proceedings, complaints made by FOS or other complaints are brought against it in the UK High Court or elsewhere, or in jurisdictions outside the UK, including other European countries and the United States (which may include class action lawsuits). See Note 48 to the 2008 consolidated financial statements on page F-69 of the Company's 2008 Annual Report on Form 20-F (such pages being incorporated by reference into this document). For example, a major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions.

Failure to manage these risks adequately could impact the Group adversely, both financially and reputationally, through an adverse impact on the Group's brands.

1.22 Weaknesses or failures in the Group's internal processes and procedures and other operational risks could materially adversely affect the Group's results of operations, financial condition and prospects and could result in reputational damage.

Operational risks, through inadequate or failed internal processes (including financial reporting and risk monitoring processes) or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Group, are present in the Group's businesses. The Group's businesses are dependent on their ability to process and report accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in such internal controls and processes could have a negative impact on the Group's results or its ability to report adequately such results during the affected period. Furthermore, damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in Group systems or processes could have a significant adverse impact on the Group's businesses. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Company or any relevant company within the Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA (as the case may be).

1.23 The Group's businesses are conducted in highly competitive environments and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures.

The markets for UK financial services, and the other markets within which the Group operates, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. If financial markets remain unstable, financial institution consolidation may accelerate. Moreover, UK Government and/or European intervention in the banking sector may impact the competitive position of the Group relative to its international competitors which may be subject to different forms of government intervention, thus potentially putting the Group at a competitive disadvantage to local banks in such jurisdictions. Any combination of these factors could result in a reduction in profit. The Group's financial performance and its ability to capture additional market share depends significantly upon the competitive environment and management's response to it.

The Group's financial performance may be materially and adversely affected by competition, including declining lending margins or competition for savings driving up funding costs which cannot be recovered from borrowers. Adverse persistency in the Group's insurance business is a risk to current and future earnings.

A key part of the Group's strategy involves building strong customer relationships in order to win a bigger share of its customers' financial services spend. If the Group is not successful in retaining and strengthening customer relationships it will not be able to deliver on this strategy, and may lose market share, incur losses on some or all of its activities or fail to attract new and retain existing deposits, which could have a material adverse effect on its business, financial position and results of operations.

1.24 Terrorist acts, other acts of war, geopolitical, pandemic or other such events could have a material adverse impact on the Group's results of operations, financial condition and prospects.

Terrorist acts, other acts of war or hostility, geopolitical, pandemic or other such events and responses to those acts/events may create economic and political uncertainties, which could have a material adverse impact on UK and international economic conditions generally, and more specifically on the business and results of the Group in ways that cannot necessarily be predicted.

1.25 The Company is a holding company and, as a result, is dependent on dividends from its subsidiaries to meet its obligations including its obligations with respect to its debt securities.

Lloyds Banking Group plc is a non-operating holding company and as such the principal sources of its income are from operating subsidiaries who also hold the principal assets of the Group. As a separate legal entity, the Company relies on remittance of their dividends and other funds in order to be able to pay obligations to debt holders as they fall due.

1.26 Changes in taxation rates or law, or failure to manage the risks associated with such changes, or misinterpretation of the law, could materially and adversely affect the Group's results of operations, financial condition and prospects.

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in increased charges, financial loss including penalties, and reputational damage. Changes in taxation rates or law, or failure to manage these risks adequately could impact the Group materially and adversely and could have a material negative impact on the Group's performance.

1.27 HM Treasury's acquisition of its shareholding in the Company, the Acquisition, any further increase in HM Treasury's shareholding in the Company or the aggregation of HM Treasury's interests with that of certain other shareholders could lead to the Group suffering adverse tax consequences.

Certain Group companies have material tax losses and reliefs which they anticipate carrying forward to reduce tax payable in the future. If HM Treasury's acquisition of its shareholding in the Company the Acquisition, any further increase in HM Treasury's shareholding in the Company, or the aggregation of HM Treasury's interests with that of other shareholders holding 5 per cent. or more, is coupled with the occurrence of certain specified events in relation to the Group companies with such losses or reliefs (including a major change in the nature or conduct of a trade carried on by such a Group company, or an increase in capital of such a Group company with an investment business), there would, in the case of legacy HBOS Group companies, and could, in the case of legacy Lloyds TSB Group companies, be restrictions on the ability to utilise these losses and reliefs. The Rights Issue, the Exchange Offers or the conversion of the Enhanced Capital Notes may result in certain shareholders holding 5 per cent. or more of the Company Restrictions on the ability to utilise losses and reliefs could affect the post-tax profitability and capital position of the Group.

The Company considers that it will be able to conduct its business, and the business of the Group, in a manner which avoids the occurrence of these specified events. However, the ability to do so cannot be predicted with any certainty at the date of this document.

1.28 There is a risk that the Proposals may not be approved by the Group's shareholders at the general meeting to be held on 26 November 2009.

The Proposals are conditional on the passing of certain resolutions by the Group's shareholders at the general meeting. If such resolutions, which include resolutions approving the terms of the Rights Issue, are not approved, the Proposals will not be effected. In that event, the Group

would not benefit from the increase to its regulatory capital expected to result from the Proposals and, therefore, it would be necessary for the Group to raise the additional capital required to meet the regulatory minima resulting from the FSA's stress tests by alternative means. There can be no certainty that the Group would be able to successfully raise such capital or as to the terms on which such capital could be raised, including the price, the terms of any participation by HM Treasury in any such capital raising and/or whether such a capital raising would be on a pre-emptive basis.

If the resolutions are not approved and the Group is not able to proceed with the Proposals, the Group may also need to look at whether it remains possible to obtain entry into GAPS or approach the UK Government for support. However, there can be no guarantee that HM Treasury would be prepared to allow the Group to participate in GAPS at all, or, if HM Treasury were prepared to consider making GAPS available to the Group, as to the terms on which HM Treasury may allow such participation, or what other form of support, if any, the UK Government would make available to the Group or the terms on which such support may be offered. Any such attempt by the Group to seek to participate in GAPS, or seek other UK Government support, would require the Group to negotiate the specific terms of such participation or support with HM Treasury, and this may involve substantial negotiation. Negotiating the terms of such participation or support, if available, may take considerable time and require a significant amount of input from the Company's management. Continued uncertainty about the Group's possible participation in GAPS or the form of any UK Government support measures and the terms of any such participation could also have a material adverse effect on the Group's business and its share price. Any such participation or UK Government support measures could also have negative additional state aid consequences and result in further external remedies.

If the Proposals are not effected and the Group is unable to find alternative sources of capital and is unable to participate in GAPS or any other form of UK Government support, the Group's business, results of operations and financial condition may be materially adversely affected, its credit ratings may drop and its cost of funding may increase. Furthermore, the Group may need to ask HM Treasury to assist it in accessing further capital, if any is available. In such circumstances, there is a risk that the UK Government may seek to increase its regulation of and shareholding in the Group. Should the Group seek additional state aid, whether through entry into GAPS or otherwise, this would require further state aid approval from the European Commission and may result in the imposition of additional conditions on the Group.

1.29 There is a risk that even if the Proposals are completed, they 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 and the GAPS payment of a fee 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 (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 Risk Factor 1.5 for a discussion of the risks in relation to the Group's regulatory capital requirements.

2. RISKS RELATING TO THE NOTES

Factors which are material for the purpose of assessing the market risks associated with notes issued under the Programme

2.1 Notes may not be a suitable investment for all investors

Each potential investor in any notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant notes, the merits and risks of investing in the relevant notes and the information contained or incorporated by reference in this Prospectus or any applicable Supplementary Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant notes and be familiar with the behaviour of any relevant indices and financial markets;

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and

(vi) understand the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant notes.

In addition, an investment in index linked notes or other notes linked to other assets or bases of reference, may entail significant risks not associated with investments in conventional securities such as debt or equity securities, including, but not limited to, the risks set out in risk factor 3.2 below.

Some notes are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the notes will perform under changing conditions, the

resulting effects on the value of such notes and the impact this investment will have on the potential investor's overall investment portfolio.

2.2 *Risks related to the structure of a particular issue of notes*

A wide range of notes may be issued under the Programme. A number of these notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

There is a risk of loss of investment

If, in the case of any particular tranche of notes, the relevant Final Terms specifies that the notes are Index Linked Notes or Subordinated Notes, there is a risk that any investor may lose the value of their entire investment or part of them.

Fluctuations in applicable indices may adversely affect the value of Index Linked Notes

With respect to an investment in notes indexed to one or more interest rates, currencies or other indices or formulas, significant risks exist that are not associated with a conventional fixed rate or floating rate debt security. These risks include fluctuation of the particular indices or formulas and the possibility that an investor will receive a lower amount of principal, premium or interest and at different times than expected. The Company and the Bank have no control over a number of matters, including economic, financial and political events, that are important in determining the existence, magnitude and longevity of such risks and their results. In addition, if an index or formula used to determine any amounts payable in respect of the notes contains a multiplier or leverage factor, the effect of any change in such index or formula will be magnified. In recent years, values of certain indices and formulas have been volatile, and volatility in those and other indices and formulas may be expected in the future. Fluctuations in exchange rates may adversely affect the value of the notes. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. The Company and the Bank have no control over the factors that generally affect these exchange rates, such as economic, financial and political events and the supply and demand for the applicable currencies.

An Issuer's obligations under Subordinated Notes are subordinated

The relevant Issuer's obligations under any Subordinated Notes (and of the Guarantor in the case of Subordinated Notes issued by the Bank) will be unsecured and subordinated and will, in the event of the winding-up of the relevant Issuer or the Guarantor as applicable, be subordinated, in the manner provided in the Subordinated Indenture, to the claims of depositors and all other creditors of the Issuer or the Guarantor as the case may be other than their respective Subordinated Creditors (as described in "Description of the Notes and the Guarantees" herein). Although Subordinated Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of its investment should the relevant Issuer or the Guarantor (if applicable) become insolvent.

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of notes. During any period when the relevant Issuer may elect to redeem notes, the market value of those notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The relevant Issuer may be expected to redeem notes when its cost of borrowing is lower than the interest rate on the notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Unless the relevant Final Terms for a particular Tranche specifies otherwise, if the relevant Issuer is required to increase the amounts payable in respect of any notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, the relevant Issuer may redeem all outstanding notes in accordance with the Conditions.

Accordingly, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the notes.

Index Linked Notes and Dual Currency Notes

The relevant Issuer may issue notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the relevant Issuer may issue notes with principal or interest payable in one or more currencies which may be different from the currency in which the notes are denominated. Potential investors should be aware that:

(i) the market price of any such notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected or may be subject to withholding or deduction for or on account of any taxes or other charges imposed by relevant governmental authorities or agencies;

(iv) the amount of principal payable at redemption may be less than the nominal amount of any such notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Holders of Index Linked Notes and prospective purchasers of such notes should ensure that they understand the nature of such notes and the extent of their exposure to risk and that they consider the suitability of such notes as an investment in the light of their own circumstances and financial condition. A small movement in the index may result in a significant change in the value of such notes. Holders of such notes and prospective purchasers of such notes, should conduct their own investigations in deciding whether or not to purchase such notes. Prospective purchasers should form their own views of the merits of an investment on which the return is

to be determined by reference to an index based upon such investigations and not in reliance on any information given in the relevant Final Terms. Given the highly specialised nature of Index Linked Notes, they are only suitable for highly sophisticated investors who are able to determine for themselves the risk of an investment on which the return is determined in this way. Consequently, a prospective purchaser that is not an investor who falls within the description above, should not consider purchasing such notes without taking detailed advice from a specialised professional adviser.

Partly-paid Notes

The Issuers may issue notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable Rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, or, if the interest which is payable on a note is calculated by reference to a currency other than the currency of the notes, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other notes. If the relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

2.3 *Risks related to Notes generally*

Set out below is a brief description of certain risks relating to the notes generally:

Modification, waivers and substitution

The provisions of the Indentures permit defined majorities to bind all noteholders including noteholders who did not vote and noteholders who voted in a manner contrary to the majority.

Each of the Indentures also provide that the Trustee may, without the consent of the noteholders, agree to (i) certain modifications of the terms and provisions of the notes in the circumstances described in the Description of the Notes and the Guarantees.

Each Issuer may, without the consent of the Trustee or any noteholder, substitute for itself a substituted issuer upon notice by the relevant Issuer and the substituted issuer in the circumstances described in the Description of the Notes and the Guarantees.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the notes, there is no assurance that this would not adversely affect investors in the notes. It is possible that prior to the maturity of the notes the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any notes denominated in Sterling may become payable in euro; (ii) the law may allow or require such notes to be redenominated into euro and additional measures to be taken in respect of such notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the notes.

EU Savings Directive

Under European Commission Council Directive 2003/48/EC on the taxation of savings income, each Member State, including Belgium from 1 January 2010, is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State, or to certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead operate a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the European Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through another country that has adopted similar measures, and an amount of or in respect of tax were to be withheld from that payment, neither the relevant Issuer nor any Paying Agent nor any other person, including the Guarantor, would be obliged to pay additional amounts with respect to any note as a result of the imposition of such withholding tax. However, the Issuers are required to maintain a Paying Agent in a Member State (in addition to any Paying Agent in the United Kingdom) that will not be obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The notes are governed by New York law (save in relation to the subordination and waiver of set off provisions relating to the Company's obligations as either Issuer or Guarantor of notes which are governed by Scots law or the Bank's obligations which are governed by English law) and based on such law as was or will be in effect as at the date of issue of the relevant notes. No assurance can be given as to the impact of any possible judicial decision or change to New York (or, if applicable, Scots or English) law or administrative practice after the date of issue of the relevant notes.

2.4 Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of notes.

Exchange rate risks and exchange controls

The relevant Issuer will pay principal and interest on the notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the notes, (2) the Investor's Currency equivalent value of the principal payable on the notes and (3) the Investor's Currency equivalent market value of the notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risk

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign ratings to an issue of notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

The notes may not be freely transferred

The Company and the Bank have not registered, and will not register, the notes under the Securities Act or any other applicable securities laws. Accordingly, the notes are subject to certain restrictions on resale and other transfer thereof as set forth in the section entitled "Transfer Restrictions". As a result of these restrictions, the Company and the Bank cannot be certain of the existence of a secondary market for the notes or the liquidity of such a market if one develops. Consequently, a holder of notes and an owner of beneficial interests in those notes must be able to bear the economic risk of their investment in the notes for the term of the notes.

Prospective purchasers will have to rely on the procedures of DTC or Euroclear and Clearstream for transfer, payment and communication with the relevant Issuer

The notes will be represented by one or more global notes. The notes will either be deposited with a custodian on behalf of DTC or its nominee or a common depositary for Euroclear and Clearstream. Except in limited circumstances, holders will not be entitled to receive certificated notes. DTC or Euroclear and Clearstream will maintain records of the beneficial interests in the global notes. Holders will be able to trade their beneficial interests either only through DTC or a participant of DTC or through Euroclear and Clearstream or the account holders of Euroclear and Clearstream. The laws of some jurisdictions, including some states in the United States, may require that certain purchasers of securities take physical delivery of such securities in certificated form. The foregoing limitations may impair a holder's ability to own, transfer or pledge its beneficial interests. A holder of beneficial interests in the global notes in one of these jurisdictions will not be considered the owner or "holder" of the notes.

The relevant Issuer will discharge its payment obligations under the notes by making payments to the custodian for distribution to the holders of beneficial interests at DTC or a participant of DTC with respect to interests of indirect participants, or to the common depositary for holders of beneficial interests at Euroclear and Clearstream. The relevant Issuer and the initial purchasers of the notes will not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the global notes. A holder of beneficial interests must rely on the procedures of DTC or DTC's participants or the procedures of Euroclear and Clearstream and their account holders, through which holders hold their interests, to receive payments under the notes. The relevant Issuer cannot assure holders that either the procedures of DTC or DTC's nominees, participants or indirect participants or the procedures of Euroclear and Clearstream or their account holders will be adequate to ensure that holders receive payments in a timely manner.

A holder of beneficial interests in the global notes will not have a direct right under the relevant Indenture governing the notes to act upon solicitations the relevant Issuer may request. Instead, holders will be permitted to act only to the extent they receive appropriate proxies to do so from

DTC, Euroclear, or Clearstream (as the case may be) or, if applicable, DTC's participants or indirect participants. Similarly, if the relevant Issuer or the Guarantor defaults on its obligations under the notes, as a holder of beneficial interests in the global notes, holders will be restricted to acting through DTC, Euroclear or Clearstream (as the case may be), or, if applicable, DTC's participants or indirect participants. The relevant Issuer cannot assure holders that the procedures of DTC, Euroclear or Clearstream (as the case may be) or DTC's nominees, participants or indirect participants will be adequate to allow them to exercise their rights under the notes in a timely manner.

2.5 Legal considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) notes are legal investments for it, (2) notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of notes under any applicable risk-based capital or similar rules.

DESCRIPTION OF THE NOTES AND THE GUARANTEES

This section describes the material terms, conditions and provisions of the notes to which any Final Terms may relate. The particular terms of the notes offered will be described in the Final Terms and in such notes and the extent, if any, to which the general provisions described below may apply to those notes. Capitalised terms used but not defined in this section have the meanings given to them in the Senior Notes, Subordinated Notes, Final Terms or the Indentures (as each term is defined below), as the case may be. The following is a description of the terms and conditions of the notes which, as supplemented, modified or replaced in relation to any notes of any series by applicable Final Terms, and as set forth in the Senior Indenture or the Subordinated Indenture (as each term is defined below), will be applicable to each series of the notes.

General

The Senior Notes will be offered under an indenture, dated as of 11 November 2009 and as supplemented and amended from time to time (the "Senior Indenture"), between Lloyds Banking Group plc, as issuer and guarantor of notes issued by the Bank (as defined below) (the "Company" or, in its capacity as guarantor of the notes issued by the Bank, the "Guarantor"), Lloyds TSB Bank plc as issuer (the "Bank" and, together with the Company, the "Issuers" and each an "Issuer"), The Bank of New York Mellon, London branch as trustee (the "Trustee") and Paying Agent, The Bank of New York Mellon, New York branch as Paying Agent and Note Registrar and The Bank of New York Mellon (Luxembourg) S.A. as Paying Agent and Note Registrar. The Subordinated Notes will be offered under an indenture, dated as of 11 November 2009 and as supplemented and amended from time to time (the "Subordinated Indenture" and, together with the Senior Indenture, collectively the "Indentures" and each an "Indenture"), between the Company, the Guarantor, the Bank, the Trustee, the Bank of New York Mellon, New York branch and The Bank of New York Mellon (Luxembourg) S.A.

The notes are limited to an aggregate principal amount of up to $35,000,000,000 outstanding at any time. This includes, in the case of notes denominated in one or more other currencies or composite currencies, the equivalent thereof calculated at the exchange rate contained in the H.10 release (or its successor) published by the U.S. Federal Reserve Board (the "Market Exchange Rate"), in the one or more other currencies on the date the relevant Issuer agreed to issue the notes, subject to reduction by or pursuant to action of each of the boards of directors of the Issuers (and the Guarantor, as applicable), provided that a reduction will not affect any note already issued or as to which any offer to purchase has already been accepted. These limits may be increased without the consent of the holders of the notes if in the future the Issuers (and the Guarantor, as applicable) determine to issue additional notes.

If unlisted Senior Notes are issued the specific terms relating to such Senior Notes will be contained in a pricing supplement. No Final Terms is expected to be prepared in the case of Senior Notes that are unlisted and references to "Final Terms" below in relation to such Senior Notes should be read as references to a pricing supplement.

The notes will mature nine months or more from the Original Issue Date and may be subject to redemption or early repayment at the option of the relevant Issuer or (in the case of Senior Notes issued by the Bank and guaranteed by the Guarantor and only in certain circumstances described below) the Guarantor or the holder, all as further described in the section entitled "— Redemption and Repurchase".

The notes may be issued as Extendible Maturity Notes as further described in "— Extendible Maturity Notes".

Each note will be denominated in U.S. dollars or in another currency specified in the applicable Final Terms. For a further discussion, see "— Payment of Principal, Premium, if any, and Interest, if any". Each note will be either:

- a Fixed Rate Note; or
- a Floating Rate Note which will bear interest at a rate determined by reference to the Interest Rate Basis or combination of Interest Rate Bases specified in the applicable Final Terms, which may be adjusted by a Spread and/or Spread Multiplier, each as defined below.

Status of Senior Notes

The Senior Notes (being those notes that specify their status in the relevant Final Terms as being "Senior") (the "**Senior Notes**") will constitute unsecured and unsubordinated obligations of the relevant Issuer and, in the case of the Bank, will be unconditionally and irrevocably guaranteed by the Guarantor. The Senior Notes will rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the relevant Issuer other than with respect to obligations preferred by statute or operation of law.

Senior Notes – Senior Guarantee

Pursuant to the Senior Indenture and the applicable Final Terms, the Guarantor will unconditionally and irrevocably guarantee (each such guarantee, a "Senior Guarantee") the due and punctual payment of the principal, premium, if any, and interest, if any, on (and any payments of additional amounts, if any, described under "— Payment of Additional Amounts") provided for by the terms of the Senior Notes issued by the Bank, when and as the same shall become due and payable, whether at Maturity (as defined below), upon acceleration or by call for redemption or otherwise.

If the Bank fails for any reason whatsoever to punctually pay any such principal, premium, interest or additional amount, the Guarantor shall (except as provided in the Senior Indenture), as an independent primary obligation, indemnify the Trustee and the holders of the Senior Notes on demand for such amounts and shall also be required to pay an amount equal to any payments of additional amounts as described under "— Payment of Additional Amounts" incurred by the holder in respect of tax, such additional amounts and indemnity amounts to be paid on an after tax basis, against each and every amount payable by the Bank under the Senior Indenture or in respect of the Senior Notes to the effect that the Trustee and/or the holders of the Senior Notes (as the case may be) shall receive the same amounts in respect of principal payments or such other amount as would have been receivable had such payments been made by the Bank.

Status and Subordination of Subordinated Notes – General

The Subordinated Notes (being those notes that specify their status in the relevant Final Terms as being "Subordinated") (the "Subordinated Notes") will constitute unsecured and subordinated obligations of the relevant Issuer and, in the case of the Bank, will be unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor, and will rank *pari passu* without any preference among themselves.

References to Subordinated Notes are to subordinated notes with a fixed maturity date. Unless otherwise stated in the applicable Final Terms, Subordinated Notes issued pursuant to the Subordinated Indenture are intended to constitute lower tier two capital (as that term, or the equivalent thereto from time to time, has the meaning given to it in the Capital Regulations (as defined below)) in accordance with the requirements of the U.K. Financial Services Authority. Such Subordinated Notes will have a Stated Maturity of at least five years from the Original Issue Date. For further restrictions on redemption, repayment and repurchase of the Subordinated Notes, see the sections entitled "— Redemption and Repurchase —

Redemption at the Option of the Issuer", "— Redemption and Repurchase — Redemption for Tax Reasons", "— Redemption and Repurchase — Repayment at the Option of the Holders" and "— Redemption and Repurchase — U.K. Financial Services Authority Consents".

Subordinated Guarantee – General

Pursuant to the Subordinated Indenture and the applicable Final Terms, the Guarantor will unconditionally and irrevocably guarantee (each such guarantee, a "Subordinated Guarantee", and together each Senior Guarantee, the "Guarantees") on a subordinated basis the due and punctual payment of the principal, premium, interest, if any, (and any payments of additional amounts, if any, described under "— Payment of Additional Amounts") and other sums from time to time payable by the Bank in respect of the Subordinated Notes and all other monies payable by the Bank in respect of or under or pursuant to the Subordinated Indenture. The obligations of the Guarantor under such subordinated guarantee (the "Subordinated Guarantee") shall constitute unsecured and subordinated obligations of the Guarantor.

If the Bank fails for any reason whatsoever to punctually pay any such principal, premium, interest or additional amount, the Guarantor shall (subject as provided in the Subordinated Indenture), as an independent primary obligation, indemnify the Trustee and the holders of the Subordinated Notes on demand for such amounts and shall also be required to pay an amount equal to any payments of additional amounts as described under "— Payment of Additional Amounts" incurred by the holder in respect of tax, such additional amounts and indemnity amounts to be paid on an after tax basis, against each and every amount payable by the Bank under the Subordinated Indenture or in respect of the Subordinated Notes to the effect that the Trustee and/or the holders of the Subordinated Notes (as the case may be) shall receive the same amounts in respect of principal payments or such other amount as would have been receivable had such payments been made by the Bank.

Subordinated Notes – Definitions

Set forth below are definitions for certain terms used to describe the Subordinated Notes:

"Capital Regulations" means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy of the U.K. Financial Services Authority then in effect.

"Capital Resources", "Capital Resources Requirement" and "Overall Financial Adequacy Rule" have the respective meanings given to such terms in the Capital Regulations and shall include any successor terms from time to time equivalent thereto as agreed between the relevant Issuer (and the Guarantor, as applicable) and the Trustee.

"Qualifying Administration" means that an administrator has (or joint administrators have) been appointed to the relevant Issuer or the Guarantor, as the case may be, and notice has been given that he or they intend(s) to declare and distribute a dividend.

"Relevant Supervisory Consent" means the prior consent of or, following the giving of due notice, the receipt of no objection to, the relevant redemption, payment, repayment, purchase, modification or substitution, as the case may be, from, the U.K. Financial Services Authority or its successor.

"Subordinated Creditors" means:

(i) persons whose claims are subordinated in the event of the winding-up or in a Qualifying Administration in any manner (other than by statute) to the claims of any of the unsecured creditors of the relevant Issuer or the Guarantor as the case may be; and

(ii) persons whose claims in the event of the winding-up or in a Qualifying Administration should have been, but shall not have been, subordinated to the claims of the unsecured creditors of the relevant Issuer or the Guarantor, as the case may be, in the manner required by any agreement, deed or instrument entered into by the relevant Issuer or the Guarantor as applicable (whether before, on or after the date of the Subordinated Indenture) whereunder the claims of any of the creditors or any class of creditors of the relevant Issuer or the Guarantor, as applicable, are required to be subordinated to the claims of any unsecured creditors of the relevant Issuer or the Guarantor, as the case may be.

Subordinated Notes – Subordination

In the event of the winding-up or Qualifying Administration of the relevant Issuer, the rights and claims of the Trustee and the holders of the Subordinated Notes against the relevant Issuer in respect of (including any damages awarded for any breach of any obligations in respect of) the Subordinated Notes will be subordinated, in the manner provided in the Subordinated Indenture, to the claims of the relevant Issuer's other creditors (including, without limitation, in the case of the Bank, its depositors) other than Subordinated Creditors.

Subordinated Notes – Certain Additional Limitations

Subject to applicable law and unless the Subordinated Notes provide otherwise in the relevant Final Terms, no holder of any Subordinated Note nor the Trustee may exercise or claim any right of set-off in respect of any amount owed to it by the relevant Issuer arising under or in connection with a Subordinated Note and each such holder shall, by virtue of being the holder of any Subordinated Note, be deemed to have waived all such rights of set-off, both before and during the winding-up, liquidation or administration of the relevant Issuer. Notwithstanding the foregoing sentence, if any of such rights and claims of any such holder against the relevant Issuer are discharged by set-off, such holder will immediately pay an amount equal to the amount of such discharge to the relevant Issuer or, in the event of the winding-up or administration of the relevant Issuer, the liquidator or administrator (or other relevant insolvency official), as the case may be and until such time as payment is made will hold a sum equal to such amount in trust for the relevant Issuer or the liquidator or administrator (or other relevant insolvency official) as the case may be and accordingly such discharge shall be deemed not to have taken place.

Subordination of the Subordinated Guarantee

In the event of the winding-up or Qualifying Administration of the Guarantor, the rights and claims of the Trustee and the holders of the Subordinated Notes against the Guarantor in respect of (including any damages awarded for any breach of any obligations in respect of) the Subordinated Guarantee and the Subordinated Notes will be subordinated, in the manner provided in the Subordinated Indenture, to the claims of the Guarantor's other creditors other than Subordinated Creditors.

Subordinated Notes – Subordinated Guarantee – Certain Additional Limitations

Subject to applicable law and unless the Subordinated Notes provide otherwise in the applicable Final Terms, no holder of any Subordinated Note nor the Trustee may exercise or claim any right of set-off in respect of any amount owed to it by the Guarantor arising under or in connection with a Subordinated Guarantee or a Subordinated Note and each holder shall, by virtue of being the holder of any Subordinated Note, be deemed to have waived all such rights of set-off, both before and during the winding-up, liquidation or administration of the Guarantor. Notwithstanding the foregoing sentence, if any of such rights and claims of any such holder against the Guarantor is discharged by set-off, such holder will immediately pay an amount equal to the amount of such discharge to the Guarantor or, in the event of its winding-up or

administration, its liquidator or administrator (or other relevant insolvency official), as the case may be and until such time as payment is made will hold a sum equal to such amount in trust for the Guarantor or the liquidator or administrator (or other relevant insolvency official) as the case may be and accordingly such discharge will be deemed not to have taken place.

Subordinated Notes – Other Provisions

Nothing contained in the subordination provisions of the Subordinated Indenture in any way restricts the right of the Issuers or the Guarantor to issue debt obligations, or to give any guarantee or indemnity of any nature, ranking in priority to or *pari passu* with or junior to their respective obligations in respect of the Subordinated Notes and Subordinated Guarantee.

To the extent that holders of the notes are entitled to any recovery with respect to the notes in any winding-up or liquidation, it is unclear whether such holders would be entitled in such proceedings to recovery in U.S. dollars and they may be entitled only to a recovery in pounds sterling and, as a general matter, the right to claim for any amounts payable on notes may be limited by applicable insolvency law.

Certain Definitions

Set forth below are definitions for certain terms used in relation to the notes:

"Business Day" means, unless otherwise defined in a Final Terms, any day, other than a Saturday or Sunday, that is a New York City Banking Day (as defined below); provided, however, that, with respect to notes denominated in a Specified Currency (as defined below) other than U.S. dollars, it is also not a day on which commercial banks are authorised or required by law, regulation or executive order to close in the Principal Financial Centre (as defined below) of the country issuing the Specified Currency (or, if the Specified Currency is euro or EURIBOR is an applicable Interest Rate Basis, such day is also a day on which the euro payments settlement system known as TARGET (or any successor thereto) is open for settlement of payments in euro, a "TARGET Settlement Date"); provided, further, that, with respect to notes as to which LIBOR is an applicable Interest Rate Basis, it is also a London Business Day.

"Day Count Fraction" means a method to calculate the fraction of a year between two dates. The applicable Final Terms will specify the day count convention, if any, and include:

(i) *Actual/360*. The actual number of days between two periods divided by 360.

(ii) *30/360*. Each month is treated as having 30 days and the year is considered to have 360 days.

(iii) *Actual/Actual (ISDA).* The actual number of days in the period in respect of which payment is being made divided by 365 (or, if any portion of that period falls in a leap year, the sum of (i) the actual number of days in that portion of the period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the period falling in a non-leap year divided by 365.

(iv) *Actual/Actual (ICMA).* If the period being calculated is equal to or shorter than the Determination Period during which it falls, the number of days in such period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year. If the period being calculated is longer than one Determination Period, the sum of (i) the number of days in such period falling in the Determination Period in which it begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year and (ii) the number of days in such period being calculated falling in the next Determination Period divided by the product of (x) the number of days in such Determination

Period and (y) the number of Determination Periods normally ending in any year. For the purposes of this section, "Determination Period" means the period from and including the Determination Date in any year to but excluding the next Determination Date and "Determination Date" means the Interest Payment Date or such other date as is specified on the face of the note.

(v) *Actual/365 Fixed*. Each month represents the actual number of days, and the year is assumed to have 365 days, regardless of leap year status.

"London Business Day" means a day on which commercial banks are open for business (including dealings in the Designated LIBOR Currency, as defined below) in London.

"New York City Banking Day" means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in The City of New York.

"Principal Financial Centre" means the capital city of the country issuing the Specified Currency except that with respect to U.S. dollars, Canadian dollars, and Swiss francs, the "Principal Financial Centre" shall be New York City, Toronto, and Zurich, respectively.

"Specified Currency" means a currency issued and actively maintained as a country's or countries' recognised unit of domestic exchange by the government of any country and such term shall also include the euro.

"TARGET" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system 2 which utilises a single shared platform and which was launched on 19 November 2007 or any successor thereto.

"U.K. Financial Services Authority" means the United Kingdom Financial Services Authority or such other governmental authority in the United Kingdom (or if the Bank or the Company becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary supervisory authority with respect to the Bank and/or the Company.

"United States" and "U.S." mean, unless otherwise specified with respect to any particular series of notes, the United States of America, its territories and possessions and other areas subject to its jurisdiction.

"U.S. Government Securities Business Day" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

Form, Transfer, Exchange and Denomination

Unless otherwise specified in the applicable Final Terms, notes of a series will initially be represented by a global note or global notes in fully registered form. Notes offered in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more U.S. global notes ("U.S. Global Notes"). Notes offered outside the United States to non-U.S. persons in reliance on Regulation S will be represented by one or more international global notes ("International Global Notes").

Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with these transfer restrictions and subject to certification requirements. See the section entitled "Transfer Restrictions" for further information.

As specified in the applicable Final Terms, the global note or global notes representing a series of notes will either be (i) issued to and deposited with, or on behalf of, DTC in New York City and registered

in the name of Cede & Co. ("Cede"), as DTC's nominee or (ii) deposited with a common depositary for and registered in the name of a nominee of Euroclear and Clearstream. Interests in a global note or global notes representing notes of a series will be shown in, and transfers thereof will be effected only through, records maintained by DTC and its participants or Euroclear or Clearstream and their account holders until such time, if any, as physical registered certificates ("Certificated Notes") in respect of such notes are issued, as set forth in the subsection entitled "Description of the Global Notes — Book-Entry System". In no event will definitive notes in bearer form be issued.

A global note or global notes representing a series of notes registered in the name of a nominee for DTC may be transferred only to a successor of DTC or another nominee of DTC. For additional information, see the sub-section entitled "Description of the Global Notes — Book-Entry System".

Under the following circumstances, global notes of a series may be exchanged for Certificated Notes of such series:

- If, in the case of notes registered in the name of a nominee of DTC, at any time DTC notifies the relevant Issuer that it is unwilling or unable to continue as the depositary for the notes, or DTC ceases to be a clearing agency registered under the Exchange Act, and the relevant Issuer is unable to appoint a successor to DTC registered as a clearing agency under the Exchange Act within 90 days of such notification or of the relevant Issuer becoming aware of such ineligibility;
- If, in the case of notes registered in the name of a nominee of or a common depositary for Euroclear and Clearstream, the relevant Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention to permanently cease business or have in fact done so and, in each case, no successor clearing system is available;
- upon the occurrence of any Event of Default under the relevant Indenture; and
- if the relevant Issuer determines in its sole discretion (subject to the procedures of DTC, Euroclear and Clearstream (as the case may be)) that the notes of any series should no longer be represented by such global note or notes.

Certificated Notes representing a series of notes, if any, will be exchangeable for other Certificated Notes representing notes of such series of any authorised denominations and of a like aggregate principal amount and tenor. Certificated Notes will be serially numbered.

Certificated Notes may be presented for registration of transfer or exchange in the manner, at the places and subject to the restrictions set forth in the relevant Indenture and the notes. The relevant Issuer has not registered the notes and the Guarantor has not registered the Guarantees under the United States Securities Act of 1933 (the "**Securities Act**") or with any securities regulatory authority of any jurisdiction, and accordingly, transfers of the notes will be subject to the restrictions set forth in the sections entitled "Notice to Investors" and "Transfer Restrictions".

Certificated Notes and interests in the U.S. Global Notes may be transferred to a person who takes delivery in the form of interests in an International Global Note only upon receipt by the registrar or a paying agent of written certifications, in the form provided in the relevant Indenture, to the effect that the transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act and that, in the case of an International Global Note registered in the name of a nominee of DTC, if this transfer occurs prior to 40 days after the commencement of the offering of such notes, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, each of which is a participant in DTC.

Until 40 days after the closing date for the offering of a series of notes, interests in an International Global Note registered in the name of a nominee of DTC may be held only through Euroclear or Clearstream, each of which is a participant in DTC. Certificated Notes and interests in International Global Notes may be transferred to a person who takes delivery in the form of interests in a U.S. Global Note only upon receipt by the registrar or a paying agent of written certifications, in the form provided in the relevant Indenture, to the effect that such transfer is being made in accordance with Rule 144A to a person whom the transferor reasonably believes is purchasing for its own account or for an account as to which it exercises sole investment discretion and that such person and such account or accounts are "qualified institutional buyers" within the meaning of Rule 144A and agree to comply with the restrictions on transfer set forth in the sections entitled "Notice to Investors" and "Transfer Restrictions".

In the event of any redemption of notes, the relevant Issuer will not be required to (i) register the transfer of or exchange the notes during a period of 15 calendar days immediately preceding the date of redemption; (ii) register the transfer of or exchange the notes, or any portion thereof so selected for redemption, except the unredeemed portion of any of the notes being redeemed in part; or (iii) with respect to notes represented by a global note or global notes, exchange any such note or notes called for redemption, except to exchange such note or notes for another global note or global notes of that series and like tenor representing the aggregate principal amount of notes of that series that have not been redeemed.

Pursuant to the Paying Agent, Currency Determination and Note Registrar Agreement, dated 11 November 2009 (the "**Agency Agreement**") and as supplemented and amended from time to time, among the Company, the Bank, the Trustee and the paying agents named therein, the paying agents initially appointed by the Issuers are The Bank of New York Mellon, New York branch, The Bank of New York Mellon, London branch, and The Bank of New York Mellon (Luxembourg) S.A. (together, the "**Paying Agents**"). The Company and the Bank may at any time designate additional paying agents or rescind the designation of any of the Paying Agents provided that if and for so long as the notes are listed on any stock exchange which requires the appointment of a paying agent in any particular place, the Company and the Bank shall maintain a paying agent with an office in the place required by such stock exchange or relevant authority.

The Bank of New York Mellon, London branch, may be appointed as the calculation agent (the "**Calculation Agent**") pursuant to the Calculation Agency Agreement dated 11 November 2009 (the "**Calculation Agency Agreement**") and as supplemented and amended from time to time, among the Company, the Bank and The Bank of New York Mellon, London branch, as calculation agent.

Unless otherwise specified in the applicable Final Terms, the Company and the Bank will issue Senior Notes in minimum denominations of $100,000 and Subordinated Notes in minimum denominations of $250,000, and in each case in integral multiples of $1,000 in excess thereof, or the equivalent of these amounts in other currencies or composite currencies. The authorised denominations of any note denominated in a currency other than U.S. dollars will be the amount of the Specified Currency for such note equivalent, at the Market Exchange Rate on the first Business Day in New York City and the country issuing such currency (or, in the case of euro, the first TARGET Settlement Date) immediately preceding the date on which the relevant Issuer accepts the offer to purchase such note, to U.S.$100,000, or such other minimum denomination as may be allowed or required from time to time by any relevant central bank or equivalent governmental body, however designated, or by any laws or regulations applicable to the notes or to such Specified Currency. The notes will be issued in integral multiples of 1,000 units of any such Specified Currency in excess of their minimum denominations. If any of the notes are to be denominated in a Specified Currency other than U.S. dollars, or if the principal, premium, if any, and interest, if any, on any of the notes not denominated in U.S. dollars are to be payable at the relevant Issuer's or the holder's option in U.S. dollars, the applicable Final Terms will provide additional information, including applicable exchange rate information, pertaining to the terms of such notes and other matters of interest to the holders thereof.

Extendible Maturity Notes

Extendible Maturity Notes will mature on the Initial Maturity Date specified in the applicable Final Terms, unless the Maturity of all or any portion of the principal of the Extendible Maturity Notes is extended in accordance with the procedures described herein (or as otherwise specified in the applicable Final Terms). In no event will the Maturity be extended beyond the Final Maturity Date specified in the applicable Final Terms.

The election dates to extend the Maturity of the Extendible Maturity Notes will be specified in the applicable Final Terms. During the notice period relating to each election date, holders of the Extendible Maturity Notes may elect to extend the Maturity of all or any portion of the principal amount of the Extendible Maturity Notes so that the Maturity of the Extendible Maturity Notes will be extended for the period specified in the applicable Final Terms. However, if the new Maturity falls on a date that is not a Business Day, the Maturity of the Extendible Maturity Notes will be extended to the Business Day immediately preceding the date so specified for the new Maturity (unless otherwise specified in the applicable Final Terms). To make an election effective on any election date, the holder of the Extendible Maturity Notes must deliver a notice of election during the notice period for that election date. The notice of election must be delivered to the relevant Paying Agent for the Extendible Maturity Notes, through the normal clearing system channels specified in the applicable Final Terms.

If, with respect to any election date, a holder of Extendible Maturity Notes does not make an election to extend the Maturity of all or any portion of the principal amount of Extendible Maturity Notes held by that holder, the principal amount of the Extendible Maturity Notes for which such holder has failed to make such an election will become due and payable on the Initial Maturity Date, or any later date to which the Maturity of such Extendible Maturity Notes has previously been extended. The principal amount of the Extendible Maturity Notes for which such election is not exercised will be represented by a note issued on such election date. The note so issued will not be extendible and, except as otherwise described herein, will have the same terms as, but will have a different CUSIP and ISIN number from, the Extendible Maturity Notes. The failure to elect to extend the Maturity of all or any portion of the Extendible Maturity Notes will be irrevocable and will be binding upon any subsequent holder of such Extendible Maturity Notes.

The applicable Final Terms will specify certain terms with respect to which each Extendible Maturity Note is being delivered: including, the minimum denominations of Extendible Maturity Notes whose Maturity may be extended, the notice period (which shall not be less than five Business Days), the method for delivery of notice, and the method for revocation of the election (if any).

Payment of Principal, Premium, if any, and Interest, if any

Payments of principal, premium, if any, and interest, if any, to owners of beneficial interests in the notes are expected to be made in accordance with those procedures of DTC and its participants or Euroclear or Clearstream and their account holders (as the case may be) in effect from time to time as described in the section entitled "Description of the Global Notes — Book-Entry System".

Unless otherwise specified in the applicable Final Terms, with respect to any Certificated Note, payments of interest, if any, and, in the case of Amortising Notes (as defined below), principal (other than principal payable at Maturity) will be made by mailing a cheque to the holder at the address of such holder appearing on the register for the notes on the regular record date (the "**Regular Record Date**"). Notwithstanding the foregoing, at the option of the relevant Issuer, all payments of interest and, in the case of Amortising Notes, principal on the notes may be made by wire transfer of immediately available funds to an account at a bank located within the United States as designated by each holder not less than 15 calendar days prior to the Interest Payment Date. A holder of $10,000,000 (or, if the Specified Currency is other than U.S. dollars, the equivalent thereof in that Specified Currency) or more in aggregate principal amount of

notes of like tenor and terms with the same Interest Payment Date may demand payment by wire transfer but only if appropriate payment instructions have been received in writing by any paying agent with respect to such note appointed by the relevant Issuer, not less than 15 calendar days prior to the Interest Payment Date. In the event that payment is so made in accordance with instructions of the holder, such wire transfer shall be deemed to constitute full and complete payment of such principal, premium and/or interest on the notes. Payment of the principal, premium, if any, and interest, if any, due with respect to any Certificated Note at Maturity will be made in immediately available funds upon surrender of such note at the principal office of any paying agent appointed by the relevant Issuer with respect to that note and accompanied by wire transfer instructions, provided that the Certificated Note is presented to such paying agent in time for such paying agent to make such payments in such funds in accordance with its normal procedures.

Unless otherwise specified in the applicable Final Terms, payments of principal, premium, if any, and interest, if any, with respect to any note to be made in a Specified Currency other than U.S. dollars will be made by cheque mailed to the address of the person entitled thereto as its address appears in the register for the notes or by wire transfer to such account with a bank located in a jurisdiction acceptable to the relevant Issuer and the Trustee as shall have been designated at least 15 calendar days prior to the Interest Payment Date or Maturity, as the case may be, by the holder of such note on the relevant Regular Record Date or at Maturity, provided that, in the case of payment of principal of, and premium, if any, and interest, if any, due at Maturity, the note is presented to any paying agent appointed by the relevant Issuer with respect to such note in time for such paying agent to make such payments in such funds in accordance with its normal procedures. Such designation shall be made by filing the appropriate information with the Trustee at its Corporate Trust Office, and, unless revoked, any such designation made with respect to any note by a holder will remain in effect with respect to any further payments with respect to such note payable to such holder. If a payment with respect to any such note cannot be made by wire transfer because the required designation has not been received by the registrar or a paying agent on or before the requisite date or for any other reason, a notice will be mailed to the holder at its registered address requesting a designation pursuant to which such wire transfer can be made and, upon such registrar's or paying agent's receipt of such a designation, such payment will be made within 15 calendar days of such receipt. The relevant Issuer will pay any administrative costs imposed by banks in connection with making payments by wire transfer, but any tax, assessment or governmental charge imposed upon payments will be borne by the holders of such notes in respect of which such payments are made.

If so specified in the applicable Final Terms, except as provided below, payments of principal, premium, if any, and interest, if any, with respect to any note denominated in a currency other than U.S. dollars will be made in U.S. dollars, as set forth below. If the holder of such note on the relevant Regular Record Date or at Maturity, as the case may be, requests payments in a currency other than U.S. dollars, the holder shall transmit a written request for such payment to any paying agent appointed by the relevant Issuer with respect to such note at its principal office on or prior to such Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be. Such request may be delivered by mail, by hand, by cable or by telex or any other form of facsimile transmission. Any such request made with respect to any note by a holder will remain in effect with respect to any further payments of principal, and premium, if any, and interest, if any, with respect to such note payable to such holder, unless such request is revoked by written notice received by such paying agent on or prior to the relevant Regular Record Date or the date 15 calendar days prior to Maturity, as the case may be (but no such revocation may be made with respect to payments made on any such note if an Event of Default has occurred with respect thereto or upon the giving of a notice of redemption). Holders of notes denominated in a currency other than U.S. dollars whose notes are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in a currency other than U.S. dollars may be made.

The U.S. dollar amount to be received by a holder of a note denominated in a currency other than U.S. dollars who elects to receive payments in U.S. dollars will be based, unless otherwise specified in the

applicable Final Terms, on the highest indicated bid quotation for the purchase of U.S. dollars in exchange for the Specified Currency obtained by the Currency Determination Agent, as specified in the applicable Final Terms, at approximately 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date (the "**Conversion Date**") from the bank composite or multicontributor pages of the Quoting Source for three (or two if three are not available) major banks in New York City. The first three (or two) such banks selected by the Currency Determination Agent which are offering quotes on the Quoting Source will be used. If fewer than two such bid quotations are available at 11:00 a.m., New York City time, on the second Business Day immediately preceding the applicable payment date, such payment will be based on the Market Exchange Rate as of the second Business Day immediately preceding the applicable payment date. If the Market Exchange Rate for such date is not then available, such payment will be made in the Specified Currency. As used herein, the "Quoting Source" means Reuters Monitor Foreign Exchange Service, or if the Currency Determination Agent determines that such service is not available, such comparable display or other comparable manner of obtaining quotations as shall be agreed between the relevant Issuer and the Currency Determination Agent. All currency exchange costs associated with any payment in U.S. dollars on any such notes will be borne by the holder thereof by deductions from such payment. The Currency Determination Agent with respect to any such note will be specified in the applicable Final Terms.

If the Specified Currency for a note denominated in a currency other than U.S. dollars is not available for the required payment of principal, premium, if any, and/or interest, if any, in respect thereof due to the imposition of exchange controls or other circumstances beyond the control of the relevant Issuer, the relevant Issuer will be entitled to satisfy the obligations to the holder of such note by making such payment in U.S. dollars on the basis of the Market Exchange Rate, computed by the Currency Determination Agent, on the second Business Day prior to such payment or, if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate, or as otherwise specified in the applicable Final Terms. Any payment made in U.S. dollars under such circumstances where the required payment was to be in a Specified Currency other than U.S. dollars will not constitute an Event of Default under the relevant Indenture with respect to the notes.

All determinations referred to above made by the Currency Determination Agent shall be at its sole discretion in accordance with its normal operating procedures and shall, in the absence of manifest error, be conclusive for all purposes and binding on all holders and beneficial owners of notes.

Interest and Interest Rates

Each note other than certain Original Issue Discount Notes will bear interest from the date on which such note is issued (the "**Original Issue Date**") or from the most recent Interest Payment Date to which interest on such note has been paid or duly provided for at a fixed rate or rates per annum, or at a rate or rates determined pursuant to an Interest Rate Basis or Bases stated therein and in the applicable Final Terms that may be adjusted by a Spread and/or Spread Multiplier, until the principal thereof is paid or made available for payment. Interest will be payable on each Interest Payment Date and at Maturity. "Maturity" means the date, if any, on which the principal (or, if the context so requires, lesser amount in the case of Original Issue Discount Notes) of (or premium, if any, on) a note becomes due and payable in full in accordance with its terms and the terms of the relevant Indenture, whether at Stated Maturity or earlier by declaration of acceleration, call for redemption, repayment or otherwise. Interest (other than Defaulted Interest which may be paid as of a Special Record Date) will be payable to the holder at the close of business on the Regular Record Date immediately preceding such Interest Payment Date; provided, however, that interest payable at Maturity will be payable to the person to whom principal shall be payable. The first payment of interest on any note originally issued between a Regular Record Date for such note and the succeeding Interest Payment Date will be made on the Interest Payment Date following the next succeeding Regular Record Date for such note to the holder.

Interest rates, Interest Rate Basis or Bases, Spreads and Spread Multipliers are subject to change by the relevant Issuer but no such change will affect any note already issued or which the relevant Issuer has agreed to sell. The Interest Payment Dates for each Fixed Rate Note shall be as described below under the subsection entitled "— Fixed Rate Notes" and in the applicable Final Terms. The Interest Payment Dates for each Floating Rate Note shall be as described below under the subsection entitled "— Floating Rate Notes" and in the applicable Final Terms. The Regular Record Date for a note will be the fifteenth calendar day (whether or not a Business Day) immediately preceding each Interest Payment Date.

Fixed Rate Notes

Interest on Fixed Rate Notes will be payable in arrear on such dates as are specified in the applicable Final Terms (each, an "Interest Payment Date" with respect to Fixed Rate Notes) and on the date of Maturity. Unless otherwise specified in the applicable Final Terms, interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months. If any Interest Payment Date or the date of Maturity of a Fixed Rate Note falls on the day that is not a Business Day, the required payments of principal, premium, if any, and interest, if any, with respect to such note will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after such Interest Payment Date or the date of Maturity, as the case may be, to the date of such payment on the next succeeding Business Day.

Floating Rate Notes

Interest on Floating Rate Notes will be determined by reference to the applicable Interest Rate Basis or Bases as set forth in the applicable Final Terms, which may, as described below, include:

- the CD Rate;
- the CMS Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- EURIBOR;
- The Federal Funds Rate;
- LIBOR;
- The Prime Rate;
- The Treasury Rate; or
- such other Interest Rate Basis or Bases or interest rate formula as may be specified in the applicable Final Terms.

The applicable Final Terms will specify certain terms with respect to which each Floating Rate Note is being delivered, including: whether such Floating Rate Note is a Regular Floating Rate Note, a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, the Fixed Rate Commencement Date, if applicable, Fixed Interest Rate, if applicable, Interest Rate Basis or Bases, Initial Interest Rate, if any, Initial Interest Reset Date, Interest Reset Dates, Interest Payment Dates, Index Maturity, Maximum Interest Rate and/or Minimum Interest Rate, if any, and Spread and/or Spread Multiplier, if any, as such terms are defined below. If one or more of the applicable Interest Rate Bases is the CMT Rate, EURIBOR or LIBOR, the applicable Final Terms will also specify the Designated CMT Maturity Index or the Designated CMT Reuters Page, the

Designated EURIBOR Page or the Designated LIBOR Currency and Designated LIBOR Page respectively, as such terms are defined below.

The interest rate borne by the Floating Rate Notes will be determined as follows:

(i) Unless such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note" or an "Inverse Floating Rate Note", or as having an Addendum attached or having "Other/Additional Provisions" apply, in each case, relating to a different interest rate formula, such Floating Rate Note will be designated a "Regular Floating Rate Note" and, except as described below or in the applicable Final Terms, will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the Initial Interest Reset Date, the rate at which interest on such Regular Floating Rate Note shall be payable shall be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate.

(ii) If such Floating Rate Note is designated as a "Floating Rate/Fixed Rate Note", then, except as described below or in the applicable Final Terms, such Floating Rate Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any. Commencing on the Initial Interest Reset Date, the rate at which interest on such Floating Rate/Fixed Rate Note shall be payable shall be reset as of each Interest Reset Date; provided, however, that (y) the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate and (z) the interest rate in effect (the "**Fixed Interest Rate**") for the period commencing on the date specified therefor in the applicable Final Terms (the "Fixed Rate Commencement Date") to Maturity shall be in the interest rate so specified in the applicable Final Terms or, if no such rate is specified, the interest rate in effect thereon on the day immediately preceding the Fixed Rate Commencement Date.

(iii) If such Floating Rate Note is designated as an "Inverse Floating Rate Note", then, except as described below or in the applicable Final Terms, such Floating Rate Note will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the applicable Spread, if any, and/or (b) multiplied by the applicable Spread Multiplier, if any; provided, however, that unless otherwise specified in the applicable Final Terms, the interest rate thereon will not be less than zero. Commencing on the Initial Interest Reset Date, the rate at which interest on such Inverse Floating Rate Note shall be payable shall be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date will be the Initial Interest Rate.

The "Spread" is the number of basis points to be added or subtracted from the related Interest Rate Basis or Bases applicable to such Floating Rate Note. The "Spread Multiplier" is the percentage of the related Interest Rate Basis or Bases applicable to such Floating Rate Note by which such Interest Rate Basis or Bases will be multiplied to determine the applicable interest rate on such Floating Rate Note. The "Index Maturity" is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Bases will be calculated.

Unless otherwise specified in the applicable Final Terms, the interest rate with respect to each Interest Rate Basis will be determined in accordance with the applicable provisions below. Except as set forth above or in the applicable Final Terms, the interest rate in effect on each day shall be (i) if such day is an Interest Reset Date, the interest rate determined as of the Interest Determination Date (as defined below) immediately

preceding such Interest Reset Date or (ii) if such day is not an Interest Reset Date, the interest rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

The applicable Final Terms will specify whether the rate of interest on the related Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually or annually or at such other specified intervals as specified in the applicable Final Terms (each, an "Interest Reset Period") and the dates on which such rate or interest will be reset (each, an "Interest Reset Date"). Unless otherwise specified in the applicable Final Terms, the rate of interest on Floating Rate/Fixed Rate Notes will not reset after the applicable Fixed Rate Commencement Date. If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Reset Date will be postponed to the next succeeding Business Day except that in the case of a Floating Rate Note as to which EURIBOR or LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Reset Date will be the immediately preceding Business Day.

Save as set out in the applicable Final Terms, the interest rate applicable to each Interest Reset Period commencing on the related Interest Reset Date will be the rate determined by the Calculation Agent (as specified in the applicable Final Terms) as of the applicable Interest Determination Date and calculated on or prior to the Calculation Date (as defined below), except with respect to EURIBOR and LIBOR, which will be calculated on such Interest Determination Date, except with respect to the Commercial Paper Rate and the Prime Rate, which will be calculated on or prior to the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, and except with respect to the CMT Rate, which will be calculated on the dates specified below under "— CMT Rate".

Save as set out in the applicable Final Terms, the "Interest Determination Date" with respect to:

- the CD Rate, the Commercial Paper Rate and the CMS Rate will be the second Business Day preceding the applicable Interest Reset Date;
- the Federal Funds Rate will be the Business Day immediately preceding the applicable Interest Reset Date;
- the CMT Rate will be the second U.S. Government Securities Business Day preceding the applicable Interest Reset Date;
- the Prime Rate will be the applicable Interest Reset Date;
- EURIBOR will be the second TARGET Settlement Date immediately preceding the applicable Interest Reset Date;
- LIBOR will be the second London Business Day immediately preceding the applicable Interest Reset Date, unless the Designated LIBOR Currency is pounds sterling, in which case the "Interest Determination Date" will be the applicable Interest Reset Date; and
- the Treasury Rate will be the day in the week in which the applicable Interest Reset Date falls on which day Treasury Bills, as defined below, are normally auctioned (Treasury Bills are normally sold at an auction held on Monday of each week, unless such Monday is a legal holiday, in which case the auction is normally held on the immediately succeeding Tuesday although such auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the applicable Interest Reset Date, the "Interest Determination Date" will be such preceding Friday; provided, further, that if the Interest Determination Date would otherwise fall on an Interest Reset Date, then such Interest Reset Date will be postponed to the next succeeding Business Day.

The "Interest Determination Date" pertaining to a Floating Rate Note the interest rate of which is determined by reference to two or more Interest Rate Bases will be the most recent Business Day which is at least two Business Days prior to the applicable Interest Reset Date for such Floating Rate Note on which each Interest Rate Basis is determinable. Each Interest Rate Basis will be determined as of such date, and the applicable interest rate will take effect on the applicable Interest Reset Date.

Notwithstanding the foregoing, a Floating Rate Note may also have, if specified in the applicable Final Terms, either or both of the following: (i) a Maximum Interest Rate, or ceiling, that may apply during any Interest Reset Period and (ii) a Minimum Interest Rate, or floor, that may apply during any Interest Reset Period. In addition to any Maximum Interest Rate that may apply to any Floating Rate Note, the interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified, or other applicable law.

The date(s) on which interest on Floating Rate Notes is payable (each, an "Interest Payment Date" with respect to Floating Rate Notes) will be specified in the applicable Final Terms.

If any Interest Payment Date other than the date of Maturity specified in the applicable Final Terms for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which EURIBOR or LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Payment Date will be the immediately preceding Business Day. If the date of Maturity of a Floating Rate Note falls on a day that is not a Business Day, the required payment of principal, premium, if any, and interest will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after the date of Maturity to the date of such payment on the next succeeding Business Day.

All percentages resulting from any calculation on Floating Rate Notes will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five or more one millionths of a percentage point rounded upwards (e.g., 9.876545 per cent. (or 0.09876545) would be rounded to 9.87655 per cent. (or 0.0987655)), and all amounts used in or resulting from such calculation on Floating Rate Notes will be rounded, in the case of U.S. dollars, to the nearest cent or, in the case of a Specified Currency, to the nearest unit (with one-half cent or unit being rounded upwards).

Unless otherwise specified in the applicable Final Terms, each payment of Interest on a Floating Rate Note includes interest accrued from and including the Original Issue Date, or the immediately preceding Interest Payment Date to which interest has been paid or duly provided for, to but excluding the applicable Interest Payment Date or Maturity. Accrued interest on each Floating Rate Note is calculated by multiplying its principal amount by an accrued interest factor. Such accrued interest factor is computed by adding the interest factor calculated for each day in the applicable Interest Period but excluding the date for which accrued interest is being calculated. Unless otherwise specified in the applicable Final Terms, the interest factor for each such day will be computed by dividing the interest rate applicable to such day by 360, in the case of Floating Rate Notes for which an applicable Interest Rate Basis is the CD Rate, the CMS Rate, the Commercial Paper Rate, EURIBOR, the Federal Funds Rate, LIBOR or the Prime Rate, or by the actual number of days in the year in the case of Floating Rate Notes for which an applicable Interest Rate Basis is the CMT Rate or the Treasury Rate. Unless otherwise specified in the applicable Final Terms, the interest factor for Floating Rate Notes for which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified in the applicable Final Terms applied.

Upon request of the holder of any Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to such Floating Rate Note. Unless otherwise

specified in the applicable Final Terms, the "Calculation Date", if applicable, pertaining to any Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day immediately preceding the applicable Interest Payment Date or the date of Maturity, as the case may be.

Unless otherwise specified in the applicable Final Terms, the Calculation Agent shall determine each Interest Rate Basis in accordance with the following provisions:

CD Rate

Unless otherwise specified in the applicable Final Terms, "CD Rate" means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CD Rate, the rate on such date for negotiable U.S. dollar certificates of deposit having the Index Maturity specified in the applicable Final Terms as published in H.15(519) (as defined below), under the heading "CDs (secondary market)" or, if not so published by 3:00 p.m., New York City time on the related Calculation Date, the rate on such Interest Determination Date for negotiable U.S. dollar certificates of deposit of the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update (as defined below), or such other recognised electronic source used for the purpose of displaying such rate, under the caption "CDs (secondary market)". If such rate is not yet published in H.15(519), H.15 Daily Update or another recognised electronic source by 3:00 p.m. New York City time on the related Calculation Date, then the CD Rate on such Interest Determination Date will be calculated by the Calculation Agent (as specified in the applicable Final Terms) and will be the arithmetic mean of the secondary market offered rates as of 10:00 a.m. New York City time on such Interest Determination Date, of three leading non-bank dealers in negotiable U.S. dollar certificates of deposit in New York City (which may include the Permanent Dealers or their affiliates) selected by the Calculation Agent (after consultation with the relevant Issuer) for negotiable U.S. dollar certificates of deposit of major U.S. money centre banks with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms in an amount that is representative for a single transaction in that market at that time; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the CD Rate determined as of such Interest Determination Date will be the CD Rate in effect on such Interest Determination Date, or, if no CD Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

"H.15(519)" means the weekly statistical release designated as such published by the Board of Governors of the Federal Reserve System (the "**Board of Governors**"), or its successor, available through the website of the Board of Governors at http://www.federalreserve.gov/releases/h15/, or any successor site or publication.

"H.15 Daily Update" means the daily update designated as such published by the Board of Governors, or its successor, available through the website of the Board of Governors at http://www.federal reserve.gov/releases/h15/update/ – h15upd.htm, or any successor site or publication.

CMS Rate

Unless otherwise specified in the applicable Final Terms, "CMS Rate" means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CMS Rate, the rate for U.S. dollar swaps with a maturity for a specified number of years, expressed as a percentage in the applicable Final Terms, which appears on Reuters ISDAFIX1 Page (the "ISDAFIX1 Page") as of 11:00 a.m., New York City time, on the related Interest Determination Date.

The following procedures will be used if the CMS Rate cannot be determined as described above:

(1) If the above rate is no longer displayed on the ISDAFIX1 Page, or if not displayed by 11:00 a.m., New York City time, on the Interest Determination Date, then the CMS Rate will be the rate for U.S. dollar swaps with a maturity of the notes designated in the applicable Final Terms, expressed as a percentage, which appears on the ISDAFIX1 Page as of 11:00 a.m., New York City time, on the Interest Determination Date.

(2) If that information is no longer displayed by 11:00 a.m., New York City time, on the Interest Determination Date, then the CMS Rate will be a percentage determined on the basis of the mid-market, semi-annual swap rate quotations provided by five leading swap dealers in the New York City interbank market at approximately 11:00 a.m., New York City time, on the Interest Determination Date. For this purpose, the semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to the maturity of the notes designated in the applicable Final Terms commencing on that Interest Determination Date with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to the rate for deposits in U.S. dollars with a maturity of three months which appears on Reuters (or any successor service) on the LIBOR01 page (or any other page as may replace such page on such service). The Calculation Agent will select the five swap dealers after consultation with the relevant Issuer and will request the principal New York City office of each of those dealers to provide a quotation of its rate. If at least three quotations are provided, the CMS Rate for that Interest Determination Date will be the arithmetic mean of the quotations, eliminating the highest and lowest quotations or, in the event of equality, one of the highest and one of the lowest quotations.

(3) If fewer than three leading swap dealers selected by the Calculation Agent are quoting as described above, the CMS Rate will remain the CMS Rate in effect on that Interest Determination Date or, if that Interest Determination Date is the first Interest Determination Date, the Initial Interest Rate.

CMT Rate

Unless otherwise specified in the applicable Final Terms, "CMT Rate" means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the CMT Rate:

(1) if the Reuters FRBCMT Page (as defined below) is specified in the applicable Final Terms as the Designated CMT Reuters Page:

(a) the percentage equal to the yield for United States Treasury securities at "constant maturity" having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption "Treasury Constant Maturities", as the yield is displayed on Reuters (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) ("FRBCMT Page"), on such Interest Determination Date, or

(b) if the rate referred to in clause (a) does not so appear on the FRBCMT Page, the percentage equal to the yield for United States Treasury securities at "constant maturity" having the particular Designated CMT Maturity Index and for such Interest Determination Date as published in H.15(519) under the caption "Treasury Constant Maturities", or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on such Interest Determination Date for the period of the particular Designated CMT Maturity Index as may then be published by either the Board of Governors or the United States Department of the Treasury that the Calculation Agent (as specified in the applicable Final Terms) determines to be comparable to the rate which would otherwise have been published in H.15(519), or

(d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in New York City (which may include the Permanent Dealers or their affiliates) (each, a "Reference Dealer"), selected by the Calculation Agent (after consultation with the relevant Issuer) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with the relevant Issuer) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated, or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on such Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

(2) if the Reuters Page FEDCMT (as defined below) is specified in the applicable Final Terms as the Designated CMT Reuters Page:

(a) the percentage equal to the one-week average yield for United States Treasury securities at "constant maturity" having the Designated CMT Maturity Index specified in the applicable Final Terms as published in H.15(519) under the caption "Week Ending" and opposite the caption "Treasury Constant Maturities", as the yield is displayed on Reuters (or any successor service) (on page FEDCMT or any other page as may replace the specified page on that service) ("FEDCMT Page"), for the week preceding the week in which such Interest Determination Date falls, or

(b) if the rate referred to in clause (a) does not so appear on the FEDCMT Page, the percentage equal to the one-week average yield for United States Treasury securities at "constant maturity" having the particular Designated CMT Maturity Index and for the week preceding such Interest Determination Date as published in H.15(519) under the caption "Week Ending" and opposite the caption "Treasury Constant Maturities," or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week average yield for United States Treasury securities at "constant maturity" having the particular Designated CMT Maturity Index as otherwise announced by the Federal Reserve Bank of New York for the week preceding the week in which such Interest Determination Date falls, or

(d) if the rate referred to in clause (c) is not so published, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with the relevant Issuer) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Designated CMT Maturity Index, a remaining term to maturity no more than one year shorter than that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at that time, or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent (after consultation with the relevant Issuer) from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Designated CMT Maturity Index, a remaining term to maturity closest to that Designated CMT Maturity Index and in a principal amount that is representative for a single transaction in the securities in that market at the time, or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on such Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated, or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date, provided that if no CMT Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

If two United States Treasury securities with an original maturity greater than the Designated CMT Maturity Index specified in the applicable Final Terms have remaining terms to maturity equally close to the particular Designated CMT Maturity Index, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

"Designated CMT Maturity Index" means the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in the applicable Final Terms with respect to which the CMT Rate will be calculated.

Commercial Paper Rate

Unless otherwise specified in the applicable Final Terms, "Commercial Paper Rate" means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Commercial Paper Rate, the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption "Commercial Paper — Nonfinancial" or, if not so published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the Money Market Yield on such Interest Determination Date for commercial paper having the Index Maturity specified in the applicable Final Terms as published in H.15 Daily Update, or such other recognised electronic source used for the purpose of displaying such rate, under the caption "Commercial Paper — Nonfinancial". If such rate is not yet published in H.15(519), the H.15 Daily Update or another recognised electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Commercial Paper Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 a.m., New York City time on such Interest Determination Date of three leading dealers of U.S. dollar commercial paper in New York City (which may include the Permanent Dealers or their affiliates) selected by the Calculation Agent (after consultation with the relevant Issuer) for U.S. dollar commercial paper having the Index Maturity specified in the applicable Final Terms placed for industrial issuers whose bond rating is "Aa", or the equivalent, from a nationally recognised statistical rating organisation; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Commercial Paper Rate determined as of such Interest Determination Date will be the Commercial Paper Rate in effect on such Interest Determination Date, or, if no Commercial Paper Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

"Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula: D x 360

$$\text{Money Market Yield} = \frac{D \times 360}{360 (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

EURIBOR

Unless otherwise specified in the applicable Final Terms, "EURIBOR" means the rate determined in accordance with the following provisions:

(i) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to EURIBOR, EURIBOR will be the rate for deposits in euro for a period of the Index Maturity as specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on such Interest Determination Date; or if no such rate so appears, EURIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (ii) below.

(ii) With respect to an Interest Determination Date on which no rate appears on the Designated EURIBOR Page as specified in clause (i) above, the Calculation Agent (as specified in the applicable Final Terms) will request the principal Euro-zone office of each of four major reference banks (which may include the Permanent Dealers or their affiliates) in the Euro-zone interbank market, as selected by the Calculation Agent (after consultation with the relevant Issuer), to provide the Calculation Agent with its offered quotation for deposits in euro for the period of the Index Maturity specified in the applicable Final Terms commencing on the applicable Interest Reset Date, to prime banks in the Euro-zone interbank market at approximately 11:00 a.m., Brussels time, on such EURIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in euro in such market at such time. If at least two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then EURIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m., Brussels time, on such Interest Determination Date by three major banks (which may include the Permanent Dealers or their affiliates) in the Euro-zone selected by the Calculation Agent (after consultation with the relevant Issuer) for loans in euro to leading European banks, having the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in euro in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, EURIBOR determined as of such Interest Determination Date will be EURIBOR in effect on such Interest Determination Date, or, if no EURIBOR was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

"Designated EURIBOR Page" means the display on the page specified in the applicable Final Terms for the purpose of displaying the Euro-zone interbank rates of major banks for the euro; provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any successor service) on the EURIBOR01 page (or any other page as may replace such page on such service) shall be used.

"Euro-zone" means the region comprised of member states of the European Union that have adopted the single currency in accordance with the relevant treaty of European Union, as amended.

Federal Funds Rate

Unless otherwise specified in the applicable Final Terms, "Federal Funds Rate" means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Federal Funds Rate, the rate on such date for U.S. dollar federal funds as published in H.15(519) opposite the heading "Federal Funds (Effective)", as such rate is displayed on Reuters (or any successor service) on page FEDFUNDS 1 (or any other page as may replace such page) ("Reuters Page FEDFUNDS 1"), or, if such rate does not appear on Reuters Page FEDFUNDS1 or is not so published by 5:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date for U.S. dollar federal funds as published in H.15 Daily Update, or such other recognised electronic source used for the purpose of displaying such rate, under the caption "Federal Funds (Effective)". If such rate does not appear on Reuters Page FEDFUNDS1 or is not yet published in H.15(519), H.15 Daily Update or another recognised electronic source by 5:00 p.m. New York City time on the related Calculation Date, then the Federal Funds Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City (which may include the Permanent Dealers or their affiliates) selected by the Calculation Agent (after consultation with the relevant Issuer) prior to 9:00 a.m., New York City time, on such Interest Determination Date; provided, however, that if the brokers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Interest Determination Date will be the Federal Funds Rate in effect on such Interest Determination Date, or, if no Federal Funds Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

LIBOR

Unless otherwise specified in the applicable Final Terms, "LIBOR" means the rate determined in accordance with the following:

(i) With respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to LIBOR, LIBOR will be the rate for deposits in the Designated LIBOR Currency for a period of the Index Maturity specified in such Final Terms commencing on the applicable Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 a.m., London time, on such Interest Determination Date, or if no such rate so appears, LIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (ii) below.

(ii) With respect to an Interest Determination Date on which no rate appears on the Designated LIBOR Page as specified in clause (i) above, the Calculation Agent (as specified in the applicable Final Terms) will request the principal London offices of each of four major reference banks (which may include the Permanent Dealers or their affiliates) in the London interbank market, as selected by the Calculation Agent (after consultation with the relevant Issuer), to provide the Calculation Agent with its offered quotation for deposits in the Designated LIBOR Currency for the period of the Index Maturity specified in the applicable Final Terms, commencing on the applicable Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00

a.m., in the applicable Principal Financial Centre, on such Interest Determination Date by three major banks (which may include the Permanent Dealers or their affiliates) in such Principal Financial Centre selected by the Calculation Agent (after consultation with the relevant Issuer) for loans in the Designated LIBOR Currency to leading European banks, having the Index Maturity specified in the applicable Final Terms, commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined as of such Interest Determination Date will be LIBOR in effect on such Interest Determination Date or, if no LIBOR rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

"Designated LIBOR Currency" means the currency specified in the applicable Final Terms as to which LIBOR shall be calculated or, if no such currency is specified in the applicable Final Terms, U.S. dollars.

"Designated LIBOR Page" means the display on the page specified in the applicable Final Terms for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency, provided, however, if no such page is specified in the applicable Final Terms, the display on Reuters (or any successor service) on the LIBOR01 page (or any other page as may replace such page on such service) shall be used for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency.

Prime Rate

Unless otherwise specified in the applicable Final Terms, "Prime Rate" means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined with reference to the Prime Rate, the rate on such date as such rate is published in H.15(519) opposite the caption "Bank Prime Loan" or, if not published by 5:00 p.m., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, the rate on such Interest Determination Date as published in H.15 Daily Update, or such other recognised electronic source used for the purpose of displaying such rate, opposite the caption "Bank Prime Loan". If such rate is not yet published in H.15(519), H.15 Daily Update or another recognised electronic source by 5:00 p.m. New York City time on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Interest Determination Date, then the Prime Rate shall be the arithmetic mean, as determined by the Calculation Agent (as specified in the applicable Final Terms), of the rates of interest publicly announced by three major banks (which may include the Permanent Dealers or their affiliates) in New York City selected by the Calculation Agent (after consultation with the relevant Issuer) as the U.S. dollar prime rate or base lending rate in effect for such Interest Determination Date. (Each change in the prime rate or base lending rate of any bank so announced by such bank will be effective as of the effective date of the announcement or, if no effective date is specified, as of the date of the announcement.) If fewer than three major banks (which may include the Permanent Dealers or their affiliates) so selected in New York City have publicly announced a U.S. dollar prime rate or base lending rate for such Interest Determination Date, the Prime Rate with respect to such Interest Determination Date shall be the rate in effect on such Interest Determination Date, or, if no Prime Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

Treasury Rate

Unless otherwise specified in the applicable Final Terms, "Treasury Rate" means, with respect to any Interest Determination Date relating to a Floating Rate Note for which the interest rate is determined by

reference to the Treasury Rate, the rate from the auction held on such Interest Determination Date (the "**Auction**") of direct obligations of the United States ("**Treasury Bills**") having the Index Maturity specified in the applicable Final Terms under the caption "INVEST RATE" on the display on Reuters (or any successor service) on page USAUCTION10 (or any other page as may replace such page) ("Reuters Page USAUCTION10") or page USAUCTION11 (or any other page as may replace such page) ("Reuters Page USAUCTION11") or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for such Treasury Bills as published in H.15 Daily Update, or such other recognised electronic source used for the purpose of displaying such rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High" or, if not so published by 3:00 p.m., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of such Treasury Bills as announced by the U.S. Department of the Treasury. In the event that the auction rate of Treasury Bills having the Index Maturity specified in the applicable Final Terms is not so announced by the U.S. Department of the Treasury, or if no such Auction is held, then the Treasury Rate will be the Bond Equivalent Yield of the rate on such Interest Determination Date of Treasury Bills having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market" or, if not yet published by 3:00 p.m., New York City time, on the related Calculation Date, the rate on such Interest Determination Date of such Treasury Bills as published in H.15 Daily Update, or such other recognised electronic source used for the purpose of displaying such rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market". If such rate is not yet published in H.15(519), H.15 Daily Update or another recognised electronic source, then the Treasury Rate will be calculated by the Calculation Agent (as specified in the applicable Final Terms) and will be the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on such Interest Determination Date, of three primary U.S. government securities dealers (which may include the Permanent Dealers or their affiliates) selected by the Calculation Agent (after consultation with the relevant Issuer), for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Interest Determination Date will be the Treasury Rate in effect on such Interest Determination Date, or, if no Treasury Rate was in effect on such Interest Determination Date, the rate on such Floating Rate Note for the following Interest Reset Period shall be the Initial Interest Rate.

"Bond Equivalent Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N \times 100}{360 - (D \times M)}$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

Other/Additional Provisions; Addendum

Any provisions with respect to the notes, including the specification and determination of one or more Interest Rate Bases, the calculation of the interest rate applicable to a Floating Rate Note, the Interest Payment Dates, the Stated Maturity, any redemption or repayment provisions or any other term relating thereto, may be modified and/or supplemented as specified under "Other/Additional Provisions; Addendum" in the applicable Final Terms.

Original Issue Discount Notes

The Issuers may each from time to time offer notes ("Original Issue Discount Notes") that have an Issue Price (as specified in the applicable Final Terms) that is less than 100 per cent. of the principal amount thereof (i.e. par) by a percentage equal to or more than the product of 0.25 per cent. and the number of full years to the Stated Maturity. Original Issue Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of an Original Issue Discount Note and par is referred to herein as the "Discount". In the event of redemption, repayment or acceleration of maturity of an Original Issue Discount Note, the amount payable to the holder of such Original Issue Discount Note will be equal to the sum of (i) the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such Original Issue Discount Note (if applicable), multiplied by the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable) and (ii) any unpaid interest accrued thereon to the date of such redemption, repayment or acceleration of maturity, as the case may be.

Unless otherwise specified in the applicable Final Terms, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of Maturity occurs for an Original Issue Discount Note, such Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Original Issue Discount Note (with rateable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to such Original Issue Discount Note and an assumption that the Maturity of such Original Issue Discount Note will not be accelerated. If the period from the Original Issue Date to the initial Interest Payment Date for an Original Issue Discount Note (the "**Initial Period**") is shorter than the compounding period for such Original Issue Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then such period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"). Certain Original Issue Discount Notes may not be treated as having original issue discount within the meaning of the Code, and Notes other than Original Issue Discount Notes may be treated as issued with original issue discount for federal income tax purposes. For a further discussion of U.S. federal income tax implications, see the section entitled "U.S. Taxation — Original Issue Discount".

Index Linked Notes

The Issuers may from time to time offer notes ("Index Linked Notes") with the amount of principal, premium and/or interest payable in respect thereof to be determined with reference to the price or prices of specified commodities or stocks, to the exchange rate of one or more designated currencies relative to an indexed currency or to other items, in each case as specified in the applicable Final Terms. In certain cases, a holder of an Index Linked Note may receive a principal payment on Maturity that is greater than or less than the principal amount of such Index Linked Note depending upon the relative value on Maturity of the specified indexed item.

Annex XII of the Prospectus Directive Regulation (Commission Regulation (EC) No 8091/2004) may apply to Index-Linked Notes and, in such a case, the relevant Issuer shall prepare and publish a supplementary prospectus, if so required, supplementing this Base Prospectus to the extent required under section 87G of the United Kingdom Financial Services and Markets Act 2000. Information as to the method for determining the amount of principal, premium, if any, and/or interest, if any, payable in respect of Index Linked Notes, certain historical information with respect to the specified indexed item and any material tax

considerations associated with an investment in Index Linked Notes will be specified in the applicable Final Terms.

For further information, see the section entitled "Risk Factors — Risks Related to the Notes — Fluctuations in applicable indices may adversely affect the value of index linked notes".

Unless otherwise stated in the applicable Final Terms, in the event that the principal, premium and/or interest, if any, or any other amount payable in respect of any note is to be determined by means of quotations obtained from major banks or other relevant sources, such quotations will be requested on the basis of a representative amount of a normal single transaction in the relevant market and at the relevant time for such quotation.

Additional Notes and Further Issues

The Issuers may each from time to time without the consent of the holders issue additional notes of a series having identical terms and conditions in all respects to that of a prior tranche of notes of the same series (or identical in all respects but for the Original Issue Date, the first payment of interest on the additional notes and the public offering price) ("Additional Notes") and, if so specified in the applicable Final Terms, so that such Additional Notes shall be consolidated and form a single series with such notes. The Final Terms relating to any Additional Notes will set forth matters related to such issuance, including identifying the prior series of notes, their Original Issue Date and the aggregate principal amount of notes then comprising such series. References in the relevant Indenture to the notes include (unless the context requires otherwise) any other notes so issued and forming a single series with the notes.

Amortising Notes

The Issuers may from time to time offer notes with the amount of principal thereof and interest thereon payable in instalments over the term of such notes ("Amortising Notes"). Unless otherwise specified in the applicable Final Terms, interest on each Amortising Note will be computed on the basis of a 360-day year of twelve 30 day months. Payments with respect to Amortising Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and provisions of Amortising Notes will be specified in the applicable Final Terms, including a table, formula or formulae setting forth repayment information for such Amortising Notes.

Payment of Additional Amounts

Except as otherwise provided in the relevant Final Terms, the relevant Issuer or, if applicable, the Guarantor will pursuant to the relevant Indenture pay to the holder of any note such additional amounts as may be necessary in order that every net payment of the principal of (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Original Issue Discount Notes, the Amortised Face Amount or other amount payable in respect thereof) and interest, if any, on such note or any payment made under the Guarantee in relation to such note, after deduction or other withholding for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, will not be less than the amount provided for in such note or payable pursuant to the Guarantee (as the case may be) as then due and payable. No such additional amount shall, however, be payable on any note or in respect of any payment under the Guarantee in relation to such note on account of any tax, duty, assessment or other governmental charge which is payable:

(i) otherwise than by deduction or withholding from any payments of principal (including premium or final redemption amount, initial redemption amount or early redemption amount,

if any, and in the case of Original Issue Discount Notes, the Amortised Face Amount or other amount payable in respect thereof) or interest, if any, on such note or in respect of payments under the Guarantee in relation to such note (as the case may be);

(ii) by reason of the holder or beneficial owner who is liable for such taxes having some connection with the United Kingdom (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in the United Kingdom) other than by the mere holding of such note or enforcement of rights thereunder or the receipt of payments in respect thereof;

(iii) by reason of a change in law or official practice of any relevant taxing authority that becomes effective more than 30 days after the Relevant Date (as defined below) for payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Original Issue Discount Notes, the Amortised Face Amount or other amount payable in respect thereof) or interest, if any, in respect of such note or in respect of payments under the Guarantee in relation to such note (as the case may be) due on such Relevant Date;

(iv) on a payment to or for the benefit of an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000;

(v) by or on behalf of a holder or beneficial owner who would have been able to avoid such withholding or deduction by presenting the relevant note (where presentation is required) to another paying agent in a member state of the European Union;

(vi) by reason of any estate, excise, inheritance, gift, sales, transfer, wealth, personal property tax or any similar assessment or governmental charge;

(vii) as a result of the failure of a holder or beneficial owner to satisfy any statutory requirements, or make a declaration of non residence or other similar claim, for exemption to the relevant tax authority;

(viii) by reason of any note presented for payment (where presentation is required) in the United Kingdom if such payment could have been made by or through any other paying agent without such tax, assessment, duty or other governmental charge; or

(ix) to, or to a third party on behalf of, a holder or beneficial owner that is a partnership, or a holder or beneficial owner that is not the sole beneficial owner, or which holds in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or

(x) owing to a combination of clauses (i) through (ix) above.

"Relevant Date" means the date on which the payment of principal (including premium or final redemption amount, initial redemption amount or early redemption amount, if any, and in the case of Original Issue Discount Notes, the Amortised Face Amount or other amount payable in respect thereof) or interest, if any, on a note, or payment under the Guarantee in relation to such note (as the case may be) first becomes due and payable but, if the full amount of the monies payable on such date has not been received by the relevant Paying Agent or as it shall have directed on or prior to such date, the "Relevant Date" means

the date on which the full amount of such monies shall have been so received and are available for payment to the holders.

Redemption and Repurchase

General

The Final Terms relating to a series of notes will indicate either that such notes cannot be redeemed prior to Maturity, other than for tax reasons (as set forth below), or the terms on which the notes will be redeemable prior to Maturity at the option of the relevant Issuer, the Guarantor or (in the case of Senior Notes only) the holder of the notes. Notice of redemption shall be provided as set forth below under the section entitled "— Notices".

Redemption for Tax Reasons

The notes of any series may be redeemed, subject to any other terms set forth in the applicable Final Terms, and, in the case of the Subordinated Notes, the provisions relating to the redemption of Subordinated Notes in the Subordinated Indenture and any Relevant Supervisory Consent (as set out in the section entitled "— U.K. Financial Services Authority Consents" below), as a whole but not in part, at the option of the relevant Issuer and (only in the case of Senior Notes which are issued by the Bank, the Guarantor) upon not more than 60 days', nor less than 30 days', prior notice given as provided below under the section entitled "— Notices", at a redemption price equal to 100 per cent. of the principal amount (or at the then current Amortised Face Amount if the note is an Original Issue Discount Note or, if such note is an Index Linked Note or Amortising Note at the Redemption Price (as defined below) specified in the applicable Final Terms) (and premium, if any, thereon) together with interest, if any, to the date fixed for redemption, if on the next succeeding Interest Payment Date the relevant Issuer or the Guarantor, as applicable, would become obligated to pay additional amounts (as provided in the relevant Indenture) as a result of any change in or amendment to, the relevant taxation laws and regulations or any change in the application or official interpretation of them which change or amendment becomes effective on or after the date of issue in the first tranche of the relevant series of notes and such obligation cannot be avoided by the use of reasonable measures available to the relevant Issuer or the Guarantor, as the case may be.

In the event that the relevant Issuer (or, if applicable, the Guarantor) elects to redeem the notes of any series pursuant to the provisions set forth in the preceding paragraph, it will deliver to the Trustee (i) a certificate, signed by two of its duly authorised officers, evidencing compliance with such provisions and stating that it is entitled to redeem the notes of any such series pursuant to the terms of such notes and the relevant Indenture or (ii) a written opinion of its external legal advisors or accountants to the effect that the circumstances referred to above exist.

Redemption at the Option of the Issuer

The notes will be redeemable at the option of the relevant Issuer prior to the Stated Maturity, if and only if an initial redemption date ("Initial Redemption Date") is specified in the applicable Final Terms. If so specified, and subject to any other terms set forth in the applicable Final Terms and, in the case of Subordinated Notes, any Relevant Supervisory Consent (as set out in the section entitled "— U.K. Financial Services Authority Consents" below), the notes will be subject to redemption at the option of the relevant Issuer on any date on and after the applicable Initial Redemption Date in whole or from time to time in part in minimum increments of $100,000 for Senior Notes and $250,000 for Subordinated Notes, or the minimum denomination specified in such Final Terms (provided that any remaining principal amount thereof shall be at least $100,000 for Senior Notes and $250,000 for Subordinated Notes, or such minimum denomination), at the applicable Redemption Price on notice given not more than 60 days, if the notes are being redeemed in whole, or 45 days, if the notes are being redeemed in part, nor less than 30 days prior to the date of

redemption and in accordance with the provisions of the relevant Indenture. "Redemption Price" with respect to a note means, unless otherwise specified in the applicable Final Terms, an amount equal to the sum of (i) the Initial Redemption Percentage specified in such Final Terms (as adjusted by the Annual Redemption Percentage Reduction, if applicable (as specified in such Final Terms)) multiplied by the unpaid principal amount or the portion to be redeemed plus (ii) accrued interest, if any, to the date of redemption. Unless otherwise specified in the applicable Final Terms, the Initial Redemption Percentage, if any, applicable to a note shall decline at each anniversary of the Initial Redemption Date by an amount equal to the applicable Annual Redemption Percentage Reduction, if any, until the Redemption Price is equal to 100 per cent. of the unpaid principal amount thereof or the portion thereof to be redeemed.

Repayment at the Option of the Holders of Senior Notes

If so specified in the applicable Final Terms, Senior Notes will be repayable by the relevant Issuer in whole or in part at the option of the holders thereof on their respective optional repayment dates ("Optional Repayment Dates") specified in such Final Terms on notice given not more than 60 days nor less than 30 days prior to the date of repayment and in accordance with the provisions of the relevant Indenture. If no Optional Repayment Date is specified with respect to a Senior Note, such note will not be repayable at the option of the holder thereof prior to the Stated Maturity. Any repayment in part will be in increments of $100,000 or the minimum denomination specified in the applicable Final Terms (provided that any remaining principal amount thereof shall be at least $100,000 or such minimum denomination). Unless otherwise specified in the applicable Final Terms, the repayment price for any Senior Note to be repaid means an amount equal to the sum of the unpaid principal amount thereof or the portion thereof plus accrued interest to the date of repayment. Except as otherwise specified in the applicable Final Terms, exercise of the repayment option is irrevocable.

Selection of Notes for Partial Redemption

In the case of any partial redemption of notes, and subject to any other terms specified in the applicable Final Terms, the notes to be redeemed shall be selected by the Trustee individually by lot or such other method as the Trustee shall deem appropriate not more than 60 days prior to the Redemption Date from the outstanding notes not previously called for redemption, provided that partial redemption of global notes shall be effected in accordance with the rules and procedures of DTC, Euroclear and Clearstream, as the case may be (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in nominal amount, at their discretion), applicable laws, stock exchange requirements and the requirements of any other relevant authority.

Repurchase

The relevant Issuer, its holding company, any of the relevant Issuer's subsidiaries or any other subsidiary of its holding company from time to time may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased may be held or resold or, at the discretion of the relevant Issuer or of such other group company as is then holding the repurchased notes, surrendered to the Trustee for cancellation.

U.K. Financial Services Authority Consents

In the case of the redemption of Subordinated Notes (save for final redemption at the Stated Maturity), the U.K. Financial Services Authority requires to be notified by the relevant Issuer one month before the relevant Issuer becomes committed to the proposed repayment (or such other period, longer or shorter, as the U.K. Financial Services Authority may then require or accept) and such redemption shall only take place if a Relevant Supervisory Consent is received from the U.K. Financial Services Authority before the relevant

Issuer becomes committed to the proposed repayment. Such notification to be made to the U.K. Financial Services Authority must provide details of the position of the relevant Issuer after such repayment in order to show how it will (a) meet its Capital Resources Requirement and (b) have sufficient financial resources to meet the Overall Financial Adequacy Rule.

Events of Default — Senior Notes

The Senior Indenture provides that, if any Event of Default (other than an Event of Default specified in (ii) below) with respect to Senior Notes of any series at the time outstanding occurs and is continuing, either the Trustee or the holders of not less than 25% in principal amount of the outstanding Senior Notes of that series may, by notice as provided in the Senior Indenture, declare the principal amount (or, if the Senior Notes of that series are Original Issue Discount Notes, such portion of the principal amount as may be specified in the applicable Final Terms) of all the Senior Notes of that series to be due and payable immediately and upon such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in paragraph (ii) below with respect to Senior Notes of any series at the time outstanding occurs, then the principal amount (or if the Senior Notes of that series are Original Issue Discount Notes, such portion of the principal amount as may be specified in the applicable Final Terms) of all the Senior Notes of that series shall, without any act by the Trustee or the holders of such Senior Notes, become immediately due and payable without presentment, demand, protest or other notice of any kind at their Early Redemption Amount together with accrued interest (calculated as provided in the Senior Indenture). Upon certain conditions such acceleration or declaration may be annulled and past defaults may be waived by the holders of a majority in principal amount of the outstanding Senior Notes of that series on behalf of the holders of all Senior Notes of that series as described in "— Events of Default — General."

Unless otherwise provided in the applicable Final Terms the following shall be an "Event of Default" with respect to the Senior Notes of any series:

(i) failure by the relevant Issuer or, if such Senior Notes are issued by the Bank and guaranteed by the Guarantor, the Guarantor to pay any principal or interest or amounts under the Guarantee (as the case may be) within 14 days or more after the due date for the same;

(ii) otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for the winding-up of the relevant Issuer or, if such Senior Notes are issued by the Bank and guaranteed by the Guarantor, the Guarantor;

(iii) failure by the relevant Issuer of such Senior Notes or, if such Senior Notes are guaranteed, the Guarantor to perform any other covenant or warranty of such Issuer (other than a covenant expressly included in the Senior Indenture solely for the benefit of one or more series of Senior Notes other than such series of Senior Notes) and such failure continues for 30 days or more after written notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Senior Notes of that series; or

(iv) any other Event of Default provided for in the Final Terms in respect of Senior Notes of such series.

Events of Default — Subordinated Notes

The following shall constitute "Events of Default" of the Issuer with respect to the Subordinated Notes:

(i) failure by the relevant Issuer to pay any principal or interest within 14 days or more after the due date for the same; or

(ii) otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for the winding-up of the relevant Issuer.

If an Event of Default relating to the relevant Issuer occurs the Subordinated Notes shall become due and payable each at the Early Redemption Amount, together with accrued interest, if any, and additional amounts, if any, payable on such Subordinated Notes immediately without any act by the Trustee or the holders.

The following shall constitute "Events of Default" of the Guarantor with respect to the Guarantee of the Subordinated Notes of any series:

(i) failure by the Guarantor to pay amounts due under the Guarantee in respect of the Notes within 14 days or more after the due date or the deemed due date for the same; or

(ii) otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for the winding up of the Guarantor.

If an Event of Default relating to the Guarantor occurs, the Subordinated Notes shall be deemed, for the purposes of the Guarantee only, to become due and payable each at the Early Redemption Amount, together with accrued interest, if any, and additional amounts, if any, payable on such Subordinated Notes immediately without any act by the Trustee or the holders.

There will be no other right of acceleration of the maturity of the outstanding Subordinated Notes, whether upon a default in the making of any payment of principal or interest with respect to the Subordinated Notes or in the performance of any covenant of the relevant Issuer thereof, the Guarantor or otherwise.

If the relevant Issuer fails to pay such amounts (or any damages awarded for breach of any obligations in respect of the Notes or the Subordinated Indenture), the Trustee (on behalf of the noteholders) may institute proceedings for the winding-up of the relevant Issuer (in the case of the Company, in Scotland but not elsewhere, and, in the case of the Bank, in England but not elsewhere) and/or prove in such a winding-up or in a Qualifying Administration for all such due and payable amounts (including any damages awarded for breach of any obligations in respect of the Notes or the Subordinated Indenture) but no other remedy shall be available to the Trustee.

If the Guarantor fails to pay such amounts (or any damages awarded for breach of any obligations in respect of the Subordinated Notes or the Subordinated Indenture) forthwith upon demand, the Trustee, in its own name and as trustee of an express trust, may institute proceedings for the winding up of the Guarantor (in Scotland but not elsewhere) and/or prove in such a winding up or in a Qualifying Administration of the Guarantor for all such due and payable amounts (including any damages awarded for breach of any obligations in respect of the Subordinated Notes or the Subordinated Indenture) but no other remedy shall be available to the Trustee.

Holders shall not have any remedies against the relevant Issuer or, if applicable, the Guarantor or under the Subordinated Notes or, if applicable, the Subordinated Guarantee, in addition to those granted to the Trustee.

For the purposes of the Subordinated Guarantee, all amounts of principal, premium, interest and additional amounts payable under the Subordinated Notes shall be deemed to be immediately due and payable upon the occurrence of a winding-up of the Guarantor, notwithstanding that the Subordinated Notes may not themselves have become immediately due and payable in those circumstances.

Events of Default — General

The holders of a majority in aggregate principal amount of outstanding notes (as defined in the relevant Indenture) of a series may waive any past default with respect to such notes, except a default in the payment of principal, premium or interest or in respect of other provisions requiring the consent of the holder of each note of such series.

Subject to the provisions of the relevant Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing with respect to the notes of a series, the Trustee will be under no obligation to any of the holders of notes of such series unless such holders shall have offered an indemnity to the Trustee satisfactory to the Trustee in its sole discretion. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the outstanding notes of such series shall have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

The Trustee shall not have the right to institute any proceedings and/or, as the case may be, to take such other action if the relevant Issuer (or the Guarantor, if applicable) withholds or refuses any such payment (A) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, the relevant Issuer, a relevant paying agent, registrar or holder or (B) (subject as provided in the relevant Indenture) in the case of doubt as to the validity or applicability of any such law, regulation or order in accordance with advice as to such validity or applicability given at any time during the said period of 14 days by independent legal advisors acceptable to the Trustee.

Each of the Indentures provides that the Trustee will, within 90 days after the occurrence of any default with respect to the notes of any series, give to the holders of notes of such series notice of such default known to it, unless such default shall have been cured or waived; provided that, except in the case of a default in the payment of principal of or premium or interest on the notes of such series, the Trustee shall be protected in withholding such notice if it determines in good faith that the withholding of such notice is in the interest of such holders.

Judgments

Under current New York law, a state court in the State of New York rendering a judgment in respect of a note denominated in other than U.S. dollars would be required to render such judgment in the Specified Currency, and such judgment would be converted by the relevant court into the U.S. dollar at the prevailing rate on the date of entry of such judgment. Accordingly, the holder of such note denominated in other than U.S. dollars would be subject to exchange rate fluctuations between the date of entry of a judgment in a currency other than U.S. dollars and the time the amount of such judgment is paid to such holder in U.S. dollars and converted by such holder into the Specified Currency. It is not certain, however, whether a non-New York state court would follow the same rules and procedures with respect to conversions of judgments in currency other than U.S. dollars.

The relevant Issuer and, in relation to notes issued by the Bank, the Guarantor will indemnify the holder of any note against any loss incurred by such holder as a result of any judgment or order being given or made for any amount due under such note and such judgment or order requiring payment in a currency (the "Judgment Currency") other than the Specified Currency, and as a result of any variation between (i) the rate of exchange at which the Specified Currency amount is converted into the Judgment Currency for the purpose of such judgment or order, and (ii) the rate of exchange at which the holder of such note, on the date of payment of such judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received by such holder, as the case may be.

Consolidation, Merger and Sale or Lease of Assets

The Issuers and the Guarantor may each, without the consent of any of the holders of notes, consolidate with, merge or amalgamate into or transfer their respective assets substantially as an entirety to, any corporation organised under the laws of the United Kingdom or any political subdivision thereof, provided that the successor corporation assumes such Issuer's obligations on the notes and under the relevant Indenture or the Guarantor's obligations on the Senior or Subordinated Guarantee (as applicable) and under the relevant Indenture, as the case may be, and that certain other conditions are met.

Upon any such consolidation, amalgamation or merger, or any such conveyance, transfer or lease, the successor corporation will succeed to, and be substituted for, and may exercise every right and power of the relevant Issuer or the Guarantor as the case may be, under the relevant Indenture with the same effect as if such successor corporation has been named as the issuer or the guarantor thereunder, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under the relevant Indenture and such notes.

Defeasance, Satisfaction and Discharge

Except as may otherwise be set forth in the Final Terms relating to the notes of a series, each of the Indentures provide that the relevant Issuer and the Guarantor will be discharged from its obligations under the notes of a series and the Guarantee thereof (in each case, subject to certain exceptions) at any time prior to the Stated Maturity, or redemption of such notes when (i) the relevant Issuer or the Guarantor (in the case of notes issued by the Bank) has irrevocably deposited with or to the order of the Trustee, in trust, (a) sufficient funds in the currency, currencies, currency unit or units in which such notes are payable (without consideration of any reinvestment thereof) to pay the principal of (and premium, if any, on) and interest, if any, on such notes to the Stated Maturity (or Redemption Date), or (b) such amount of U.S. Government Obligations (as defined below) as will, together with the predetermined and certain income to accrue thereon (without consideration of either any reinvestment thereof or any withholding or other tax imposed), be sufficient to pay when due the principal of (and premium, if any, on) and interest in each case (without deduction or reduction on account of any withholding or other tax imposed), if any, to the Stated Maturity (or Redemption Date), on such notes, or, (c) such amount equal to the amount referred to in clause (a) or (b) in any combination of currency or currency unit of U.S. Government Obligations; (ii) the relevant Issuer or the Guarantor has paid all other sums payable with respect to such notes or under the Guarantee; (iii) the relevant Issuer or the Guarantor either (a) has delivered to the Trustee an opinion of counsel to the effect that the holders of such notes will not recognise income, gain or loss for U.S. federal income tax purposes as a result of such discharge and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such discharge had not occurred or (b) received a ruling to that effect from or published by the U.S. Internal Revenue Service; and (iv) certain other conditions are met. Upon such discharge, the holders of the notes of such a series shall no longer be entitled to the benefits of the terms and conditions of the relevant Indenture and notes, except for certain provisions including registration of transfer and exchange of such notes and replacement of mutilated, destroyed, lost or stolen notes of such series, and shall look for payment only to such deposited funds or obligations. In the event U.S. Government Obligations are held by the Trustee on behalf of the beneficial holders of the notes, beneficial holders that hold their interests through notes in definitive form may be required to provide U.S. withholding tax forms in order to avoid any deduction on account of U.S. withholding tax imposed on the U.S. Government Obligations.

In addition, any such discharge with respect to the Subordinated Notes of any series would require a Relevant Supervisory Consent.

"U.S. Government Obligations" means non-callable (i) direct obligations (or certificates representing an ownership interest in such obligations) of the United States for which its full faith and credit are pledged

or (ii) obligations of a Person controlled or supervised by, and acting as an agency or instrumentality of, the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States in each case with a maturity date of 183 calendar days or less from the date of original issue of such U.S. Government Obligations.

Substitution

The relevant Issuer may, without the consent of the Trustee or any holder, substitute for itself any other body corporate incorporated in any country in the world and which is a subsidiary, subsidiary undertaking or the holding company of the relevant Issuer or another subsidiary of any such holding company in place of the relevant Issuer as the principal debtor in respect of the Notes ("Substituted Issuer") upon notice by the Issuer and the Substituted Issuer (and, if applicable, the Guarantor) to be given in accordance with the section entitled "— Notices", provided that:

(i) there is no Event of Default continuing in relation to the relevant series of notes;

(ii) the relevant Issuer and the Substituted Issuer have entered into such documents (the "Documents") including (without limitation) a supplemental indenture or indentures and a supplemental paying agency agreement as are necessary to give effect to the substitution and to ensure that the Substituted Issuer has assumed all undertakings in favour of each holder and agreed to be bound by the provisions of the relevant Indenture as the principal debtor in respect of the relevant series of notes in place of the relevant Issuer (or of any previous Substituted Issuer);

(iii) if the Substituted Issuer is resident for tax purposes in a territory (the "New Residence") other than that in which the relevant Issuer prior to such substitution was resident for tax purposes (the "Former Residence"), the Documents contain an undertaking and/or such other provisions as may be necessary to ensure that each holder has the benefit of an undertaking in terms corresponding to the provisions of section "— Payment of Additional Amounts" above, with the substitution of references to the Former Residence with references to the New Residence;

(iv) the relevant series of notes is irrevocably guaranteed by the relevant Issuer on a basis equivalent to that mentioned in the sections entitled "— Status of Senior Notes" or "— Status and Subordination of Subordinated Notes" above as applicable;

(v) in relation to a series of Subordinated Notes, such Subordinated Notes remain subordinated on a basis equivalent to that mentioned in the section entitled "— Status and Subordination of Subordinated Notes" to the rights of the Substituted Issuer's unsubordinated creditors (including, in the case of a Substituted Issuer that is a banking company, its depositors) but not further or otherwise;

(vi) the Issuer and the Substituted Issuer have obtained all necessary governmental approvals and consents (if any) (including, without limitation, in the case of Subordinated Notes, any Relevant Supervisory Consent) for such substitution and for the performance by the Substituted Issuer of its obligations under the Documents;

(vii) the primary stock exchange and any other relevant authority on which the notes are admitted to listing or to trading (if any) shall have confirmed that, following the proposed substitution of the Substituted Issuer, the Notes will continue to be admitted to listing or to trading (as the case may be) on such stock exchange and any other relevant authority; and

(viii) if applicable, the Substituted Issuer has appointed an authorised agent in The City of New York upon which process may be served in any suit or proceeding arising out of or relating to the

notes or the relevant Indenture which may be instituted in any State or Federal court located in the Borough of Manhattan, City of New York, State of New York, and has submitted (for the purposes of any such suit or proceeding) to the jurisdiction of any such New York court in which any such suit or proceeding is so instituted.

Upon such substitution, the Substituted Issuer shall succeed to, and be substituted for, and may exercise every right and power of, the relevant Issuer under the notes and the relevant Indenture with the same effect as if the Substituted Issuer had been named as the issuer therein, and the relevant Issuer shall be released from its obligations under the relevant series of notes and the relevant Indenture. After a substitution pursuant to the relevant Indenture, the Substituted Issuer may, without the consent of any holder, effect a further substitution or reverse the substitution pursuant to the terms of the relevant Indenture. Principal copies of the Documents shall be delivered to, and kept by, the Trustee. Copies of the Documents will be available free of charge during normal business hours at the specified office of each of the paying agents.

Prescription

Neither of the Indentures contain a time limit affecting the validity of claims to interest and repayment of principal under the Senior Notes, the Subordinated Notes or the Guarantees.

Modification and Amendment

Each of the Indentures contain provisions permitting the relevant Issuer and the Trustee (i) without the consent of the holders of any notes issued under the relevant Indenture, to execute supplemental indentures for certain enumerated purposes, such as to cure any ambiguity or inconsistency or to make any change that does not have a materially adverse effect on the rights of any holder of such notes, and (ii) with the consent of the holders of 66 2/3% in aggregate principal amount of the outstanding notes of each series of notes issued under the relevant Indenture and affected thereby, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the relevant Indenture or of modifying in any manner the rights of holders of any such note under the relevant Indenture; provided, that no such supplemental indenture may, without the consent of the holder of each such outstanding note affected thereby (a) change the Stated Maturity or the principal of or interest on any such note, or reduce the principal amount of any such note or the rate of interest thereon, if any, or any premium or principal payable upon redemption thereof, or change any obligation of the relevant Issuer to pay additional amounts thereon, or change any place of payment where, or change the currency in which, any such note or the interest, if any, thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity, if any, thereof or the date any such payment is otherwise due and payable (or, in the case of redemption, on or after the redemption date); or (b) reduce the percentage in aggregate principal amount of such outstanding notes of any particular series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the relevant Indenture or certain defaults thereunder and their consequences) provided for in the relevant Indenture; or (c) change any obligation the Issuers and the Guarantor have to maintain an office or agency in the places and for the purposes specified in the relevant Indenture; or (d) modify certain of the provisions of the relevant Indenture pertaining to the waiver by holders of such notes of past defaults, supplemental indentures with the consent of holders of such notes and the waiver by holders of such notes of certain covenants, except to increase any specified percentage in aggregate principal amount required for any actions by holders of notes or to provide that certain other provisions of the relevant Indenture cannot be modified or waived without the consent of the holder of each such note affected thereby; or (e) change in any manner adverse to the interests of the holders of outstanding notes issued under the relevant Indenture the terms and provisions of any Guarantee in respect of the due and punctual payment of the principal, premium, if any, and interest, if any, on such notes (including any additional amounts payable under any such Guarantee); or (f) in the case of Subordinated Notes, change in

any manner adverse to the interests of the holders of such outstanding Subordinated Notes the subordination provisions of such Subordinated Notes contained in the Subordinated Indenture.

In addition, variations in the terms and conditions of the Subordinated Notes of any series, which includes modifications relating to the status, subordination, redemption, repurchase or Events of Default with respect to such Subordinated Notes, require a Relevant Supervisory Consent.

Subject to any modification being effected in accordance with the provisions set forth herein and in the relevant Indenture, such modification will be binding on all holders of notes of the same series (whether or not a holder has consented to such modification).

Waivers

The holders of not less than a majority in aggregate principal amount of the outstanding notes of a series of notes affected thereby, may on behalf of the holders of all notes of such series waive compliance by the relevant Issuer or the Guarantor as the case may be with certain restrictive provisions of the relevant Indenture as pertain to the corporate existence of the relevant Issuer or the Guarantor as the case may be and/or the maintenance of certain agencies by the relevant Issuer or the Guarantor as the case may be.

The holders of a majority in aggregate principal amount of the outstanding notes of a series of notes may waive on behalf of the holders of all notes of such series, any past default and its consequences under the relevant Indenture, except a default in the payment of the principal of (or premium, if any, on) or interest, if any, on any such note of that series or a default in respect of a covenant or a provision which under the relevant Indenture cannot be modified or amended without the consent of the holder of each outstanding note of such series.

Notices

Save as set out in the global note, notices to holders of notes will be given by mail to addresses of such holders as they appear in the notes' register.

Governing Law

The Indentures, the notes and the Guarantees shall be governed by and construed in accordance with the laws of the State of New York; except that the subordination provisions contained in the Subordinated Notes and in section 9.5 of the Subordinated Indenture and the waiver of set-off provisions contained in the Subordinated Notes and in section 5.3 of the Subordinated Indenture will (i) in the case of the Company, be governed by and construed in accordance with the laws of Scotland and (ii) in the case of the Bank, be governed by and construed in accordance with the laws of England and Wales and, in relation to any Subordinated Note guaranteed by the Company, section 11.4 (in relation to the subordination of the Subordinated Guarantees and the waiver of set-off of the Guarantor's obligations) of the Subordinated Indenture shall be governed by, and construed in accordance with, the law of Scotland, with the intention that such provisions be given full effect in any insolvency proceeding relating to the Company in Scotland and the Bank in England and Wales.

Consent to Service

The Indentures provide that the Issuers and the Guarantor have each designated and appointed Chief U.S. counsel, Lloyds TSB Bank plc (or any successor thereto) at 1095 Avenue of the Americas, 34th Floor, New York, NY 10036 as its authorised agent upon which process may be served in any suit or proceeding arising out of or relating to the notes, the Indentures or the Guarantees which may be instituted in any State or Federal court located in the Borough of Manhattan, City of New York, State of New York, and have

submitted (for the purposes of any such suit or proceeding) to the jurisdiction of any such New York court in which any such suit or proceeding is so instituted.

Notwithstanding the foregoing, any actions arising out of or relating to the notes or the relevant Indenture may be instituted (i) in the case of the Company, by the Company, the Trustee or the holder of any note in any competent court in Scotland and (ii) in the case of the Bank, by the Guarantor, the Bank, the Trustee or the holder of any note in any competent court in England and Wales, and in both cases, in such other competent jurisdiction, as the case may be.

Concerning the Trustee

The Indentures provide that, except during the continuance of an Event of Default for a series of notes, the Trustee will have no obligations other than the performance of such duties as are specifically set forth in the relevant Indenture. Subject to the provisions of the relevant Indenture relating to the indemnification of the Trustee, if an Event of Default has occurred and is continuing, the Trustee shall use the same degree of care and skill in its exercise of the rights and powers vested in it by the relevant Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Company may maintain accounts with and conduct banking and other business transactions with the Trustee in the ordinary course of its business.

Concerning the Paying Agents, the Currency Determination Agent, the Note Registrars and the Calculation Agent

The Paying Agents initially appointed by the Issuers are The Bank of New York Mellon, New York branch, The Bank of New York Mellon, London branch, and The Bank of New York Mellon (Luxembourg) S.A. The Note Registrars initially appointed by the Issuers are The Bank of New York Mellon, New York branch, and The Bank of New York Mellon (Luxembourg) S.A. (the "**Note Registrars**"). The Issuers may appoint The Bank of New York Mellon, London branch as the Currency Determination Agent. The Calculation Agent who may be appointed by the Issuers is The Bank of New York Mellon, London branch.

Subject as provided in the Indenture, the Agency Agreement and the Calculation Agency Agreement, the Paying Agents, the Note Registrars and the Calculation Agent act solely as agents of the relevant Issuer and do not assume any obligation or relationship of agency or trust for or with any holder of notes.

The Issuers reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of the Paying Agents, the Currency Determination Agent, the Note Registrars or the Calculation Agent and to appoint additional or other paying agents, currency determination agents, note registrars or calculation agents, provided that the Issuers shall at all times maintain (a) a paying agent, (b) a currency determination agent, (c) a note registrar and (d) one or more calculation agent(s) where so required and shall ensure that there is, at all times, (i) a Paying Agent having a specified office in Europe, which, so long as the Notes are listed on the official list (the "Official List") of the U.K. Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") and are admitted to trading on the London Stock Exchange plc's Regulated Market, shall be in London, (ii) a Paying Agent outside the United Kingdom, (iii) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case as approved by the Trustee, and (iv) a Paying Agent with a specified office in a European Union member state (other than the United Kingdom) that is not obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders by the Bank in accordance with "— Notices".

DESCRIPTION OF THE GLOBAL NOTES

Global Notes

So long as DTC, Euroclear or Clearstream or any of their respective nominees is the holder of the global notes, any owner of a beneficial interest in the notes of a series must rely upon the procedures of DTC and institutions having accounts with DTC to exercise or be entitled to any rights of a holder of such global notes. See the subsection entitled "— Book-Entry Systems" for a further description of DTC's procedures.

Book-Entry Systems

DTC

DTC may act as securities depositary for the global notes. The global notes for which DTC acts as the depositary will be issued as fully-registered securities registered in the name of Cede (DTC's partnership nominee), unless otherwise specified. No global note registered in the name of the nominee of DTC may be transferred except by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or any successor thereof.

The Issuers have been advised by DTC that upon the deposit of a global note with DTC, DTC will immediately credit, on its book-entry registration and transfer system, the respective principal amounts of such beneficial interests in that global note to the accounts of the Direct Participants (as defined below). The accounts to be credited shall be designated by the relevant Permanent Dealer or, to the extent that the notes are offered and sold directly, by the relevant Issuer.

The Bank and the Company understand that DTC is a limited-purpose trust company organised under the laws of the State of New York, a "Banking Organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the clearance and settlement among Participants of transactions in such securities through electronic book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the United States Securities and Exchange Commission.

Ownership of beneficial interests in a global note in respect of a series of notes will be limited to DTC Participants, including Clearstream and Euroclear, or persons who hold interests through Participants. In addition, ownership of beneficial interests will be evidenced only by, and the transfer of that ownership interest will be effected only through, records maintained by DTC or its nominee and Participants until such time, if any, as Certificated Notes are issued, as set forth above under the section entitled "Description of the Notes and the Guarantees — Form, Transfer, Exchange and Denomination". The laws of some states require that certain purchasers of notes take physical delivery of such notes in certificated form. Such laws may impair the ability to transfer beneficial interests in a global note.

Interests held through Clearstream and Euroclear will be recorded on DTC's books as being held by the U.S. depositary for each of Clearstream and Euroclear, which U.S. depositaries will in turn hold interests on behalf of their participants' customers' securities accounts.

To facilitate subsequent transfers, all global notes deposited with DTC are registered in the name of DTC's partnership nominee, Cede. DTC has no knowledge of the actual owners of beneficial interests in the global notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such beneficial interests in global notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede and any subsequent nominee of DTC. If less than all of the notes within a series are being redeemed, DTC's current practice is to determine pro rata or by lot the amount of the beneficial interest of each Direct Participant in such issue to be redeemed.

Principal and interest payments on the global notes will be made to DTC as the registered holder of the global notes. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, or the Company or the Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Company or the Bank as the case may be, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct Participants and Indirect Participants.

A beneficial owner shall give notice to elect to have its beneficial interests in the global notes purchased or tendered, through its Participant, to the Trustee for a series of notes, and shall effect delivery of such beneficial interests in the global notes by causing the Direct Participant to transfer the Participant's beneficial interest in the global notes, on DTC's records, to or to the order of the Trustee.

DTC may discontinue providing its services as securities depositary with respect to the global notes at any time by giving reasonable notice to the relevant Issuer and the Permanent Dealers. Under such circumstances, in the event that a successor securities depositary is not obtained, certificated notes in registered form will be printed and delivered in exchange for beneficial interests in the global notes as described under the subsection entitled "Description of the Notes and the Guarantees — Form, Transfer, Exchange and Denomination".

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

General

The Bank and/or the Company may decide to discontinue use of the system of book-entry transfers through DTC, Euroclear or Clearstream (as the case may be) (or a successor securities depositary). In that event, Certificated Notes in registered form will be printed and delivered in exchange for beneficial interests in the global notes as described under the section entitled "Description of the Notes and the Guarantees — Form, Transfer, Exchange and Denomination".

The information in this section concerning DTC, Euroclear and Clearstream and their respective book-entry systems has been obtained from sources that the Bank and the Company believe to be reliable, but the Bank and the Company take no responsibility for the accuracy thereof.

In no event will definitive notes in bearer form representing any series of notes be issued.

None of the Company, the Bank, any trustee (including the Trustee), any paying agent, any transfer agent, any registrar for the notes or any dealer will have any responsibility or liability for any aspect of the records of DTC, Euroclear or Clearstream or any Participant's or account holder's (as the case may be) records relating to or payments made on account of beneficial ownership interests in a global note or for maintaining, supervising or reviewing any of the records of DTC, Euroclear or Clearstream or any Participant's or account holder's (as the case may be) records relating to such beneficial ownership interests.

Arrangements for Trading

Secondary market sales between book-entry interests in the notes held through Euroclear or Clearstream to purchasers of book-entry interest in the notes through Euroclear or Clearstream will be conducted and settled in accordance with the normal rules and operating procedures of Euroclear and Clearstream.

Secondary market sales of book-entry interest in the notes between DTC participants are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in the notes will be required to be settled in immediately available funds. The Issuers do not know the effect, if any, of such settlement arrangements on trading activity in the notes or interests in the notes.

Secondary market sales of book-entry interests in the notes between DTC participants on the one hand and Euroclear/Clearstream account holders on the other will be conducted in accordance with the rules and procedures established for such sales by DTC, Euroclear and Clearstream, as applicable, and will be settled using the procedures established for such sales by DTC, Euroclear and Clearstream, as applicable.

Issuance of Certificated Notes

If (i) in the case of notes registered in the name of a nominee of DTC, DTC notifies the relevant Issuer and the Trustee that it is unwilling or unable to continue as holder of the global notes or if at any time it ceases to be a clearing agency registered under the Exchange Act and, in either case, a successor holder is not appointed by the relevant Issuer within 90 days of such notification or of it becoming aware of such ineligibility, (ii) in the case of notes registered in the name of a nominee of or a common depositary for Euroclear and Clearstream, the relevant Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention to permanently cease business or have in fact done so and, in each

case, no successor clearing system is available, (iii) an Event of Default occurs with respect to one or more series of notes, or (iv) the relevant Issuer determines in its sole discretion (subject to the procedures of DTC, Euroclear and Clearstream (as the case may be)) that certificated notes of such series will be issued in registered form, then in any such case, upon the written request of the holder of the global note, the registrar for the series of notes will issue certificated registered notes in the names and in the amounts as specified by the holder of the global note. The request for certificated notes may be made by the holder in the circumstances and subject to the conditions described under the section entitled "Description of the Notes and the Guarantees — Form, Transfer, Exchange and Denomination".

The exchange of interests in the global note for certificated notes of a particular series shall be made free of any fees of the Trustee, paying agents, transfer agents and/or the registrar to the holder, provided, however, that such person receiving notes in certificated form will be obligated to pay or otherwise bear the cost of any tax or other governmental charge as required by the relevant Indenture and any cost of insurance, postage, transportation and the like.

Repayment

If a note becomes repayable at the option of the holder on a date or dates specified prior to its Stated Maturity, if any, and the Trustee is so notified, the Trustee will promptly notify the holder of the global note that such note has become repayable. In order for the repayment option on any note to be exercised, the owners of beneficial interests in the global note must instruct the broker or other Participant through which it holds an interest in the global note to notify the Trustee of its desire to exercise that right to repayment. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other Participant through which it holds its beneficial interest in a global note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to the depositary.

Record Date

Unless otherwise specified in the applicable Final Terms, or unless the relevant Issuer otherwise instructs the registrar in writing, the record date for the determination of the holder of global notes entitled to receive payment in respect of a global note will be the date which is 15 calendar days prior to the applicable payment date on such global note in respect of such global note, provided that interest payable at Maturity will be payable to the person to whom principal shall be payable. If such 15th day is not a Business Day, the record date for determination will be the next succeeding Business Day. Whenever the Bank, the Company or the Trustee deems it appropriate to fix a record date for the determination of the holder of global notes who should be entitled to receive payment or take any action in respect of global notes, the Trustee, with the consent of the relevant Issuer, will set such record date at least 15 days prior to the date on which such payment is to be made or such action is to be taken.

Reports

The Trustee will send promptly to applicable holders any notices, reports and other communications from the relevant Issuer that are received by the custodian as holder of the global notes and that the relevant Issuer generally makes available to holders of the notes.

USE OF PROCEEDS

The net proceeds of each issue of Notes will be used for the general business purposes of the Group. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

LLOYDS BANKING GROUP

Overview

The Group is a leading UK-based financial services group providing a wide range of banking and financial services in the UK and a limited number of locations overseas to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

History and development of Lloyds Banking Group

The history of the Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995, it continued to expand with the acquisition of the Cheltenham and Gloucester Building Society ("**C&G**").

TSB Group plc became operational in 1986 when, following UK Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc with Lloyds Bank Plc, which was subsequently re-named Lloyds TSB Bank plc, the principal subsidiary. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc, and in 2000, Lloyds TSB Group acquired Scottish Widows. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

On 18 September 2008, with the support of the UK Government, the boards of Lloyds TSB Group plc and HBOS plc announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB Group plc of HBOS plc. The shareholders of Lloyds TSB Group plc approved the Acquisition at Lloyds TSB Group plc's general meeting on 19 November 2008 and the Acquisition was completed on 16 January 2009. Following the Acquisition, Lloyds TSB Group plc changed its name to Lloyds Banking Group plc and operates its business through Lloyds TSB Bank Group and HBOS Group.

Pursuant to two placing and open offers which were completed by the Company in January and May 2009 and the Acquisition, the UK Government acquired 43.4 per cent. of the Company's issued ordinary share capital. See "— Major Shareholders" and "— Related Party Transactions" herein for a description of the Group's relationship with the UK Government.

The Group now operates through a number of significant brands including Lloyds TSB, Halifax, Bank of Scotland, Scottish Widows, Clerical Medical and C&G.

Strategy

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

The strategy for the Group remains to grow the business through developing long-term relationships and building its customer franchise, and its focus remains within the UK. All the Group's businesses are focused on extending the reach and depth of their customer relationships, whilst enhancing product capabilities to build competitive advantage. A prudent 'through the cycle' approach to risk continues to be applied within the Group and will remain important as the Group strives to improve its processing efficiency and use of capital.

The Group continues to focus on building competitive advantage in its core markets by seeking opportunities to consolidate its position in businesses where it is already strong, and by divesting businesses in markets where it is not a leader and cannot aspire reasonably to leadership. The board believes that the UK remains an attractive market and that the Group has good potential within its existing franchises to grow by meeting more of the Group's customers' needs as well as through adding new customers to the franchise, notwithstanding near term economic conditions (see Risk Factor 1.1 for a discussion of such economic conditions).

The integration with HBOS presents an opportunity to achieve cost leadership through combining both customer bases into the proven Lloyds TSB platform. The board believes that the Group has market leading distribution and sales capabilities, products and services as well as middle and back office processes that deliver a high quality customer experience. The Group aspires to have one of the lowest cost to income ratios for financial institutions in the UK, and the anticipated synergies, which are expected to be substantial, arising from the Acquisition will be key to further improving efficiency levels. The effective integration of the two businesses will be a significant challenge over the next few years, but the combination of the two businesses provides a real opportunity to create the UK's leading financial services organisation. See "Historical Financial Information Relating to Lloyds Banking Group – Operating and Financial Review Relating to Lloyds Banking Group for the Six Months Ended 30 June 2009 and 2008 – Overview, Trend Information and Outlook" for a discussion of the post-Acquisition synergies achieved in the first six months of 2009.

The Group's directors believe that the heritage Lloyds TSB Group relationship-focused 'through the cycle' approach to risk management has demonstrated its effectiveness. This prudent approach to risk is being rolled out across the combined Group. The new Group has already exited a number of non-core areas in which HBOS previously participated and will continue to assess participation in business areas on a conservative basis.

During 2008, the Group had three primary operating divisions: UK Retail Banking; Insurance and Investments; and Wholesale and International Banking. Following the Acquisition, these divisions were restructured with elements from some existing businesses coming together to form another division. The new Wealth and International division has been created to focus on Private Banking, Asset Management and International Banking. The key product markets in which these divisions participate is presented in "Businesses and Activities".

Since August 2007, global financial markets have experienced a period of significant turmoil resulting in a negative impact on capital ratios and liquidity in the banking sector. Throughout this period, the Group has maintained a robust liquidity position based on its significant retail and corporate deposit base and funding from the wholesale markets. The Group has continued to reinforce its funding position by actively participating in the liquidity initiatives introduced by the Bank of England and HM Treasury.

The Group believes that the successful execution of this strategy focusing on core markets, customer and cost leadership, capital efficiency and a prudent risk appetite should enable the Group to achieve its vision to be recognised as the best financial services organisation in the UK.

Business and Activities

The Group's activities are organised into four divisions: Retail, Insurance, Wholesale and Wealth and International. The main activities of these divisions and key statistics as at 30 June 2009 are described below.

Retail

Retail provides banking, financial services and mortgages to personal customers through the Group's multi-channel distribution capabilities.

Branches

The Group provides wide-reaching geographic branch coverage in England, Scotland and Wales, through approximately 3,000 branches of Lloyds TSB, Halifax, Lloyds TSB Scotland, Bank of Scotland and C&G.

Telephone/Internet banking

As at 30 June 2009, some 5 million customers were active users of the telephone banking services of the Group. In addition, over 6 million customers are active users of the Group's internet banking services.

Cash machines

The Group has one of the largest cash machine networks of any banking group in the UK and personal customers are able to withdraw cash and check balances through approximately 7,000 ATMs at branches and external locations around the UK. In addition, Retail's personal customers have access to over 63,000 cash machines via LINK in the UK and to cash machines worldwide through the VISA and MasterCard networks.

Current accounts

The Group offers a wide range of current accounts, including interest-bearing current accounts and a range of added-value accounts.

Savings accounts

The Group offers a wide range of savings accounts and retail investments.

Personal loans

The Group offers a range of personal loans.

Cards

The Group provides a range of card-based products and services, including credit and debit cards. The Group is a member of both the VISA and MasterCard payment systems and has access to the American Express payment system.

Mortgages

The Group offers a range of mortgage products to personal customers through its own branches, as well as through intermediary channels and directly via the telephone and internet. Mortgages are offered through a number of brands including Lloyds TSB, Halifax, C&G, Birmingham Midshires and Scottish

Widows Bank. The Group is one of the largest residential mortgage lenders in the UK on the basis of outstanding balances, with mortgage balances outstanding at 30 June 2009 of £349 billion.

Insurance

The Insurance division consists of three core elements: life, pensions and investment business written within the UK; life, pensions and investment business written in mainland Europe; and general insurance business.

Life assurance, pensions and investments

Lloyds Banking Group is the major bancassurance provider and a significant participant through the intermediary channel providing a full range of equity based savings and investment products, protection products and pensions in the UK.

As at the end of June 2009, Scottish Widows was the specialist provider of life assurance, pensions and investment products for the Lloyds TSB branch banking network and also distributed products, through independent financial advisers and directly via telephone and the internet. At that time, Halifax Life was the specialist provider of life assurance, pensions and investment products to the HBOS branch banking network whilst Clerical Medical offered a full suite of products for independent financial advisers. From 1 July 2009, Scottish Widows and Clerical Medical have combined to provide a new single intermediary sales force under the Scottish Widows brand with products offered from both companies.

The Group also has a European Life and pensions business which distributes products primarily in the German market under the Clerical Medical and Heidelberger Leben brands.

General insurance

The General Insurance business provides general insurance through the retail branch network, direct telephone and internet channels and through strategic corporate partners. The business is a leading distributor of home and creditor insurance in the UK.

Wholesale

Wholesale provides banking and related services to major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. In addition, Wholesale provides asset finance to personal and corporate customers and manages the Group's balance sheet liquidity and financial markets activity through its Treasury and Trading function.

Corporate Markets

Corporate Markets comprises Corporate, Commercial, Commercial Real Estate, Specialist Finance and Wholesale Markets. Corporate, Commercial and Commercial Real Estate provide relationship based financial and advisory services to corporate customers throughout the UK, U.S. and Canada. Transactions with customers with an annual turnover greater than £15 million are managed within Corporate and commercial property based transactions (including hotel and property based leisure) are managed within the Commercial Real Estate business. Commercial specialises in financial services to customers ranging from new business start-ups to those with a turnover up to £15 million, an element of which is property related. Specialist Finance includes the European private equity businesses where all new business is being written under the brand of Lloyds Development Capital, together with the leverage finance business. Wholesale Markets provides risk management solutions, specialised lending, capital markets' advisory and multi

product financing solutions to the corporate customer franchise, whilst managing the bank's own portfolio of structured credit investments and treasury assets.

Treasury & Trading

Treasury and Trading manages the global trading, funding and liquidity risks and provides risk management solutions to both internal and external clients.

Asset Finance

The Asset Finance business consists of a number of leasing and speciality lending businesses including Contract Hire (Lex and Autolease), Specialist Assets and Consumer Finance (Motor Finance and Personal Finance) who provide finance to both personal and corporate clients.

Wealth and International

Wealth and International provides private banking services, asset management services and International Banking services.

Wealth

The Wealth business comprises private banking, wealth management and asset management in the UK and overseas.

The main operations are UK and International Private Banking, which operate under the Lloyds TSB and Bank of Scotland brands, the Group's Channel Islands and Isle of Man offshore businesses, the expatriates business and the asset management business. In addition the Group holds a 60 per cent. stake in St James Place plc and a 55 per cent. stake in Invista Real Estate, respectively the UK's largest independent listed wealth manager and real estate fund management group.

UK Private Banking includes all of the Group's UK wealth management businesses, including wealth planning and private banking and provides financial planning and advice for the Group's affluent and wealthy customers, providing financial solutions across investments, retirement planning and income, trusts, tax and estate planning as well as share dealing. Expert wealth management advice is provided through financial advisors who can be accessed through a number of channels including the retail branch network and Private Banking offices throughout the United Kingdom.

International Private Banking provides banking and wealth management services to private clients with offices in Dubai, Geneva, Gibraltar, Guernsey, Isle of Man, Jersey, Luxembourg, Miami, Monaco, Montevideo and Zurich.

Asset Management services are offered through Scottish Widows Investment Partnership which manages funds for the Group's retail life, pensions and investment products. Other clients include corporate pension schemes, local authorities and other institutions in the UK and overseas.

International Banking

International Banking largely comprises corporate, commercial and asset finance businesses predominantly in Australia, Ireland and Continental Europe.

Competitive Environment

The Group is a diversified UK based financial services group providing a wide range of banking and financial services, predominantly in the UK, to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

In the retail banking market, the Group competes with banks and building societies, major retailers and internet-only providers. In the mortgage market, competitors include the traditional banks and building societies and specialist mortgage providers. The Group competes with both UK and foreign financial institutions in the wholesale banking markets and with bancassurance, life assurance and general insurance companies in the UK insurance market.

The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom in which the Bank's earnings are predominantly generated. Following the Acquisition, the Group now has greater exposure in a number of other jurisdictions; these include Ireland, Australia and the United States, and hence the Group is exposed to general and sector-specific economic conditions in these markets. Over approximately the past 24 months, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty, particularly the very severe dislocation of the financial markets around the world that began in August 2007. This has substantially worsened since September 2008 and has contributed to related problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions.

UK Government or EU intervention in the banking sector may impact the competitive position of banks within a country and among international competitors which may be subject to different forms of government intervention, thus potentially putting the Group at a competitive disadvantage to other banks.

Regulation

Overview of UK Regulation

The cornerstone of the regulatory regime in the UK is the FSMA which came into force on 1 December 2001 and replaced much of the previous legislation under which banks, insurance companies and investment businesses had been authorised and supervised. In accordance with the provisions of the FSMA on 30 November 2001, the FSA completed the process of assuming responsibility for the regulation and oversight of a wide range of financial services activities in the UK. More recently these responsibilities have been extended to include the regulation of mortgage lending, sales and administration (October 2004) and general insurance sales and administration (January 2005).

The FSA is responsible for the authorisation and supervision of institutions that provide regulated financial products and services as defined in the FSMA. As part of the authorisation process, the FSA reviews applicants to ensure that they satisfy the necessary criteria, including honesty, competence and financial soundness, to engage in regulated activity. The majority of the Group's regulated financial institutions became authorised by the FSA by virtue of having been authorised under previous legislation to carry on financial services business ("grandfathering").

Following the new regulations that were introduced for mortgage and general insurance business, additional entities were authorised by the FSA.

Regulatory Approach of the FSA

The FSA's regulatory approach aims to focus and reinforce the responsibility of senior management of a financial institution to ensure that it takes reasonable care to organise and control its affairs responsibly and effectively and that it develops and maintains adequate risk management systems.

The FSA Handbook of Rules and Guidance (the "**Handbook**") sets out 11 Principles for Businesses and the rules to which financial institutions are required to adhere.

A risk-based approach for the supervision of all financial institutions is adopted by the FSA and the starting point for the FSA's supervision is based on a systematic analysis of an institution's risk profile. Having determined the level of inherent risk, a minimum capital adequacy requirement is established, which the institution is required to meet at all times.

The FSA carries out its supervision of UK financial institutions through the collection of information from a series of prudential returns covering sterling and non-sterling operations, on-site reviews (through its ARROW reviews and through industry-wide thematic reviews), desk-based reviews, meetings with senior management and reports obtained from skilled persons. For major retail groups such as the Group, a dedicated relationship team coordinates much of this activity via its 'Close and Continuous' supervision regime.

Regular prudential reports required by the FSA include operating statements and returns covering (amongst other things) capital adequacy, liquidity, large single exposures and large exposures to related borrowers. Capital adequacy returns are submitted on a periodic basis for all the authorised institutions within the Group. Regular non-prudential reports required by the FSA include complaints data, daily transaction reporting returns and product sales data. Some returns are submitted on a consolidated basis for the Group, whilst others are provided on a legal entity basis, depending on the requirements set out within the relevant FSA rules. The FSA reporting rules were recently revised through the introduction of the Integrated Regulatory Reporting Programme, which came into effect in 2008. The Group was fully involved in the consultative process with the regulatory authorities and has implemented the required changes.

The Handbook sets out rules and guidance across a range of issues with which financial institutions are required to comply. These include, *inter alia*:

- Authorisation requirements – these are standards that need to be met in order to be authorised and continue to be met on an ongoing basis.
- Prudential rules – these relate to capital adequacy.
- Systems and controls requirements that are appropriate to the volume and complexity of activity undertaken.
- Conduct of Business rules that set out the requirements for aspects such as advising and selling, product disclosure, financial promotions (including compliance with the clear, fair and not misleading requirements), responsible lending and default.
- Reporting Requirements – these set out periodic reporting requirements and event driven notifications that must be submitted to the FSA.
- Training and Competence rules – these are standards that apply to firms providing advice to retail customers.
- Code of Market Conduct rules – this provides further rules and guidance on the market abuse offences set out in the FSMA.

A key theme running through most of the FSA's rules and regulations is the concept of Treating Customers Fairly ("**TCF**"), contained in Principle 6 of the FSA's Principles for Businesses. From 31 December 2008, the FSA now expects all firms to be able to demonstrate that full TCF compliance has been embedded within their business activities, operations and culture.

Although the FSA Conduct of Business standards apply to banks, the FSA has historically allowed the Banking Code Standards Board (which is described further below) to prescribe conduct rules governing the deposit-taking and account operating activities of banks and building societies.

The FSA published the Turner Review ("A Regulatory Response to the Global Banking Crisis") on 18 March 2009. The Turner Review assesses the various factors which contributed to the severe financial problems suffered by banks at the end of 2008, and then considers a wide range of proposals to counter these factors and reform global financial regulation. These proposals include significantly increasing banks' minimum regulatory capital requirements, regulating banks' liquidity requirements, requiring banks to establish capital buffers, a maximum growth leverage ratio to prevent banks' excessive expansion, authorities' power to obtain information on significant unregulated financial institutions, central counterparty clearing of credit derivatives, and a major shift in the supervisory approach of the FSA, with an increased focus on high impact, complex and systemically important firms, business models and approved persons' technical skills. New arrangements for co-ordinated cross-border supervision of international and EU banking groups are also proposed. The FSA has also published a discussion paper intended to elicit market participants' comments on many of the proposals contained in the Turner Review. The impact of the proposals on banks and their business models is likely, in the view of the Group, to be very significant. The fundamental changes to capital and liquidity requirements could have a substantial impact on the shape of banks' business models. Banks can also expect a shift from the previous "light touch" principles-based regime to an intensive, and interventionist, rules-based regime. The cost of compliance with these proposals may well lead to reduced profitability, as well as to a lower return on equity.

The FSA published a Feedback Statement on the Turner Review and associated discussion paper on 30 September 2009. This continues the debate regarding how systemically important firms are dealt with, suggesting they should be required to produce recovery and resolution plans ("living wills") setting out how operations would be resolved in the event that the bank fails. Given the Group's systemic importance this is highly significant. If a bank's living will is deemed insufficient by the FSA and contains serious obstacles to resolution it could result in restructuring of the relevant bank's group.

On 5 October 2009 the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms' liquidity risk management practices and, in part, can be seen as a response to issues highlighted by the credit crisis. These new rules, which apply to a wider range of entities than the current liquidity regime, are based on the over-arching principle of regulated firms (their subsidiaries and branch offices) being self-sufficient and having adequate liquid resources to withstand particular liquidity stresses. The rules specify that this will be delivered through greatly enhanced systems and controls requirements and a regular and comprehensive liquidity risk assessment of the business which will be linked to the supervisory process and monitored through more granular and frequent reporting on the part of regulated firms. In particular, the rules have introduced enhanced quantitation requirements which will ultimately require regulated firms to hold a greater quantity of higher quality liquid assets as a buffer against liquidity stresses. It is noted that the specific rules vary depending on the type of regulated firm and some regulated firms may be able to benefit from particular relaxations.

The new systems and controls requirements will apply to most regulated firms from 1 December 2009 and the enhanced quantitative requirements will be introduced in stages over the course of 1 June to 1 November 2010, though are subject to further detailed nuances depending on the type of regulated firm affected.

Lloyds Banking Group believes that these new rules will apply to it and will likely require changes to its business model, in particular, the requirement to hold increased and higher quality liquid assets and the onerous reporting requirements (which may require Lloyds Banking Group to change or upgrade its systems) may result in reduced profitability for Lloyds Banking Group.

FSA Supervisory Review into Historical HBOS Disclosures

The FSA is conducting a supervisory review into the accuracy and completeness of financial disclosures made by HBOS in connection with its capital raisings in 2008, including information as to corporate impairments disclosed in the circulars and/or prospectuses issued by HBOS in connection with such capital raisings. The Group is cooperating fully with this review. See Risk Factor 1.8 for a discussion of the risks relating to regulatory oversight to which the Group is subject.

Financial Services Guarantee Schemes in the UK

Under the FSMA a compulsory single, industry-wide, investor's compensation scheme, the Financial Services Compensation Scheme (the "**FSCS**") has been set up. All authorised institutions are required to be members of the FSCS and are subject to a levy in proportion to their deposit base or volume of business undertaken. The FSCS applies to business undertaken by an FSA authorised institution or by the UK branch of a European Economic Area firm carrying on 'home state regulated activity'.

The FSMA allows for the establishment of different funds for different kinds of business and for different maximum amounts of claim. From 7 October 2008 (subject to the rules of the FSCS):

- eligible deposit claimants have been entitled to receive 100 per cent. compensation for financial loss up to £50,000;
- eligible investment business and mortgage advice and arranging claimants are entitled to receive £48,000 (100 per cent. of the first £30,000 and 90 per cent. of the next £20,000); and
- eligible insurance claimants are entitled to receive 100 per cent. of the first £2,000 and 90 per cent. of the remainder of the claim (except compulsory insurance for which it is 100 per cent. of the claim).

On 16 March 2009, the Directive on Deposit Guarantee Schemes (1994/19/EC) was amended by Directive 2009/14/EC (the "**Amended Directive**"). The Amended Directive requires EU Member States, by 30 June 2009, to increase the minimum level of coverage they provide for deposits from €20,000 to €50,000 and to reduce the payout period in the event of bank failure from three months to 20 days. Furthermore, by 31 December 2010, Member States must set coverage for the aggregate deposits of each depositor at €100,000, unless a European Commission impact assessment, submitted to the European Parliament and the Council by 31 December 2009, concludes that such an increase and such harmonisation are inappropriate and are not financially viable for all Member States. See Risk Factor 1.19 for a discussion of the current and potential impact of the Group's obligations under the FSCS.

The FSA announced further changes to the FSCS on 24 July 2009, which in part seek to implement the fast payout rules set out under the Amended Directive referred to above through a SCV policy, as further detailed in Risk Factor 1.19. In addition, the other key changes announced by the FSA to the FSCS include the following:

- Changing the payout of compensation to avoid customers who hold loans and deposits with the same institution having any debt deducted from their compensation;
- Widening eligibility of the FSCS to include more individuals;

- Introducing a requirement that deposit takers must disclose the existence of the FSCS and the level of protection it offers to help familiarise consumers with the services it provides; and
- If an institution operates under a number of trading names, it must tell its customers which of the different trading names are covered by a particular authorisation.

Authorised firms within Lloyds Banking Group

As at 30 June 2009 there were approximately 50 UK authorised institutions across the Group. These are regulated by the FSA on both an individual and a consolidated basis.

There were six UK authorised banks: Lloyds TSB Bank plc, Lloyds TSB Scotland plc, Lloyds TSB Private Banking Limited, Scottish Widows Bank plc, AMC Bank Limited and Bank of Scotland plc.

The UK investment firms authorised within the Group were: Scottish Widows Investment Partnership Limited, Lloyds TSB Development Capital Limited, Lloyds TSB Venture Managers Limited, Lloyds TSB Independent Financial Advisers Limited, SWIP Fund Management Limited, Scottish Widows Unit Trust Managers Limited, Scottish Widows Fund Management Limited, Lloyds TSB Investments Limited, SWIP Multi-Manager Funds Limited, Bank of Scotland Independent Financial Advisers Ltd, Clerical Medical Financial Advisers Ltd, Clerical Medical Investment Fund Managers Ltd, Halifax Capital Trustees Ltd, Halifax Independent Financial Services Ltd, Halifax Investment Services Ltd, Halifax Share Dealing Ltd, HBOS Investment Fund Managers Ltd, IWEB (UK) Ltd, and Uberior Fund Manager plc.

The regulated entities conducting (i) insurance, (ii) life, or (iii) pensions business were: Black Horse Limited, Lloyds TSB Insurance Services Limited, Lloyds TSB General Insurance Limited, Scottish Widows Annuities Limited, Pensions Management (SWF) Limited, Scottish Widows Unit Funds Limited, Scottish Widows plc, Scottish Widows Administration Services Limited, Clerical Medical Managed Funds Ltd, Clerical Medical Investment Group Ltd, General Insurance Services Limited, Halifax Life Ltd, Lex Vehicle Leasing Ltd, St Andrew's Insurance plc and St Andrew's Life Assurance plc. The regulated entities specifically providing mortgage business were: Cheltenham & Gloucester plc and The Mortgage Business plc.

Basel II

Basel II has been implemented throughout the EU through the Capital Requirements Directive (which is discussed below under "European Union Impact on UK Financial Services Regulation"). This came into force for all European banks on 1 January 2007, following a consultative process which continued throughout 2006. Transitional provisions meant, however, that the Group was not required to be in compliance with all of the rules until 1 January 2008.

With effect from 1 January 2008, for credit risk, the heritage Lloyds TSB Group adopted the Foundation Internal Ratings Based approach for its non-retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures. The heritage HBOS Group adopted the Advanced Internal Ratings Based approach for both its non-retail and retail exposures.

Both the heritage Lloyds TSB Group and the heritage HBOS Group adopted the Advanced Measurement Approach for Operational Risk from 1 January 2008.

The adoption of these approaches benefits the Group in terms of its internal capital allocation.

Other Relevant Legislation and Regulation

The Bank of England

The agreed framework for co-operation in the field of financial stability in the financial markets is set out in detail in the Memorandum of Understanding published jointly by HM Treasury, the FSA and the Bank of England at the end of October 1997 and updated in March 2006. The Bank of England has specific responsibilities in relation to financial stability, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems at home and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FSA's Board. HM Treasury, the FSA and the Bank of England work together to achieve stability in the financial markets.

UK Government

The UK Government is responsible for the overall structure of financial regulation and the legislation which governs it. It has no operational responsibility for the activities of the FSA or the Bank of England. However, there are a variety of circumstances where the FSA and the Bank of England will need to alert HM Treasury (the representative of the UK Government) about possible problems, for example, where there may be a need for a support operation or a problem arises which could cause wider economic disruption.

In light of the current crisis in financial markets, the Banking Act 2009 secured Royal Assent in February 2009 and certain provisions, including those relating to the SRR bank insolvency and bank administration, came into force at that time. The Banking Act provides the FSA, Bank of England and HM Treasury with tools for dealing with failing institutions as part of the SRR. These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA (each a "relevant entity") that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA).

The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities.

The stabilisation powers may only be exercised if the FSA is satisfied that a relevant entity (a) is failing, or is likely to fail, to satisfy the threshold conditions set out in Schedule 6 to the FSMA required to retain its FSA authorisation to accept deposits; and (b) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those threshold conditions. In such circumstances, and where certain further conditions are satisfied, (i) the Bank of England or HM Treasury could exercise the stabilisation powers in relation to a relevant entity; or (ii) as a last resort, HM Treasury may take a parent undertaking of a relevant entity into temporary public ownership pursuant to section 82 of the Banking Act ("temporary public ownership") irrespective of the financial condition of such parent undertaking.

If a parent undertaking is taken into temporary public ownership, HM Treasury may take various actions in relation to any securities issued by it without the consent of the holders thereof ("Investors"), including (among other things):

- transferring securities free from any restrictions on transfer and free from any trust, liability or encumbrance;

- delisting the securities;
- converting securities into another form or class; or
- prescribing that the transfer of shares takes place free from any trust.

Accordingly, the taking of any such actions could adversely affect the rights of Investors, the price or value of their investment, and the ability of such parent undertaking to satisfy its obligations under the issued securities or the related contracts.

If a parent undertaking is taken into temporary public ownership and a partial transfer of its, or a relevant entity in its group's, business to another entity is effected or if a relevant entity in the group is made subject to the SRR and a partial transfer of such relevant entity's business to another entity were effected:

- the transfer order or instrument may directly affect the parent undertaking and/or its group companies and commercial counterparties by creating, modifying or cancelling their contractual arrangements with a view to ensuring the provision of such services and facilities as are required to enable the bridge bank or private sector purchaser to operate the transferred business (or any part of it) effectively; and
- the quality of the assets and the quantum of the liabilities not transferred and remaining with the parent undertaking may result in a deterioration in its creditworthiness and increase the risk that it may eventually become subject to administration or insolvency proceedings pursuant to the Banking Act or the Insolvency Act 1986.

Where the stabilisation powers are exercised, HM Treasury must make statutory provision for a scheme or other arrangements for determining the compensation, if any, due to those affected by an exercise of the powers. However, there can be no assurance that Investors would thereby recover compensation promptly and equal to any loss actually incurred. See Risk Factor 1.8.

In July 2009, HM Treasury published a White Paper "Reforming financial markets" containing wide-ranging proposals. The other main UK political parties have subsequently published their own alternative agendas for reform. It is not possible to predict which, if any, of these proposals will be implemented either before or subsequent to the next UK General Election.

*UK Financial Ombudsman Service ("**FOS**")*

The FOS was established on 1 December 2001 pursuant to the FSMA to provide customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes that cover most financial products and services provided in (or from) the UK, from insurance and pension plans to bank accounts and investments, for eligible complainants, private individuals and small businesses, charities or trusts. The jurisdiction of FOS was extended in 2007 to include firms conducting activities under the Consumer Credit Act. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on firms.

UK Banking Code Standards Board

The Banking Code Standards Board monitors compliance with the Banking Code and the Business Banking Code. These codes are voluntary codes agreed by UK banks and building societies that initially became effective in 1992, with several subsequent revisions, and which have been adopted by the Group. The Banking Code and Business Banking Code define the responsibilities of the banks and building societies to

their personal customers and smaller business customers respectively in connection with the operation of their UK accounts and set out minimum standards of service that these customers can expect from institutions which subscribe to the codes.

Self regulation under the Banking Code will change in 2009 for retail banking. In April 2009, the FSA published rules governing the conduct of retail deposit-taking business which are to be brought under the FSA's remit in November 2009. The introduction of banking conduct of business rules will coincide with the introduction of new FSA requirements regarding payment services and the Payment Services Regulations 2009.

*UK Office of Fair Trading ("**OFT**")*

The OFT is the UK's consumer and competition authority. Its regulatory and enforcement powers impact the banking sector in a number of ways. Set out below are some of its current activities that are significant for the Group.

In April 2007, the OFT commenced an investigation into the fairness of personal current accounts and unarranged overdraft charges. At the same time, it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

Legal proceedings

On 27 July 2007, following agreement between the OFT, the FSA and a number of UK financial institutions, the OFT issued High Court legal proceedings against those financial institutions, including the Bank and HBOS, to determine the legal status and enforceability of unarranged overdraft charges.

Current terms and conditions

The first step in those proceedings was a trial of certain "preliminary" issues concerning the contractual terms relating to unarranged overdraft charges.

On 24 April 2008, the High Court determined, in relation to the then current terms and conditions of the relevant financial institutions (including the Bank and HBOS), that the relevant unarranged overdraft charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 23 May 2008, the Bank and HBOS, along with the other relevant financial institutions, were given permission to appeal the finding that unarranged overdraft charges are assessable for fairness. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. On 26 February 2009, the Court of Appeal dismissed the relevant financial institutions' appeal and held that the unarranged overdraft charges are assessable for fairness. The House of Lords gave the relevant financial institutions permission to appeal this judgment. The hearing before the House of Lords took place from 23 to 25 June 2009. The judgment is awaited.

Historic terms and conditions

A further High Court hearing was held from 7 to 9 July 2008 to consider whether the historic terms and conditions previously used by the relevant financial institutions are capable of being penalties, and to consider whether their historic terms are assessable for fairness. On 8 October 2008, the High Court confirmed that HBOS's historic terms and conditions are not capable of being penalties.

Following a further High Court hearing on 9 December 2008, the High Court confirmed on 21 January 2009 that the relevant unarranged overdraft charges under the Bank's historic terms and conditions are not capable of being penalties to the extent that the Bank's contracts with customers included the applicable charging terms.

Following the High Court decision of 24 April 2008 (referred to above), the parties agreed that the historic terms and conditions would be treated in the same way as the then current terms and conditions in relation to being assessable for fairness. On 28 October 2008, the court issued an order specifying which historic terms and conditions could be assessed for fairness. The relevant financial institutions have been granted permission to appeal the order that the historic terms are assessable for fairness, although that appeal has been stayed pending the House of Lords' decision in relation to current terms and conditions.

The issue of whether unarranged overdraft charges are actually fair will be determined at subsequent hearings. The OFT is investigating the fairness of the unarranged overdraft charges, but has yet to determine whether the charges are fair. If court proceedings are required to determine this, the proceedings may take a number of years to conclude if various appeals are pursued.

On 22 July 2009, the FSA announced that it was granting to the relevant financial institutions (including the Bank and HBOS) a further waiver until 26 January 2010. The waiver permits the relevant entities to continue suspending the handling of complaints relating to the level, fairness or lawfulness of unarranged overdraft charges.

Cases before the FOS and the County Courts are currently stayed pending the outcome of the legal proceedings initiated by the OFT.

On 31 March 2009, the OFT announced that it is to streamline its investigation into unarranged overdraft charges by focusing on the terms of three banks, including the Bank but not HBOS. The OFT has stated that the aim of this is to progress the case in the shortest and most efficient way possible. The OFT has stated that it believes that the terms of the three selected banks provide the best representative selection of all the banks' unarranged overdraft charging terms, and therefore the outcome of this more focused investigation will be relevant to the assessment of other banks' terms. The OFT has stated that it should not be assumed that the OFT is more or less likely to find the three banks' terms unfair than those of the other banks. The investigation into the other banks' terms is merely on hold.

The Group intends to continue to defend its position strongly. No provision in relation to the outcome of this litigation has been made. A range of outcomes is possible, some of which could have a significant financial impact on the Group. The ultimate impact of the litigation on the Group can only be known at its conclusion.

Market study into personal current accounts

In April 2007, the OFT launched a market study into personal current accounts which resulted in a report that was published on 16 July 2008. The OFT stated that it had found evidence of competition in the personal current account market. It also found that banks could demonstrate high consumer satisfaction and low fees on the more visible elements of current accounts – such as withdrawals from ATMs – and that internet and telephone banking have also made it easier for consumers to manage their accounts. However, the OFT concluded that the personal current account market as a whole is not working well for consumers. The OFT found that a combination of complexity and a lack of transparency means that consumers and competition are focused almost exclusively on more visible fees and not on the less visible elements, such as insufficient funds charges and foregone interest – despite the fact that these make up the vast bulk of banks' revenues. For insufficient funds charges, the report indicated that this effect is exacerbated by a lack of simple mechanisms to control, or opt out of, an unarranged overdraft. Furthermore, the OFT found that a significant proportion of consumers believe that it is complex and risky to switch accounts, with the result that switching rates are very low.

The OFT invited comments from interested parties, with a deadline for responses of 31 October 2008. It highlighted, in particular, the low levels of transparency and switching and complexity of charges as issues upon which it would welcome comments together with potential measures to address those issues.

In October 2009, the OFT published a follow-up report. The report contained details of voluntary initiatives agreed between the OFT, the industry and consumer groups to improve the transparency of the costs and benefits of personal current accounts and improvements to the switching process. The OFT proposes to monitor the implementation and effect of the transparency and switching initiatives over the next few years with a view to publishing information about their findings.

The OFT indicated in their report that they intend to make more substantive comments on the issue of unarranged overdraft charges after the judgment of the Supreme Court has been handed down.

Plans for future financial services sector reviews

In April 2009, the OFT launched a consultation on its plans for keeping UK financial markets under review in the context of the financial crisis. At this time, it indicated its intention to focus its efforts on the banking sector, including credit, leasing and debt recovery activities. The OFT has also reiterated that it will consider whether to refer any banking markets to the UK Competition Commission if it identifies any prevention, restriction or distortion of competition. On 29 July 2009, following consultation on its proposed plans, the OFT published a final plan for its activities in the financial services markets in 2009 (the "**Financial Services Plan**"). The Financial Services Plan concentrates on promoting fairness and responsibility between the credit industry and its customers and advocating choice and competition to ensure that public decisions made to deal with the current economic crises do not harm competition in the long term to the detriment of consumers.

Interchange fees

The European Commission has adopted a formal decision finding that an infringement of European Commission competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the European Economic Area. This decision has been appealed to the European Court of First Instance. The Bank and BOS (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with European Commission competition laws. Both the Bank and BOS submitted their respective statements in intervention on 26 February 2009. MasterCard has announced that it has reached an understanding with the European Commission on a new methodology for calculating intra European Economic Area multi-lateral interchange fees on an interim basis pending the outcome of the appeal. Meanwhile, the European Commission and the UK's OFT are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe European Commission and/or UK competition laws. As part of this initiative, the OFT will also intervene in the European Court of First Instance appeal supporting the European Commission position. The ultimate impact of the investigations on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

Continuing Obligations

The Company and each of the other members of the Group which have securities listed on the Official List or on other regulated markets intend to comply with their obligations as companies with securities admitted to the Official List in connection with further disclosures in relation to the impact of the reviews

and inquiries being conducted by the UK Office of Fair Trading as disclosed above on the Group. Under the GAPS Withdrawal Deed, the Group has, among other things, agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry. See "Recent Developments — Capital Restructuring Proposals — GAPS Withdrawal Deed" herein for a fuller description of such commitments.

UK Competition Commission

In January 2009, the Competition Commission completed its formal investigation into the supply of Payment Protection Insurance ("**PPI**") services (except store card PPI) to non-business customers in the UK. Various members of the Group underwrite PPI, while other members distribute PPI, by offering it for sale with a variety of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with the result being detrimental to consumers.

Following consultation, the Competition Commission published its final report on 29 January 2009 setting out its remedies. In summary, the Competition Commission has decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within seven days of the distributor's sale of credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials; (iii) a requirement to provide personal PPI quotes to customers; (iv) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (v) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (vi) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vii) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors are permitted to charge only regular premiums at a constant rate, paid monthly or annually. This remedy therefore precludes the selling of multi-year PPI policies for a single premium. It is expected that remedial measures relating to the provision of information in marketing materials and to third parties will come into force in April 2010 and that all other elements of the remedies package will come into force in October 2010.

On 30 March 2009, Barclays Bank plc lodged an appeal in the Competition Appeal Tribunal against the Competition Commission's findings. In particular, it requested that the Competition Appeal Tribunal quash the decision of the Competition Commission insofar as it relates to the prohibition of distributors selling PPI at the credit point of sale and the Competition Commission's findings on market definition and the nature and extent of competition in the supply of PPI. The Group filed a notice of its intention to intervene in the appeal on 23 April 2009. On 28 April 2009, the Group was granted permission by the Competition Appeal Tribunal to intervene in the appeal. The hearing of the appeal took place from 7 September 2009 to 11 September 2009. The Competition Appeal Tribunal handed down its judgment on 16 October 2009. It found in favour of Barclays in respect of its challenge to the Competition Commission's prohibition of distributors selling PPI at the credit point of sale but it did not uphold Barclays' challenge to the Competition Commission's findings on market definition. The matter will now be referred back to the Competition Commission with direction to reconsider their remedies and make a new decision in accordance with the Competition Appeal Tribunal's ruling. This may or may not result in the Competition Commission ultimately reaching a different conclusion.

Depending on the outcome of the referral back to the Competition Commission, the Competition Commission's decision may have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Group offers its

customers, but the ultimate impact would be determined by a number of factors including the extent to which the Group was able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams. To this end, the Group took a commercial decision to sell only regular monthly premium PPI to its personal loan customers in the UK from early 2009. The FSA subsequently wrote to certain other firms still selling single premium PPI with unsecured personal loans asking them to withdraw the product as soon as possible, and no later than 29 May 2009.

*UK Financial Ombudsman Service ("**FOS**")*

On 1 July 2008 the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Group and other industry members and trade associations have made submissions to the FSA regarding this referral. The matter was considered at the FSA Board meeting on 25 September 2008. The Group has been working with other industry members and trade associations in preparing an industry response to address regulatory concerns regarding the handling of PPI complaints. On 29 September 2009, the FSA issued a consultation paper on PPI complaints handling to which the Group responded on 30 October 2009, endorsing the response submitted on behalf of the retail banking industry by the British Banking Association. The FSA has escalated its regulatory activity in relation to past PPI sales generally and has proposed new guidance on the fair assessment of a complaint and the calculation of redress and a new rule requiring firms to reassess historically rejected complaints.

The statement on 29 September 2009 also announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. The Group has subsequently agreed in principle that it will undertake a review in relation to sales of single premium loan protection insurance made through its branch network since 1 July 2007. The precise details of the review are still being discussed with the FSA.

UK Information Commissioner's office

This office is responsible for overseeing implementation of the Data Protection Act 1998. This Act regulates, among other things, the retention and use of data relating to individual customers.

The Freedom of Information Act 2000 (the "**FOIA**") sets out a scheme under which any person can obtain information held by, or on behalf of, a "public authority" without needing to justify the request. A public authority will not be required to disclose information if certain exemptions set out in the FOIA apply. Under section 2(1) of the FOIA, a public authority is not required to disclose information where an absolute exemption applies or if the public interest in maintaining the exemption outweighs the public interest in disclosing the information. If a requester is dissatisfied with his response from a public authority, he may refer the matter to the Information Commissioner who may order the disclosure of the information, for example if he considers that the public interest in disclosing the information outweighs the public interest in maintaining the exemption. The Group is not a public body but HM Treasury and certain other public authorities and associated companies are. Any confidential information required to be disclosed by the Group to a public authority could be subject to enforced disclosure to members of the public pursuant to the FOIA.

European Union Impact on UK Financial Services Regulation

Retail banking investigation

On 10 January 2007, the European Commission published the Final Report of its sector inquiry into European retail banking markets covering payment cards and (non-card) payment systems and current accounts and related services. The European Commission found that markets were fragmented along national lines, limiting consumer choice and leading to higher costs for current accounts, loans or payments.

High degrees of variation of prices, profit margins and selling patterns between EU Member States and high degrees of homogeneity within EU Member States were found to be indicative of persisting regulatory or behavioural barriers to competition.

The Final Report identified competition concerns in several areas of retail banking, including:

- the combination of sustained high profitability, high market concentration and evidence of entry barriers in some Member States raise concerns about banks' ability to influence the level of prices for consumers and small firms;
- large variations in merchant and interchange fees between banks across the EU may indicate competition barriers;
- the existence of high joining fees for payment cards, co-branding, surcharging and the practice of "blending" card fees where a retailer is charged the same merchant fee irrespective of the different costs of card types;
- some credit registers, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets;
- some aspects of co-operation among banks, including savings and co-operative banks, can reduce competition and deter market entry;
- product tying by banks is widespread in Member States and can reduce consumer choice and increase banks' power in the market place to influence prices; and
- obstacles to customer mobility in banking, notably the inconvenience of changing a current account, are high.

Some of these concerns have already been addressed, at least in part. For example, following the interim report being published, the European Commission met with Austrian banks who agreed to review arrangements for setting interchange fees and announced that a reduction can be expected. In Portugal, issuers and acquirers have met some of the concerns raised in the report by reducing domestic interchange fees and removing preferential bilateral domestic interchange fees. The establishment of a Single Euro Payments Area ("**SEPA**") is also seen as a method of remedying some of the competition concerns raised in the report. Since 1 January 2008, banks have been able to make the first SEPA products available and are aiming to make SEPA a reality for all customers by the end of 2010.

The Final Report also listed the following specific areas where enforcement action by the European Commission and the national competition authorities is appropriate:

- high interchange fees and merchant fees in some payment card networks;
- access barriers and discriminatory rules in relation to credit registers;
- tying of products by some banks; and
- bank co-operation (in respect to which the European Commission indicated that it intended to gather more information before acting).

Since the Final Report was published, the European Commission has adopted three decisions affecting payment card services. On 3 October 2007, the European Commission fined Visa International and Visa Europe €10.2 million for refusing to admit Morgan Stanley as a member from March 2000 to September 2006. In a decision dated 17 October 2008, the European Commission concluded that the Groupement des Cartes Bancaires infringed Article 81 of the Treaty establishing the European Community by adopting price

measures hindering the issuing of cards in France at competitive rates by certain member banks, thereby keeping the price of payment cards artificially high and thus favouring the major French banks. As referred to above, on 19 December 2007, the European Commission adopted a decision prohibiting MasterCard's multilateral interchange fees for cross-border card payments with MasterCard and Maestro consumer credit and debit cards between Member States of the European Economic Area (intra-EEA MIFs).

EU directives

Work continues on the Financial Services Action Plan which is intended to create a single market for financial services across the EU. The Group will continue to monitor the progress of these initiatives, provide specialist input on their drafting and assess the likely impact on its business.

EU directives, which are required to be implemented in EU Member States through national legislation, have a strong influence over the framework for supervision and regulation of financial services in the UK. The directives aim to harmonise financial services regulation and supervision throughout the EU by setting standards in key areas such as capital adequacy, access to financial markets, consumer protection and compensation schemes.

Financial institutions, such as those in the Group, are primarily regulated in their home state by a local regulator but the EU directives prescribe criteria for the authorisation of such institutions and the prudential conduct of business supervision applicable to them. Different directives require Member States to give 'mutual recognition' to each other's standards of regulation through the operation of a 'passport' concept.

This passport gives a financial institution which has been authorised in its 'home' state the freedom to establish branches in, and to provide cross-border services into, other Member States without the need for additional local authorisation.

Directives recently implemented

The Acquisitions Directive was implemented in the UK on 21 March 2009. The purpose of the Directive is to prevent EU Member States from blocking acquisitions of financial services firms for improper (e.g. protectionist) reasons and to facilitate the acquisition process.

Key measures include:

- introduction of assessment criteria, which are more tightly defined than the current assessment criteria and are limited to a prudential assessment; and
- provisions to increase the transparency of the process and ensure that potential acquirers that are declined permission are given the information they need to challenge the decision.

Directives currently being implemented

A number of other EU directives, including amendments to the Deposit Guarantee Schemes Directive (please see "Financial Services Guarantee Schemes in the UK" above), Payment Services Directive and the Consumer Credit Directive are currently being implemented in the UK.

The Payment Services Directive is to be fully implemented in the UK by 1 November 2009 and will enhance the movement towards a Single European Payments Area. Key measures include:

- the right to provide payment services to the public;
- transparency and information requirements; and

- rights and obligations of users and providers of payment services.

Draft provisions for implementing the Consumer Credit Directive are expected to be published in 2009, with the deadline for implementation being June 2010. The Directive aims to establish the conditions for a genuine EU market, ensure a high level of consumer protection, and improve clarity by recasting the existing EU directives on consumer credit.

Directives under review

Amendments to a number of EU directives are being considered, including the Distance Marketing Directive, Capital Requirements Directive, E-Money Directive, Undertakings for Collective Investment in Transferable Securities ("UCITS") Directive and the Financial Groups Directive. Legislative amendments may be forthcoming.

The EU is also considering regulatory proposals for, *inter alia*;

- mortgage credit;
- a recast UCITS Directive; and
- capital adequacy requirements for insurance companies (Solvency II).

International regulation

The Group operates in many other countries around the world. The Group's overseas operations are subject to reporting and reserve requirements and controls imposed by the relevant central banks and regulatory authorities.

In view of the global financial crisis and the increased scrutiny financial regulators have come under, it is also expected that regulatory regimes in many jurisdictions will be significantly tightened, e.g. emergency restrictions on short-selling practices were implemented in a number of jurisdictions including the UK, Ireland, France, Germany, and the Netherlands, following the market volatility in September 2008. At a G20 meeting to tackle the financial crisis in November 2008, a set of common principles for the reform of financial markets was set out. These principles have the aim of strengthening transparency and accountability; enhancing sound regulation; promoting integrity in financial markets; re-enforcing international co-operation and reforming international institutions. As a result of this and other domestic pressures, it is expected that Group entities in all jurisdictions will be subject to increased scrutiny.

Legal Actions

The Group is periodically subject to threatened or filed legal actions in the ordinary course of business.

Lloyds TSB Group provided information in relation to its review of historic U.S. Dollar payments involving countries, persons or entities subject to U.S. economic sanctions administered by the Office of Foreign Assets Control ("**OFAC**") to a number of authorities including OFAC, the U.S. Department of Justice and the New York County District Attorney's Office which, along with other authorities, had been reported to be conducting a broader review of sanctions compliance by non-U.S. financial institutions. At 31 December 2008, the discussions with those authorities had advanced towards resolution of their investigations and the Group held an accrual of £180 million in respect of this matter. On 9 January 2009, the Group announced that it had reached a settlement with both the U.S. Department of Justice and the New York County District Attorney's Office in relation to their investigations. The settlement documentation contains details of the results of the investigations including the identification of certain activities relating to

Iran, Sudan and Libya which Lloyds TSB Group conducted during the relevant period. The provision made by the Group in respect of this matter during 2008 was hedged into U.S. Dollars at the time and fully covers the settlement amount. The Group is continuing discussions with OFAC regarding the terms of the resolution of its investigation. OFAC has confirmed to the Group that the amount paid to the U.S. Department of Justice and the New York County District Attorney's Office will be credited towards satisfying any penalty it imposes. The Group does not currently believe that any additional liability requiring provision will arise following the conclusion of the discussions with OFAC. The Group does not anticipate any further enforcement actions as to these issues. A purported shareholder filed a derivative civil action in the Supreme Court of New York, Nassau County on 26 February 2009 against certain current and former directors, and nominally against the Bank and the Company, seeking various forms of relief following the settlement. The derivative action is at an early stage.

The Group is also engaged in High Court legal proceedings issued by the UK Office of Fair Trading relating to the legal status and enforceability of unarranged overdraft charges, as well as being involved in ongoing issues relating to the payment of interchange fees and payment protection insurance. See "— Regulation — UK Office of Fair Trading" and "— Regulation — UK Competition Commission" herein.

Material Contracts

Contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the Group: (a) within the two years immediately preceding the date of this document which are, or may be, material to the Group; or (b) at any time and contain obligations or entitlements which are, or may be, material to the Group as at the date of this document are set out on pages 7 to 9 of the Company's 2008 Annual Report on Form 20-F.

In addition, the Company and HM Treasury have:

- amended the Registration Rights Agreement (as defined in the Company's 2008 Annual Report on Form 20-F) with effect from 11 June 2009 to include as "Registrable Securities" (as defined in the Registration Rights Agreement) any new shares subscribed for by HM Treasury under the 2009 Placing and Open Offer Agreement (as defined in the Company's 2008 Annual Report on Form 20-F), any B Shares and other securities in the Company held by HM Treasury from time to time and securities issued by HM Treasury from time to time which are exchangeable for, convertible into, give rights over or are referable to such new shares or other securities;

- entered into a Resale Rights Agreement with effect from 11 June 2009 in order to enable certain securities of the Company held by HM Treasury and securities issued by HM Treasury which are exchangeable for, convertible into, give rights over or are referable to such securities to be sold in such jurisdictions and in such manner as HM Treasury determines;

- entered into a GAPS Withdrawal Deed which contains various commitments and undertakings by the Company including with regard to lending and remuneration, in addition to provisions requiring the Company to implement the expected state aid remedies (see "Recent Developments — Capital Restructuring Proposals — GAPS Withdrawal Deed");

- entered into an agreement (the "**HMT Undertaking to Subscribe**") in connection with the capital raising transactions announced on 3 November 2009 in which HM Treasury undertook to (i) vote in favour of all of the resolutions relating to the capital raising on which it was entitled to vote and (ii) take up its rights to subscribe for all of the shares to which it is entitled under the Rights Issue (see "Recent Developments — Capital Restructuring Proposals — HMT Undertaking to Subscribe"); and

- entered into a deed dated 2 November 2009 in which the Group agreed to pay for the UK Government's set-up costs relating to the proposed participation of the Group in GAPS (including all costs of the UK Government relating to the proposed participation of the Group in, and its withdrawal from, GAPS) and the UK Government's costs associated with the European Commission's approval of state aid to the Group.

In addition, the Group has entered into a rights issue underwriting agreement (the "**Rights Issue Underwriting Agreement**") and an underwriting agreement relating to additional issues of Enhanced Capital Notes in connection with the capital raising transactions announced on 3 November 2009.

Major Shareholders and Related Party Transactions

Details of interests

As at 30 October 2009, notification had been received that The Solicitor for the Affairs of Her Majesty's Treasury had a direct interest of 43.4 per cent. in the Company's issued share capital.

Related Party Transactions

Other than as disclosed in (i) note 45 of the audited consolidated annual financial statements of the Company for the financial years ended 31 December 2006 and 2007; (ii) note 47 of the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2008; (iii) notes 47 and 48 of the audited consolidated annual financial statements of HBOS for the financial years ended 31 December 2006 and 2007; and (iv) notes 51 and 52 of the audited consolidated annual financial statements of HBOS for the financial year ended 31 December 2008, the Group has not entered into any related party transactions other than with wholly owned subsidiaries during the period ended 31 December 2008.

In the period between 31 December 2008 and the date of this document, save as disclosed in note 2 of the condensed consolidated interim financial statements of the Company for the six months ended 30 June 2009 and save as set out in "– Material Contracts", the Group has not entered into any material related party transactions other than with wholly owned subsidiaries.

Directors

The directors of the Group and the Bank, the business address of each of whom is 25 Gresham Street, London EC2V 7HN, England, and their respective principal outside activities, where significant to the Group and/or the Bank, are as follows:

Name	Principal outside activities
Sir Winfried Bischoff Chairman	A non-executive director of the McGraw-Hill Companies, Inc. and Eli Lilly and Company. Chairman of the UK Career Academy Foundation.
Lord Leitch Deputy Chairman	Chairman of Scottish Widows. Chairman of the Government's Review of Skills and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster.
Executive directors	
J. Eric Daniels Group Chief Executive	A non-executive director of BT Group.
Archie G. Kane Group Executive Director, Insurance	Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, The Takeover Panel and the Chancellor's Insurance Industry Working Group.
G. Truett Tate Group Executive Director, Wholesale	A non-executive director of BritishAmerican Business Inc. A director of Business in the Community and a director and trustee of In Kind Direct.
Tim J.W. Tookey Group Finance Director	None.
Helen A. Weir CBE Group Executive Director, Retail	A member of the Said Business School Advisory Board.
Non-executive directors	
Wolfgang C.G. Berndt	A non-executive director of Cadbury, GfK AG and MIBA AG.
Sir Julian Horn-Smith	A non-executive director of De La Rue, Digicel Group and Emobile (Japan), a member of the Altimo International advisory board and a senior adviser to UBS and CVC Capital Partners in relation to the global telecommunications sector.
Carolyn J. McCall OBE*	Group chief executive of Guardian Media Group. A director of Business in the Community.
T. Timothy Ryan Jr	President and chief executive of the Securities Industry and Financial Markets Association. A director of the U.S.-Japan Foundation, Great-West Life Annuity Insurance Co. and Putnam Investments and a member of the Global Markets Advisory Committee for the National Intelligence Council.

Martin A. Scicluna	Chairman of Great Portland Estates. A member of the council of Leeds University and a governor of Berkhamsted School.
Anthony Watson CBE	A non-executive director of Hammerson, Vodafone and Witan Investment Trust and chairman of Marks and Spencer Pension Trust, Asian Infrastructure Fund and Lincoln's Inn investment committee.

Notes:

* Carolyn McCall will stand down from the board at the end of 2009.

None of the directors of the Group or the Bank have any actual or potential conflict between their duties to the Group or the Bank and their private interests or other duties as listed above.

RECENT DEVELOPMENTS

On 2 November 2009, the Group announced that it had sold Insight Investment Management Limited to Bank of New York Mellon for cash consideration of £200 million and equity consideration of £35 million.

On 3 November 2009, the Company published its Interim Management Statement for the three months ended 30 September 2009, which is incorporated by reference herein.

Capital Restructuring Proposals

On 3 November 2009 Lloyds Banking Group plc announced proposals intended to meet its current and long-term capital requirements. The Rights Issue and the Exchange Offers (together, the "**Proposals**") are fully underwritten and subject to shareholder approval. They are described in further detail below. The Board believes that the Proposals provide a significantly more attractive alternative to participating in GAPS.

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 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. In addition, all of the Company's 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 a commission (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 below.

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 (as defined in the Rights Issue Underwriting Agreement) in advance

of the general meeting which is scheduled to be held on 26 November 2009 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 the 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 one of the exchange offers only, an exchange consideration amount which shall be settled in new ordinary shares or, at the election of the Company, cash or, in certain limited 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 Board believes it is in the best interests of the Company to have the flexibility to issue further ECNs, to satisfy demand.

Rationale and key benefits of the Proposals

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 a stress test was carried out under the Group's financial modelling which is based on the economic assumptions published by the FSA in March 2009 (the "**FSA Stress Test**") at 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 below) 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. 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. 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 below.

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.

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.

The GAPS Withdrawal Deed provides that the Group shall, subject to state aid approval being obtained and certain other conditions, 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.

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 Board considers 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.

Undertakings with respect to the state aid approval

Under the GAPS Withdrawal Deed the Group also makes certain undertakings in relation to the state aid approval expected to be obtained from the European Commission. In particular, the Group is required to do all acts and things necessary to ensure the UK Government's compliance with its obligations under any European Commission decision approving state aid to the Group. This undertaking includes an obligation: (i) to comply with the restructuring measures that the Group agreed to undertake; (ii) to comply with the terms of any restructuring plan submitted to and accepted by the European Commission in connection with the expected approval of state aid to the Group; and (iii) to provide certain information to HM Treasury and do such acts as are necessary to enable compliance with the state aid approval to be monitored. The GAPS Withdrawal Deed also provides for the Group's restructuring obligations to be modified in certain limited circumstances, notably where the conditions subject to which it was anticipated the European Commission would approve the state aid to the Group differ from the conditions subject to which the European Commission ultimately gives the state aid approval (without prejudice to any challenge to such state aid approval). However, HM Treasury has undertaken that, after the European Commission has approved the state aid to the Group, it will not, without the consent of the Company, agree modifications to the Group's undertakings with respect to state aid which are significantly more onerous to the Company than those granted in order to obtain the state aid approval.

If the European Commission adopts a decision that the United Kingdom must recover any state aid, the Group has undertaken to repay all such state aid (subject to the Group's right to challenge any such decision in the European courts).

Both the Group's payment of the GAPS Payment and its compliance with the obligations relating to the state aid approval are conditional on (i) the approval of the Group’s shareholders (excluding HM Treasury) and (ii) receipt of state aid approval from the European Commission.

Other undertakings

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 the UK 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. 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.

In addition, as part of its lending commitment to businesses, the Group has agreed to contribute to the National Investment Corporation the lesser of £100 million and 10 per cent. of the total sums invested in the National Investment Corporation. It has also committed: (i) to ensure that its public financial statements comply with best industry practice; and (ii) to enter into discussions with HM Treasury with a view to ensuring that such public financial statements: (a) enable investors to assess the quality of the assets and liabilities of banking institutions, the financial position and performance of banking institutions and the nature and extent of risks arising from financial instruments to which banking institutions are exposed; and (b) are comparable as between similar banking institutions.

Further the Group has agreed to develop with the FSA, and implement, a medium term funding plan aimed at reducing dependence on short term funding to be regularly reviewed by the FSA, UKLA and HM Treasury and has agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry: (i) as detailed in the OFT's report "Personal current accounts in the UK – a follow up report, October 2009" and (ii) relating to fees and charges, and the terms and conditions of personal current accounts where any such measures are within the scope of current negotiations with respect thereto.

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 relating to the Proposals upon which it is eligible to vote and (ii) takes up its rights to subscribe for all of the shares to which it is entitled under the Rights Issue. 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.

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 Risk Factor 1.3 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 the Lloyds TSB Group and the HBOS Group, 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.

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 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.

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.

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 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, which is incorporated by reference herein.

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 resecuritised 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.

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 "Capital Resources—Capital Resources and Liquidity" herein.

HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS BANKING GROUP

A. AUDITED FINANCIAL INFORMATION

1 Basis of Financial Information

The financial statements of Lloyds Banking Group included in the consolidated audited Annual Reports and Accounts of Lloyds Banking Group for the financial years ended 31 December 2008, 2007 and 2006, together with the audit reports, are incorporated by reference into this document. The audit reports for the financial years ended 31 December 2008, 2007 and 2006 were unqualified. The financial statements for the years ended 31 December 2008, 2007 and 2006 were prepared in accordance with IFRS.

2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

2.1 Financial Statements for the years ended 31 December 2008, 2007 and 2006 (on Form 20-F) and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the annual report and accounts of Lloyds Banking Group for the financial year ended 31 December 2008 on Form 20-F:

- Independent Auditors' Report – page F-2;
- Consolidated Income Statement – page F-3;
- Consolidated Balance Sheet – pages F-4 to F-5;
- Consolidated Statement of Changes in Equity – page F-6;
- Consolidated Cash Flow Statement – page F-7; and
- Notes to the Group Accounts – pages F-8 to F-88.

2.2 Financial Statements for the year ended 31 December 2008 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the annual report and accounts of Lloyds Banking Group for the financial year ended 31 December 2008:

- Independent Auditors' Report – page 96;
- Consolidated Income Statement – page 97;
- Consolidated Balance Sheet – pages 98 to 99;
- Consolidated Statement of Changes in Equity – page 100;
- Consolidated Cash Flow Statement – page 101; and
- Notes to the Group Accounts – pages 102 to 181.

2.3 Financial Statements for the year ended 31 December 2007 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the annual report and accounts of Lloyds Banking Group for the financial year ended 31 December 2007:

- Independent Auditors' Report – page 76;
- Consolidated Income Statement – page 77;
- Consolidated Balance Sheet – pages 78 to 79;
- Consolidated Statement of Changes in Equity – page 80;
- Consolidated Cash Flow Statement – page 81; and
- Notes to the Group Accounts – pages 82 to 147.

B. OPERATING AND FINANCIAL REVIEW RELATING TO LLOYDS BANKING GROUP FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006 AND SELECTED STATISTICAL AND OTHER INFORMATION

A review of Lloyds Banking Group's financial condition and operating results for the financial years ended 31 December 2008, 2007 and 2006 including selected statistical and other information can be found on pages 14 to 42 of the Company's 2008 Annual Report on Form 20-F and is incorporated by reference herein.

A review of Lloyds Banking Group's risk management practices can be found on pages 43 to 79 of the Company's 2008 Annual Report on Form 20-F and is incorporated by reference herein.

C. UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial statements of the Group included in the Company's 2009 Interim Statutory Results and the Company's 2008 Interim Statutory Results for the six months ended 30 June 2009 and 2008, together with the independent review reports thereon, are incorporated by reference into this document. The independent review reports for the six months ended 30 June 2009 and 2008 were unqualified. The condensed set of financial statements for the six months ended 30 June 2009 and 2008 were prepared in accordance with IAS 34.

D. OPERATING AND FINANCIAL REVIEW RELATING TO LLOYDS BANKING GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2009 AND 2008

The results of operations discussed below are not necessarily indicative of the Group's results of operations or financial condition in future periods. The following information contains certain forward-looking statements. See "Forward Looking Statements" herein for a discussion of certain cautionary statements relating to forward-looking statements.

The following discussion should be read in conjunction with the Group's and HBOS's audited consolidated financial statements for the years ended 31 December 2008, 2007 and 2006 and the related notes thereto and the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2009 and 30 June 2008, all of which are incorporated herein by reference, including, without limitation, a segmental analysis of the Group's retail, wholesale, insurance and wealth and international divisions. The accounting policies used in the preparation of the audited consolidated annual financial statements are described in note 2 to the consolidated financial statements of the Group for the year ended 31 December 2008, in note 1 to the consolidated financial statements of the Group for the years ended 31 December 2007 and 2006 and in the 'Accounting Policies' note included within the audited consolidated financial statements for HBOS for the years ended 31 December 2008, 2007 and 2006. The accounting policies used in the preparation of the Group's unaudited condensed consolidated interim financial statements are described in note 2 to the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2009 and in note 1 to the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2008.

Presentation of results of operations

The acquisition of HBOS by the Group on 16 January 2009 has had a significant effect on the comparability of the Group's financial position and results of operations on a statutory basis. The statutory results of operations for the six months ended 30 June 2009 include the results of operations of HBOS only from 16 January 2009, together with the effects of the unwind of fair value adjustments made to the HBOS balance sheet on Acquisition, while the statutory results of operations for the six months ended 30 June 2008 do not include the results of operations of HBOS. The discussion in this operating and financial review is based on such statutory results of the Group. Investors are cautioned that the Group's results of operations and financial condition as of and for the six months ended 30 June 2008 are not directly comparable to the Group's results of operations and financial condition as of and for the six months ended 30 June 2009, nor are they representative of the Group's results of operations and financial condition after the Acquisition. On 5 August 2009, the Group published its Interim Results News Release as of and for the six months ended 30 June 2009.

Overview, trend information and outlook

While the Group has operations in both the United Kingdom and overseas, its earnings are heavily dependent upon its domestic activities. The state of the UK economy, therefore, has significant implications for the Group's performance. The UK economy experienced a significant slowdown in 2008, partly in response to the effects of credit market difficulties on consumer and business confidence and on the availability and pricing of loans. Against the backdrop of this market downturn, the UK banking industry has faced a challenging economic environment in both 2008 and the first half of 2009. In the first quarter of 2009, the United Kingdom experienced the fastest contraction of its GDP on record. These challenges have taken the form of falling interest rates, rising unemployment, reduced corporate cash flows and a sharp drop in residential and commercial property values, among other factors.

The significant recent deterioration in the UK economic environment has created an extremely challenging operating background against which to integrate two large banking organisations. In particular, the decline in residential and commercial property prices in the first quarter of 2009 had a significant impact on the Group's results of operations given the concentration of property assets within the heritage HBOS portfolio. Impairments on these assets reflect the prudent approach the Group has taken in valuing these assets and were the primary driver behind the substantial increase in impairment losses for the Group. Around 70 per cent. of the unaudited statutory impairment charge for the first half of 2009 was associated with heritage HBOS loans, the majority of which are outside Lloyds's historically more prudent risk appetite. Whilst there have been some recent positive economic indicators, the potential for rising unemployment and further corporate insolvencies is expected to continue to put pressure on some lending portfolios in the short-term. Underlying Wholesale impairment cases are expected to peak in the second half of 2009, but, after taking account of the material real estate related impairments in the first half of 2009, the overall impairment charge in the second half of 2009 is expected to be lower than the overall impairment charge in the first half of 2009. Impairments on retail and corporate assets would normally be expected to peak between one to two years after the trough of a recession. Given the level of provisions taken on the Group's property exposures, the Group believes overall impairments have peaked in the first half of 2009.

The Group believes that expenses have continued to be tightly managed and that it has delivered Acquisition synergies ahead of schedule, realising £107 million of cost reductions in the first half of 2009 of which £28 million were in Retail, £11 million in Wholesale, £11 million in Insurance, £49 million in Group Operations and £8 million in Central Items. The Group expects to end 2009 with annualised run-rate savings of approximately £700 million, and remains on track to deliver over £1.5 billion annualised run-rate cost savings by the end of 2011.

While the economic environment will remain challenging, management expects the economy to stabilise in the second half of 2009 and return to growth in 2010. In this environment, the Group intends to apply its low-risk customer relationship banking model across the enlarged business franchise and grow income by deepening customer relationships, drive down costs by delivering acquisition cost synergies and continuing to focus on cost efficiency across the Group, and progressively redeploy capital currently supporting capital intensive low return assets, to reduce the size of its balance sheet and invest in higher return customer relationship-based business. In this connection, the Group expects to run off approximately £200 billion of assets over the next five years that are not consistent with the Group's strategy of building sustainable customer relationship-based business, of which approximately £100 billion will be re-invested in its core customer relationship-based business.

Opportunities for income growth are expected to increase as business volumes recover and as margins improve. Asset margins should benefit as re-pricing better reflects the real cost of funding and risk and as funding spreads normalise. Deposit margins are expected to improve but more slowly and are likely to remain below the long-term trend for some time given the expectation that base rates will rise only slowly. Overall, the Group expects a significant slowdown in the rate of net interest margin reduction in the second half of 2009. Margins are expected to increase in 2010 but not to the levels seen in 2008.

Results of operations for the six months ended 30 June 2009 compared with the six months ended 30 June 2008

Consolidated Income Statement

	Six months ended 30 June	
	2009	**2008[1]**
	(unaudited) *(£ million, unless otherwise stated)*	
Interest and similar income	16,496	8,713
Interest and similar expense	(11,997)	(5,066)
Net interest income	**4,499**	**3,647**
Fee and commission income	2,266	1,582
Fee and commission expense	(951)	(351)
Net fee and commission income	1,315	1,231
Net trading income	(1,444)	(4,817)
Insurance premium income	4,552	2,914
Other operating income	3,778	305
Other income	**8,201**	**(367)**
Total income	**12,700**	**3,280**
Insurance claims	(2,902)	1,344
Total income, net of insurance claims	**9,798**	**4,624**
Operating expenses	(6,464)	(2,936)
Trading surplus	**3,334**	**1,688**
Impairment	(8,053)	(1,099)
Share of results of joint ventures and associates	(504)	4
Gain on acquisition	11,173	—
Profit before tax	**5,950**	**593**
Taxation	1,203	(11)
Profit for the period	**7,153**	**582**
Profit attributable to minority interests	58	12
Profit attributable to equity shareholders	7,095	570
Profit for the period	**7,153**	**582**
Basic earnings per share	**41.9p**	**9.8p**
Diluted earnings per share	**41.8p**	**9.8p**
Dividend per share for the period	**—**	**11.4p**
Dividend for the period	**—**	**£648m**

(1) Restated for IFRS2 (revised).

The Group's profit before tax in the first half of 2009 was £5,950 million compared to a profit of £593 million in the first half of 2008. The profit attributable to equity shareholders was £7,095 million compared to £570 million in the first half of 2008. Basic earnings per share were 41.9 pence compared to 9.8 pence in

the first half of 2008. The profit before tax reported by the Group was driven by the gain arising on the Acquisition of £11,173 million partially offset by a significant rise in the impairment charge to £8,053 million for the first half of 2009 compared to £1,099 million in the first half of 2008.

Net interest income

Net interest income in the first half of 2009 was £852 million higher at £4,499 million compared to £3,647 million in the first half of 2008. The increase in net interest income in part reflects the impact of the Acquisition (in the first half of 2008 HBOS had net interest income of £3,985 million) although this was to a large extent offset by the effect of the unwind of fair value adjustments booked on the Acquisition (which reduced the Group's net interest income for the first half of 2009 by £1,496 million) and lower net interest income in both the Lloyds TSB and HBOS businesses. The reduced net interest income within the businesses reflects a tightening of overall margins as higher asset pricing was more than offset by the impact of lower deposit margins, reflecting the impact of falling base rates and higher funding costs, caused in part by the extension of the wholesale funding maturity profile.

During the first half of 2009, net interest income in the Group's UK retail operations was negatively impacted by reduced margins on deposit and savings products, reflecting the impact of higher overall funding costs from the wholesale money markets together with the lower base rate, although this impact was partly offset by higher asset pricing.

Net interest income in the Group's wholesale operations in the UK suffered from higher funding costs, which more than offset increased asset pricing.

Net interest income in the Group's overseas operations was adversely impacted by low base rates, which reduced underlying deposit margins, and deposit outflows due to market conditions in the second half of 2008 together with a highly competitive deposit market.

Other income

In the first half of 2009, other income was £8,568 million higher at £8,201 million compared to a deficit of £367 million in the first half of 2008; again, the Acquisition was a significant factor. There was a significant improvement in net trading income during the period, primarily arising in the insurance businesses as a result of a sharp reduction in the level of losses on shareholder and policyholder investments (which are broadly matched by movements in the insurance claims expense, see "Insurance Claims" below) reflecting relative market movements over the two half-years. Net trading income within the banking businesses was also improved, as the adverse impact of credit market uncertainties in the first half of 2008 was not repeated in 2009 and the Group benefited from a more favourable interest and currency rate environment, good transaction volumes in capital markets and strong flows of client driven derivative transactions at improved spreads. In addition, during the first half of 2009, £745 million of gains were realised on a number of balance sheet liability management transactions.

Other income in the Group's UK retail operations was adversely affected by the introduction in 2009 of a new monthly premium payment protection product which had a significant negative impact on the recognition of income compared to the single payment product that it replaced.

Other income in the Group's wholesale operations in the UK benefited from the reduced impact of market dislocation and the continued strength in trading and sales activity, as well as the combined effects of a more favourable interest and currency rate environment, good transaction volumes in capital markets and strong flows of client driven derivative transactions at improved spreads.

In the Group's insurance operations, the substantial improvement in net trading income, arose as a result of a sharp reduction in the level of market-related losses on policyholder investments, which was only

partly offset by a reduction in income following a market-wide reduction in life, pension and investment sales across both the UK and Europe.

The Group's wealth management businesses experienced lower fund management fees, driven principally by falls in global stock markets. The overseas operations experienced improved other income, largely due to favourable foreign exchange movements.

Insurance claims

Insurance claims were an expense of £2,902 million in the first half of 2009 compared to a credit of £1,344 million in the first half of 2008. The improved returns on policyholder investments in the long-term insurance businesses (both the Lloyds TSB businesses and those acquired with HBOS on 16 January 2009) have led to an increase in insurance related liabilities and therefore a charge to the insurance claims expense in respect of the life and pensions businesses. Within the general insurance business, increased creditor unemployment claims have been partially offset by the impact of largely benign weather conditions.

Operating expenses

Operating expenses were £3,528 million higher at £6,464 million in the first half of 2009 compared to £2,936 million in the first half of 2008. This primarily reflects the impact of the Acquisition, where operating expenses in the first half of 2008 amounted to £3,177 million, together with further costs associated with the Acquisition of £722 million, being £358 million of integration costs and a charge of £364 million in relation to the amortisation of purchased intangible assets arising on Acquisition. During the first half of 2009, operating expenses also included a charge of £130 million in respect of the Financial Services Compensation Scheme levy (there was no such charge in the first half of 2008) and a charge of £240 million in respect of the impairment of goodwill in the Group's Asset Finance businesses; however the first half of 2008 included a provision of £180 million in respect of certain historic US dollar payments that was not repeated in 2009. Operating expenses across the Group have continued to be controlled as the integration of the Lloyds TSB and HBOS businesses has progressed; over the first half of 2009, staff numbers for the two businesses have reduced by 2,619 to 118,207, as the Group has started to achieve its planned cost synergy savings. The Group has already made significant progress in capturing savings from areas such as procurement and £107 million of cost synergy savings have been realised in the first half of 2009.

Within the retail operations in the UK, productivity has improved in the Lloyds TSB branch network during the first half of 2009 as the business continued to realise the benefits of the investments made in 2008 in developing branch staff as well as increasing the number of branches opening on a Saturday, while productivity in the Halifax branch network has improved during the period with the introduction of the Lloyds TSB leads system to support more effective cross selling of products.

Within the wholesale operations in the UK, excluding the impact in the first half of 2008 of a provision of £180 million in respect of certain historic US dollar payments, operating expenses were lower as a result of continued focused cost control and reduced levels of operating lease business in asset finance operations, despite a controlled investment in front and back office functions to support the larger treasury and trading areas.

Operating expenses in the Group's wealth management and overseas operations increased as a result of foreign exchange movements, additional costs associated with transitional services following the disposal of BankWest and St. Andrews Australia and the development of a deposit taking operation in Germany. These businesses continue to focus on driving through efficiency gains from effective integration whilst also redeploying investment into higher growth areas.

Across the Group, information technology costs decreased due to lower investment demand as projects have been stopped as a result of the integration of HBOS but there were increases in money transmission costs, increased collections activity and increases in depreciation. Support function costs increased as a result of investments to further improve fraud detection capability and payments filtering to ensure that the demands of increased regulation are met. At the Group centre, there were higher professional fees and other costs associated with capital transactions and other projects.

The Group's cost: income ratio was 66.0 per cent. compared to 63.5 per cent. in the six months to 30 June 2008, reflecting the income and expense trends described above.

Trading surplus

As a result of the movements in income, insurance claims and operating expenses discussed above, in the first half of 2009 the Group's trading surplus increased to £3,334 million from £1,688 million in the first half of 2008.

Impairment

The impairment charge was £6,954 million higher at £8,053 million in the first half of 2009 compared to £1,099 million in the first half of 2008. Additional impairments taken in the first half of 2009 in respect of the legacy HBOS lending portfolios were a significant factor in this increase; HBOS's impairment charge in the first half of 2008 was £1,455 million. The increased impairment charge in the first half of 2009 largely relates to loans and advances to customers and represents the fall in the value of commercial real estate and the impact of further economic deterioration during the period, including the effects of rising unemployment, reduced corporate cash flows and the continuing impact of lower house prices. Impairment charges in respect of debt securities classified as loans and receivables and in respect of available-for-sale financial assets both increased, in relation to assets taken on as part of the Acquisition.

Impairment charges in the Group's retail lending businesses were higher in respect of both secured and unsecured lending as a result of the Acquisition, the effect of lower house prices on the mortgage impairment charge and the impact of rising unemployment on the ability of borrowers to repay. In the context of the uncertain UK economic environment and the potential for increased consumer arrears and insolvencies, the Group continues to enhance underwriting, collections and fraud prevention procedures.

Within the wholesale lending businesses, the increase in impairment charges was even more significant, much of that increase arising in the Group's Corporate Markets portfolio which felt the effects of the weakened economic climate leading to higher levels of corporate distress, notably in commercial real estate-related portfolios and elements of the US corporate lending portfolios acquired with HBOS. In the other overseas portfolios, increased impairment charges reflected a significant increase in impaired assets driven by the severe decline in the commodity and property sectors in Australia and the collapse in liquidity in the Irish property markets. The Group believes the overall wholesale impairment charge peaked in the first half of 2009 and expects a significant reduction in the underlying wholesale impairment charge in the second half of 2009. The Group expects the mix of the impairment charge to change and expects lower charges from real estate and real estate-related businesses being partially offset by higher charges from corporate and commercial businesses, as a result of challenging economic conditions and corporate failures.

Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates was a loss of £504 million in the first half of 2009 compared to a profit of £4 million in the first half of 2008. This primarily reflects the Acquisition. HBOS's joint venture and associate investments were impacted by the deterioration in the economic climate impacting UK property prices and the underlying businesses.

Gain on acquisition

Following the Acquisition in January 2009, the Group has recognised a benefit of £11,173 million in respect of negative goodwill. This arises because the consideration paid to acquire HBOS was less than the fair value of the net assets acquired, reflecting the circumstances surrounding the transaction.

Assets, liabilities and capital ratios

Set out below are the key balance sheet measures relevant to the Group's business.

Consolidated Balance Sheet

	As at 30 June 2009	**As at 31 Dec 2008**
	(unaudited)	
	(£ million)	
Assets		
Cash and balances at central banks	60,384	5,008
Items in course of collection from banks	2,046	946
Trading and other financial assets designated at fair value through profit or loss	132,634	45,064
Derivative financial instruments	52,187	28,884
Loans and receivables:		
Loans and advances to customers	652,599	240,344
Loans and advances to banks	37,398	38,733
Debt securities	38,142	4,416
	728,139	283,493
Available-for-sale financial assets	41,914	55,707
Investment property	4,587	2,631
Investments in joint ventures and associates	686	55
Goodwill	2,016	2,256
Value of in-force business	5,696	1,893
Other intangible assets	4,558	197
Tangible fixed assets	9,088	2,965
Current tax recoverable	1,071	300
Deferred tax assets	4,103	833
Other assets	14,020	5,801
Total assets	1,063,129	436,033

	As at 30 June 2009	As at 31 Dec 2008
	(unaudited)	
	(£ million)	
Equity and liabilities		
Deposits from banks	112,909	66,514
Customer deposits	429,082	170,938
Items in course of transmission to banks	1,361	508
Trading and other financial liabilities designated at fair value through profit or loss	19,121	6,754
Derivative financial instruments	49,686	26,892
Notes in circulation	956	—
Debt securities in issue	240,589	75,710
Liabilities arising from insurance contracts and participating investment contracts	68,928	33,792
Liabilities arising from non-participating investment contracts	42,921	14,243
Unallocated surplus within insurance businesses	720	270
Other liabilities	27,918	11,456
Retirement benefit obligations	1,982	1,771
Current tax liabilities	91	—
Deferred tax liabilities	190	—
Other provisions	683	230
Subordinated liabilities	30,966	17,256
Total liabilities	**1,028,103**	**426,334**
Equity		
Share capital	6,810	1,513
Share premium account	2,297	2,096
Other reserves	8,851	(2,476)
Retained profits	15,463	8,260
Shareholders' equity	**33,421**	**9,393**
Minority interests	1,605	306
Total equity	**35,026**	**9,699**
Total equity and liabilities	**1,063,129**	**436,033**

Acquisition of HBOS

On 16 January 2009, the Group acquired 100 per cent. of the ordinary share capital of HBOS plc, which together with its subsidiaries undertakes banking, insurance and other financial services related activities in the UK and internationally.

The table below sets out the fair value of the identifiable net assets acquired. The initial accounting for the Acquisition has been determined provisionally because of its complexity and the limited time available since the date of the Acquisition.

As the fair value of the identifiable net assets acquired is greater than the total consideration paid, negative goodwill arises on the acquisition. This is recognised as 'Gain on acquisition' in the income statement for the six-month period ended 30 June 2009.

	Book value as at 16 Jan 2009	Provisional fair value adjustments	Fair value as at 16 Jan 2009
		(unaudited statutory)	
		(£ million)	
Assets			
Cash and balances at central banks	2,123	—	2,123
Items in course of collection from banks	523	—	523
Trading and other financial assets at fair value through profit or loss	83,857	—	83,857
Derivative financial instruments	54,840	(808)	54,032
Loans and receivables:			
Loans and advances to banks	15,751	43	15,794
Loans and advances to customers	450,351	(13,512)	436,839
Debt securities	39,819	(1,411)	38,408
Available-for-sale financial assets	27,151	—	27,151
Investment property	3,002	—	3,002
Joint ventures and associates	1,152	23	1,175
Value of in-force business	3,152	561	3,713
Other intangible assets	215	4,550	4,765
Tangible fixed assets	5,610	7	5,617
Current tax recoverable	1,050	—	1,050
Deferred tax assets	2,556	231	2,787
Other assets	7,601	(652)	6,949
Total assets	698,753	(10,968)	687,785
Liabilities			
Deposits from banks	87,731	109	87,840
Customer deposits	223,859	835	224,694
Items in course of transmission to banks	521	—	521
Trading and other financial liabilities at fair value through profit of loss	16,360	—	16,360
Derivative financial instruments	45,798	—	45,798
Notes in circulation	936	—	936
Debt securities in issue	191,566	(6,247)	185,319
Liabilities arising from insurance contracts and participating investment contracts	36,405	282	36,687
Liabilities arising from non participating investment contracts	32,455	13	32,468
Unallocated surplus within insurance businesses	526	—	526
Other liabilities	10,169	(310)	9,859
Current tax liabilities	58	—	58
Deferred tax liabilities	245	1,219	1,464
Retirement benefit obligations	(198)	556	358
Other provisions	146	527	673
Subordinated liabilities	29,240	(9,193)	20,047
Total liabilities	**675,817**	**(12,209)**	**663,608**
Net assets acquired	**22,936**	**1,241**	**24,177**

	(£m)
Fair value of net assets acquired:	24,177
Adjust for:	
Preference shares[1]	(3,917)
Minority interests	(1,300)
Provisional adjusted net assets of HBOS acquired	**18,960**
Acquisition costs:	
Issue of 7,776 million ordinary shares of 25p in Lloyds Banking Group plc[2]	(7,651)
Fees and expenses related to the transaction	(136)
Total consideration	**(7,787)**
Gain arising on acquisition	**11,173**

(1) On 16 January 2009, the Group cancelled the following HBOS preference share issuances in exchange for preference shares issued by Lloyds Banking Group plc: 6.475 per cent. non-cumulative preference shares of £1 each, 6.3673 per cent. non-cumulative fixed to floating preference shares of £1 each and 6.0884 per cent. non-cumulative preference shares of £1 each. The fair value of the Lloyds Banking Group preference shares issued is deducted from the net assets acquired for the purposes of calculating the gain arising on acquisition.

(2) The calculation of consideration is based on the closing price of Lloyds TSB ordinary shares of 98.4p on 16 January 2009; 12,852 million HBOS shares were exchanged for 0.605 Lloyds Banking Group shares each.

Balance sheet movements

Total assets increased by £627,096 million to £1,063,129 million at 30 June 2009 compared to £436,033 million at 31 December 2008, largely due to the Acquisition. HBOS had total assets of £687,785 million on 16 January 2009, the date of Acquisition. Subsequent to the Acquisition, gross lending balances within the Group's retail businesses have seen some reduction, but this was largely a result of writing off impaired unsecured lending balances that had previously been provided for, as the size of the Group's UK mortgage portfolio was little changed despite an overall reduction in size of the UK mortgage market. Gross new UK mortgage lending was £18.3 billion during the first half of 2009 and net new UK mortgage lending was £1.0 billion during the same period. Wholesale lending balances were lower as a result of foreign exchange movements on the non-sterling portfolios and the impact of non-relationship lending portfolios starting to be reduced.

Customer deposits increased by £258,144 million to £429,082 million at 30 June 2009 compared to £170,938 million at 31 December 2008, at which date HBOS had customer deposits of £237,449 million. UK retail and wholesale deposits have increased over the first half of 2009, with the increase in wholesale deposits partly reflecting increased repurchase agreement activity, but there has been some reduction in deposit levels in the Group's wealth management and overseas businesses.

At 30 June 2009, the Group's exposure to certain categories of assets held within its UK wholesale operations, the values of which have been affected by capital markets uncertainties, was as described below:

- Asset Backed Securities (ABS): The Group had net exposure to £46.2 billion of ABS through an exposure of £19.9 billion to Mortgage Backed Securities, £7.5 billion to Collateralised Debt Obligations, £7.0 billion to personal loans, £9.2 billion to student loans, £1.1 billion to other types of ABS and £1.5 billion to bonds held with matching credit default swap protection. Of the Group's total ABS exposure, £36.5 billion of the underlying was rated AAA, £3.8 billion was rated AA, £2.5 billion was rated A and only £3.4 billion was rated BBB or lower. £27.3 billion of the total exposure to ABS was held directly and £18.9 billion was held through conduits.

- Monolines: During the first half of 2009 all exposure to sub-investment grade monolines on Credit Default Swap contracts was written down to zero, leaving an exposure of £0.5 billion, principally wrapped loans and receivables, to investment grade monoline insurers. In addition there was £0.1 billion wrapped bond exposure to sub-investment grade monoline insurers. In addition, the Group has £3.1 billion of monoline wrapped bonds and £1.0 billion of monoline liquidity commitments in respect of which the Group placed no reliance on the guarantor at 30 June 2009.

- Conduits: The Group sponsors three asset backed commercial paper conduits, Cancara, Grampian and Landale, which are special purpose vehicles that invest in securities across a number of asset classes and trade receivables. Total exposures in Cancara were £9,084 million at 30 June 2009 comprising £5,361 million of asset backed securities and £3,723 million of loans and advances to customers. Total exposures in Grampian were £13,664 million at 30 June 2009 comprising asset backed securities designated as loans and receivables. The Group fully consolidates the Cancara and Grampian conduits. Total external exposures in Landale were £648 million at 30 June 2009 and were consolidated onto the Group's balance sheet.

Capital adequacy

	As at 30 June 2009	As at 31 Dec 2008
	(£ million)	
Regulatory capital		
Core tier 1 capital	**30,306**	9,542
Tier 1 capital	**41,605**	13,701
Total capital	**51,350**	19,129
Capital ratios		
Core tier 1 capital ratio (%)	**6.3**	5.6
Tier 1 capital ratio (%)	**8.6**	8.0
Total capital ratio (%)	**10.6**	11.2

Core tier 1 capital increased by £20,764 million from £9,542 million at 31 December 2008 to £30,306 million at 30 June 2009. This increase reflected the issue of £4.5 billion ordinary shares to the UK Government in January 2009, an increase of some £17 billion in relation to the Acquisition (principally relating to the Ordinary Shares issued as consideration and the negative goodwill credit recognised) and an increase of £3.9 billion arising from the issue of ordinary shares via the May 2009 Placing and Compensatory Open Offer in June 2009, partly offset by trading losses, exchange rate and other movements.

Tier 1 capital and total capital similarly increased (to £41,605 million and £51,350 million respectively at 30 June 2009) as a result of the issue of ordinary shares to the UK government and the Acquisition, partly offset by trading losses, exchange rate and other movements.

The Group's core tier 1 capital ratio increased to 6.3 per cent. at 30 June 2009 from 5.6 per cent. at 31 December 2008 as the increase in capital described above was only partly offset by the inclusion of capital requirements in respect of the HBOS business; HBOS had risk-weighted assets of £328 billion as at 31 December 2008.

Capital Resources and Liquidity

Total Wholesale Funding and Liquidity

During the first half of 2009, the Group extended the maturity profile of wholesale funding, including the issuance of securities under the Credit Guarantee Scheme, such that, as at 30 June 2009, 47 per cent. of wholesale funding had a maturity date greater than one year. The Group believes that the maturity extension achieved has further diminished the risk to the Group's funding profile. Over time, and as and when improvements are seen in the capacity of wholesale funding markets, the Group expects to maintain the average maturity of its wholesale borrowings with a maturity date greater than one year in excess of 40 per cent. which the Group considers to be a suitable and sustainable proportion. In addition, increases in customer deposits and a reduction in assets mean that the Group expects to see a slow but steady improvement in its loan to deposit ratio. The Group does not set a target for this ratio (which it believes does not reflect either the quality of lending or the term of deposits held) but would expect to see it return to heritage Lloyds TSB levels of approximately 140 per cent. over the next few years.

Total wholesale funding is analysed by residual maturity as follows:

	As at 30 June 2009	
	(unaudited statutory)	
	(£ billions)	*(%)*
Less than one year	177.1	53.1
One to two years	62.3	18.7
Two to five years	45.5	13.6
More than five years	48.6	14.6
Total wholesale funding	**333.5**	**100.0**

For further information on the Group's liquidity and capital resources including the Group's cash flow statement, see "Capital Resources" herein.

HISTORICAL FINANCIAL INFORMATION RELATING TO THE HBOS GROUP

A. AUDITED FINANCIAL INFORMATION

1 Basis of Financial Information

The financial statements of HBOS included in the consolidated audited annual report and accounts of HBOS for the financial years ended 31 December 2008, 2007 and 2006, together with the audit reports thereon, are incorporated by reference into this document. The audit reports for each of the financial years ended 31 December 2008, 2007 and 2006 were unqualified. The financial statements for the years ended 31 December 2008, 2007 and 2006 were prepared in accordance with IFRS.

2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

2.1 Financial Statements for the year ended 31 December 2008 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the annual report and accounts of HBOS for the financial year ended 31 December 2008:

- Independent Auditors' Report – page 40;
- Consolidated Income Statement – page 41;
- Consolidated Balance Sheet – pages 42 to 43;
- Consolidated Statement of Recognised Income and Expense – page 44;
- Consolidated Cash Flow Statement – pages 44 to 45; and
- Notes to the Financial Statements – pages 48 to 140.

2.2 Financial Statements for the year ended 31 December 2007 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the annual report and accounts of HBOS for the financial year ended 31 December 2007:

- Independent Auditors' Report – page 152;
- Consolidated Income Statement – page 153;
- Consolidated Balance Sheet – pages 154 to 155;
- Consolidated Statement of Recognised Income and Expense – page 156;
- Consolidated Cash Flow Statement – pages 156 to 157; and
- Notes to the Accounts – pages 160 to 223.

2.3 Financial Statements for the year ended 31 December 2006 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the annual report and accounts of HBOS for the financial year ended 2006:

- Independent Auditors' Report – page 123;
- Consolidated Income Statement – page 124;
- Consolidated Balance Sheet – pages 125 to 126;
- Consolidated Statement of Recognised Income and Expense – page 127;
- Consolidated Cash Flow Statement – pages 127 to 128; and
- Notes to the Accounts – pages 131 to 191.

B. OPERATING AND FINANCIAL REVIEW RELATING TO THE HBOS GROUP

A review of the HBOS Group's financial condition and operating results for the financial years ended 31 December 2008 and 2007 can be found on pages 118 to 161 of the Company's Placing and Compensatory Open Offer Prospectus and is incorporated by reference herein.

A review of the HBOS Group's financial condition and operating results for the financial years ended 31 December 2007 and 2006 can be found on pages 73 to 116 of the HBOS Rights Issue Prospectus and is incorporated by reference herein. The results for the years ended 31 December 2007 and 2006 are not directly comparable to the results for the years ended 31 December 2008 and 2007, which are incorporated by reference as stated above, for the reasons stated on pages 119 and 120 of the Company's Placing and Compensatory Open Offer Prospectus under the heading "Overview".

C. HBOS GROUP SELECTED STATISTICAL AND OTHER INFORMATION AND REVIEW

A review of selected statistical and other information relating to the HBOS Group for the financial years ended 31 December 2008, 2007 and 2006 can be found on pages 162 to 167 of the Company's Placing and Compensatory Open Offer Prospectus and is incorporated by reference herein.

Following the Acquisition, the HBOS Group has adopted the Group's risk practices. A review of the risk management practices in effect in HBOS during 2008 can be found on pages 168 to 177 of the Company's Placing and Compensatory Open Offer Prospectus and is incorporated by reference herein.

CAPITAL RESOURCES

A. LLOYDS BANKING GROUP

1 Capitalisation and Indebtedness

The tables below show the unaudited capitalisation of the Group as at 30 June 2009 and financial indebtedness of the Group as at 31 August 2009 and exclude balances between entities that comprise the Group.

Capitalisation

	30 June 2009
	(£ millions)
Share capital – authorised	
Sterling	
Ordinary shares of 25p each	11,330
Limited voting ordinary shares of 25p each	20
Preference shares of 25p each	200
	11,550
U.S. Dollars	
Preference shares of 25 cents each	$40
Euro	
Preference shares of 25 cents each	€40
Japanese yen	
Preference shares of ¥25 each	¥1,250
Share capital – allotted, called up and fully paid	
Ordinary shares of 25p each	6,790
Limited voting shares of 25p each	20
	6,810
Reserves	26,611
Total shareholders' equity	**33,421**

Group Indebtedness

	31 August 2009
	(£ millions)
Subordinated liabilities	
Preferred securities	8,702
Undated subordinated liabilities	6,509
Dated subordinated liabilities	16,333
Total subordinated liabilities	**31,544**
Debt securities	
Debt securities in issue	246,061
Liabilities held at fair value through profit or loss (debt securities)	6,041
Total debt securities	**252,102**
Total indebtedness	**283,646**

The amounts shown above incorporate provisional fair value adjustments made upon the acquisition of HBOS on 16 January 2009.

2 Cash Flow Analysis

The cash flow analysis of the Group for (i) the years ended 31 December 2008 and 2007 is set out on pages 101 and 177 to 179 of the Company's 2008 Annual Report; (ii) the year ended 31 December 2006 is set out on pages 81 and 143 to 145 of the Company's annual report and accounts for the year ended 31 December 2007; and (iii) the six months ended 30 June 2009 is set out on page 92 of the Company's 2009 Interim Statutory Results, such pages being incorporated by reference into this document.

B. HBOS GROUP

Cash Flow Analysis

The cash flow analysis of the HBOS Group for the years ended 31 December 2008, 2007 and 2006 can be found on page 180 of the Company's Placing and Compensatory Open Offer Prospectus and is incorporated by reference herein.

C. CAPITAL RESOURCES AND LIQUIDITY

Capital resources	As at 30 June 2009	As at 31 December 2008
	(£ millions)	
Core tier 1		
Ordinary share capital and reserves	34,519	9,573
Regulatory post-retirement benefit adjustments	515	435
Available-for-sale revaluation reserve and cash flow hedging reserve	2,069	2,997
Other items	149	(8)
	37,252	12,997
Less deductions from tier 1		
Goodwill and other intangible assets	(6,183)	(2,356)
Other deductions	(763)	(1,099)
Core tier 1 capital	30,306	9,542
Perpetual non-cumulative preference shares		
Preference share capital	4,944	1,966
Innovative tier 1		
Preferred securities	6,787	3,169
Less: restriction in amount eligible	(432)	(976)
Total tier 1 capital	**41,605**	**13,701**
Upper tier 2		
Available-for-sale revaluation reserve in respect of equities	54	8
Undated subordinated debt	3,825	5,189
Innovative capital restricted from tier 1	432	976
Collectively assessed impairment provisions in respect of standardised portfolios and eligible surplus provisions in respect of IRB portfolios	2,884	21
Lower tier 2		
Dated subordinated debt	13,386	5,091
Deductions from tier 2		
Other deductions	(763)	(1,099)
Total tier 2 capital	**19,818**	**10,186**
Supervisory deductions		
Unconsolidated investments – life	(8,729)	(4,208)
Unconsolidated investments – other	(1,344)	(550)
Total supervisory deductions	**(10,073)**	**(4,758)**
Total capital resources	**51,350**	**19,129**
Risk weighted assets	482,455	170,490
Core tier 1 ratio	6.3%	5.6%
Tier 1 capital ratio	8.6%	8.0%
Total capital ratio	**10.6%**	**11.2%**

The effective management of capital risk remains central to the Group's strategy. The Group continues to be focused on the maintenance of a strong capital base, to ensure this base expands appropriately and to utilise capital efficiently throughout the Group's activities to both maintain a prudent relationship between the capital base and the underlying risks of the business and also optimise returns to shareholders. In the

pursuit of this focused approach to capital risk management, the Group follows the supervisory requirements of the FSA. In 2008, the key focus of capital adequacy shifted to the ratio of core tier 1 capital to risk-weighted assets. In 2009, the emphasis has shifted further, with the FSA now paying significant attention to projections of the core tier 1 capital ratio in a pre-defined stress situation. The FSA has indicated that it expects banking groups to maintain a tier 1 capital ratio of at least 8 per cent. in normal circumstances and a core tier 1 capital ratio of at least 4 per cent. throughout the cycle. At 31 December 2008, the Group had a published core tier 1 capital ratio of 5.6 per cent. and at 30 June 2009 this had risen to 6.3 per cent. The Group has at all times been in compliance with FSA guidance on capital requirements and expects to continue to comply with that guidance in the future. See Risk Factor 1.5 for a discussion of the risks relating to the Group's regulatory capital requirements.

The Group continually strives to manage its balance sheet efficiently and to ensure it remains in a position of strength. The level of capital within the business is an important metric in assessing such strength, and over recent months the Board has taken various steps to increase the Group's capital ratios, in particular the core tier 1 capital ratio. During the first half of 2009, the Group completed a number of balance sheet liability management exercises that have generated significant core tier 1 capital by redeeming certain upper tier 2 securities at a discount to their balance sheet carrying value. A substantial number of noteholders have accepted the various offers made and, as a result, the Group realised a pre-tax profit from these transactions of £745 million. In June 2009, the Group redeemed £4 billion of preference shares held by HM Treasury from the proceeds of an issuance of Ordinary Shares, thereby improving the core tier 1 capital ratio. The Group has reviewed, and is satisfied with, the adequacy of its capital resources in the context of the level of corporate impairments experienced by the Group in the first half of 2009.

In the context of continued turbulence and uncertainty in the financial markets the Board believes it is essential to maintain higher levels of capital in order to ensure the Group remains resilient to any further shocks to the financial system and that it remains competitive. It has therefore considered both the Rights Issue and the Exchange Offers as ways to further strengthen that resilience. The Board believes that the Rights Issue and the Exchange Offers will provide the Group with the capital required to satisfy the FSA regulatory capital requirements under the "stress test" of continuing to meet minimum regulatory capital levels, even under severe adverse economic circumstances. They are expected to substantially strengthen the quality and size of the Group's capital base. Had the Rights Issue completed as at 30 June 2009, the Group would have had a core tier 1 capital ratio of approximately 8.6 per cent., taking into account expenses of the Rights Issue and the Exchange Offers and the fee of £2.5 billion paid 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 (the "**GAPS Payment**"). The Board considers that this level of core tier 1 capital represents a strong capital foundation to support the future stability and success of the Group. Following completion of the Rights Issue and the Exchange Offers, it is not expected that there will be any requirement for further market issuance of securities outside the normal course of business to meet the FSA's stress tests in the foreseeable future.

The Group's liquidity management framework focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the maturity mismatch of assets and liabilities across the balance sheet, as well as from undrawn commitments and other contingent obligations. The aim of the Group's balance sheet management is to maintain substantial funding diversification, minimise concentration across the Group's various deposit sources and control the level of reliance on total short-term wholesale sources of funds (both secured and unsecured). As part of the Group's planning process, it regularly reviews the forecast structure of its balance sheet over the plan period, and updates the funding plan, as appropriate, reflecting current estimates of market capacity for the Group across various wholesale markets. In addition, the Group continuously monitors the level of large deposits taken from individual banks, corporate, non-bank financial institutions and other customer types and also monitors daily the Group's cumulative wholesale cash outflow profile over a 60-day horizon. The Group operates within the

context of a full suite of liquidity metrics to ensure that the Group is within the liquidity risk appetite set, and regularly monitored, by the Board.

The Group has maintained a consistent funding strategy over the last 12 months. Customer deposits have remained stable since 31 December 2008 (excluding the managed reduction in certain highly price sensitive corporate deposits), and the wholesale funding requirement has been managed to ensure that the Group has a consistent market presence. The Group believes that the success of this approach has been demonstrated by the continuing ability of the organisation to originate wholesale funding at competitive levels. However, the ability of the Group to access wholesale funding consistently is subject to a variety of factors, including a number outside of its control, such as macro liquidity constraints, general market conditions, the encouraged or managed repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the UK banking system. In addition, wholesale funding is only one of several important resources of funds for the Group, and is not of itself sufficient to meet the Group's funding requirements. See Risk Factor 1.14 for further disclosure of liquidity risks affecting the Group.

Notwithstanding the Group's success at refinancing in the wholesale markets, there have obviously been significant consequences for banks generally of the overall lack of market liquidity. In particular, there have been periods when the lack of availability of term money market funding for all issuers has resulted in pressure on short-term liquidity ratios. The Group continues to manage well within all regulatory liquidity ratios, and has implemented a series of internal measures that are more restrictive than the regulatory minimum.

Since the Acquisition, the Group has established a materially larger liquid asset portfolio (of high quality government debt securities and cash reserves) than Lloyds TSB and HBOS did on an aggregate basis in 2008, to further strengthen the Group's liquidity position. The Group currently maintains a liquid asset buffer well in excess of regulatory minimums: as at 25 September 2009 the Group held approximately £76 billion of unencumbered AAA government securities and cash reserves, and an additional £23 billion of unencumbered central bank eligible collateral, also available for third-party market repo transactions (the regulatory minimum requirement is £28 billion of eligible collateral, per the current FSA Sterling Stock Liquidity Regime).

As further governmental and central bank support schemes/mechanisms have become available, the Group considers the merits of the alternatives on an ongoing basis, and ensures that it is well positioned to access any of the schemes should it wish to do so. Both Lloyds TSB Bank and Bank of Scotland have established debt programmes to issue under the Credit Guarantee Scheme, and have issued debt pursuant to such programmes. The Group has also participated in the Special Liquidity Scheme, although this scheme is now closed. Notwithstanding the utilisation of the various liquidity schemes introduced to allay systemic pressures, the Group fully expects to meet all the obligations of the schemes under their existing contractual terms. The Group does not anticipate that there will be any extension or renewal of the Special Liquidity Scheme (which was closed for new transactions in January 2009), or the Credit Guarantee Scheme, which will close for new issuance in December 2009.

The FSA has recently introduced a new Policy Statement (PS 09/16), which will broadly require UK banks (and non-UK bank branches operating in the UK) to operate to a more conservative regulatory risk appetite. The Group is already planning on the basis of its estimation of the new requirements, although it does anticipate that there will be a period of dialogue with the FSA before formal quantitative standards are defined (the ILAS process).

Government and central bank funding and liquidity support

Background and reliance to date

In light of the extremely distressed market conditions prevalent last year, the UK Government and the Bank of England announced a broad range of measures intended to ease both the cause and the symptoms of the turbulence in the UK banking system, including the provision of liquidity and funding support to banks. Eligible institutions were encouraged to make use of certain liquidity and funding schemes to provide sufficient liquidity in the short term, to permit them to restructure their finances and to ensure that they had capacity available to maintain lending in the medium term.

The Group has utilised these liquidity and funding schemes, in some cases to a large extent, in a manner that the Board considers prudent, and when appropriate, as part of the Group's strategy to increase the maturity profile of its wholesale funding and to de-risk its funding position. In particular the Group has, along with other major UK banks and building societies, participated in the Bank of England's Special Liquidity Scheme ("SLS") which was announced in April 2008, and the credit guarantee scheme created by HMT ("CGS"), which was introduced in October 2008. The Group's dependence on the Government and Bank of England, via the SLS and CGS, and other governmental and central bank schemes for a significant proportion of its funding and liquidity resources continues as at the date of this document and is expected to continue in the near term. The Group currently has significant outstanding collateralised borrowings, or outstanding guaranteed debt, under various government-sponsored and central bank schemes in an aggregate amount of approximately £165 billion (including, as set out below, the SLS, the Bank of England's Extended Long Term Repo Operations and the CGS, together with certain other government schemes outside the UK).

In 2008, prior to the Acquisition, both Lloyds TSB and Bank of Scotland participated in the SLS in order to bolster liquidity resources, and to provide a medium term bridge which reduced short term wholesale refinancing requirements. In particular, the Bank of Scotland was heavily reliant on the liquidity provided under the SLS, as well as other central bank funding, in the last quarter of 2008. In order to further reduce liquidity and refinancing risk associated with the completion of the Acquisition, the Group increased its participation in early 2009.

Similarly, issuance under the CGS has provided the Group with access to term funding in market conditions which were extremely difficult for all banks (Q4 2008 and Q1 2009 in particular), and allowed the Group to continue to lengthen its wholesale funding maturity profile. The Group has issued both medium term (up to 3 year maturity) and short term debt under the scheme. As investor and market confidence have improved over the course of 2009, the Group has focused on longer term non-Government guaranteed issuance, and has successfully issued over £7 billion of senior unsecured debt and residential mortgage backed securities ("RMBS") since June 2009. Use of the above schemes has enabled the Group to extend its wholesale funding maturity profile and increase its liquidity reserves (to approximately £100 billion, as discussed above), thereby reducing refinancing risk.

The Group is also eligible to participate in the Bank of England's "Discount Window Facility" scheme ("DWF scheme"), the purpose of which is to offer "liquidity insurance to the banking system". As of the date of this document, the Group has not participated in the DWF scheme, and the Group's intention is to only use non Government-backed sources for new funding of its operations. However, while the Group does not currently participate in the DWF scheme, and does not anticipate using this facility in the ordinary course of its business, the Group will in the future periodically test operational access to the DWF scheme, to be consistent with the FSA's new regulatory liquidity requirements recently published (PS09/16), which require that all liquidity facilities must be tested regularly (section 8.16). Tests will likely be of a material size, c. £1 billion or more, to adequately test the facility.

Although the Group remains eligible to participate in the DWF scheme, the Group would currently only expect to utilise this facility if the UK economy declined to such an extent that the Group's performance

metrics fell below those envisaged by the FSA Stress Test, and if the Group's liquidity was severely impacted by multiple rating downgrades.

The Group also regularly participates in major central bank money market repo operations as part of its normal day to day funding activity. The principal operations in which the Group currently participates are those provided by the Bank of England (Open Market Operations, Long Term Repo) and certain other central bank facilities outside the UK. These facilities are part of current regular central bank operations. Although it is likely that some of the facilities will be scaled back over time, it is the Group's view that this will be more than offset by the continuing recovery in broader repo markets. The Group is also a regular participant in third-party market repo transactions (as at the date of this document the gross volume of the Group's market and central bank repo transactions outstanding across all markets is approximately £100 billion).

In summary, the Group has been heavily reliant on certain central bank and government-backed liquidity schemes, which provide medium term liquidity and funding, over the past 18 months, in line with its prudent funding strategy, and expects to remain so until such funding has been refinanced as it reaches maturity. Were such schemes to be terminated early and all outstanding repayments accelerated, the Group would likely face a short-term increase in reliance on short-term money market funding which could place the Group at a materially higher refinancing risk. The Group would seek to replace the short-term funds with longer-dated liabilities as soon as practical. Therefore, despite the improvement in market liquidity during the second and third quarters of 2009, the Group continues to be reliant upon various government facilities in order to maintain a satisfactory term wholesale funding profile.

Intentions of the Group until scheme closures

The Group does not anticipate that there will be any extension or renewal of the SLS, or CGS (which will close for new issuances in December 2009).

The SLS participation window closed in January 2009, and the scheme will mature by the end of January 2012. The Group fully expects to meet all the obligations of the scheme under the existing contractual terms, with a participation which will steadily reduce to zero over the remaining scheme life. The Group will repay all CGS debt on the scheduled maturity dates. The Group has disclosed, in its 2009 interim results, details of securitisations issued to the market and retained by the Group.

The majority of the collateral retained by the Group has been deployed in central bank liquidity facilities (including the SLS) and market repo transactions.

The Group expects that the refinancing concentration it will face upon the maturity of SLS transactions and CGS issuances in the short-to-medium term (primarily H2 2011 and H1 2012) will be mitigated by the combination of reducing its own liquidity needs through scaling down the Group's net wholesale funding requirement, extending its access to the term capital markets, and developing new sources of sustainable funding.

The Group anticipates that a material portion of its SLS borrowings will be repaid in 2010, with further scheduled paydowns over the course of 2011. The Group also intends to repay a significant volume of maturing CGS debt over the next 6 months.

Going forward, the Group intends to continue to rely on the legacy utilisation of the SLS and CGS, but as market conditions improve, and as such government backed funding sources reach their maturity dates, the Group expects to replace such funding in the open market.

Improvements in liquidity funding plan outside of government schemes

Consistent with the intentions of the Group outlined above, the Group has developed a medium term funding plan which is regularly reviewed with the FSA, HM Treasury and the Bank of England.

The challenge facing the Group over the medium term is to continue to appropriately access the term funding markets, and for the Group to continue to reduce its utilisation of government sponsored funding and guarantee schemes. The combination of a clear focus on appropriately reducing the Group's balance sheet, developing the Group's retail liability base, and strategically accessing the capital markets should ensure the Group continues to strengthen its funding base.

The Group has identified approximately £300 billion of assets associated with non-relationship lending and investments, including business which is outside the Group's current risk appetite. The intention is to manage these assets for value and, given the current economic climate, the primary focus will be on reducing these assets down over time. Over the next five years, the Group expects to achieve a reduction in such assets of approximately £200 billion (customer lending c. £140 billion; treasury assets £60 billion; risk-weighted assets £100 billion) which equates to approximately 20 per cent. of the Group's total balance sheet assets as at 30 June 2009.

Such a reduction over time will provide the Group with increased optionality and flexibility from the resultant releases in both funding and capital. It is the Group's current view that up to half of the released funding and capital would be deployed in its core relationship businesses, principally in the UK. The remaining funding benefit is expected to be absorbed within the Group's overall funding plan, which includes actions to increase retail and corporate deposits and together these actions are expected to reduce the proportion of the Group's funding that is derived from wholesale markets. The impact of running down those portfolios is not expected to have a significant impact on the Group's income over the coming five-year period.

Development of funding sources

Group comparable funding analysis by product as at 31 August 2009

	Total funding raised as at 31 August 2009	**Percentage of Total Group funding raised as at 31 August 2009**	**Total funding raised as at 31 Dec 2008**	**Percentage of Total Group funding raised as at 31 Dec 2008**
Funding Analysis by Product	*(£ billion)*	*(%)*	*(£ billion)*	*(%)*
Bank deposits	51.2	7.2	54.9	7.6
Debt securities in issue:				
Certificates of deposit	68.4	9.7	77.5	10.7
Medium term notes	85.2	12.0	63.5	8.8
Covered bonds	27.8	3.9	29.1	4.0
Commercial paper	32.7	4.6	28.9	4.0
Securitisation	38.4	5.4	43.6	6.0
	252.5	35.6	242.6	33.5
Subordinated debt	34.2	4.8	45.4	6.3
Total wholesale (excluding non-bank deposits)	337.9	47.7	342.9	47.4
Customer deposits	370.9	52.3	381.0	52.6
Total Group funding[1]	708.8	100.0	723.9	100.0

(1) Excluding repo and conduits

In the eight month period from 31 December 2008 to 31 August 2009, the Group was able to improve its funding through access to the debt capital markets, with debt securities in issue rising from £242.6 billion as at 31 December 2008 to £252.5 billion as at 31 August 2008, an increase of £9.9 billion, or 4.1 per cent. In particular, issues of medium-term notes increased from £63.5 billion as at 31 December 2008 to £85.2 billion as at 31 August 2009, an increase of £21.7 billion, 34.2 per cent. over the eight month period. The Group sees the issuance of medium-term notes as its primary tool for accessing liquidity in the debt capital markets over the next three to five years.

The Group, via Lloyds TSB, has recently executed two public benchmark unguaranteed debt transactions, a EUR 2 billion seven year bond maturing in 2016 (announced in June 2009); and a EUR 1.5 billion 10 year bond maturing in 2019 (announced in August 2009). In September 2009, the Group also successfully issued in the primary RMBS market, via the sale of £4 billion of five year RMBS secured by Bank of Scotland prime residential mortgages by Permanent Master Issuer plc, the first public UK RMBS transaction in over 12 months (the EUR 10 year bond and the Permanent RMBS items are not included in the tables in Figure 1 above and Figure 2 below, as they were completed after 31 August 2009).

The Group notes that over the eight month period from 31 December 2008 to 31 August 2009, total Group funding declined from £723.9 billion to £708.8 billion, a decrease of £15.1 billion, or 2.1 per cent., reflecting the reduction in the balance sheet. Customer deposits decreased from £381.0 billion as at 31 December 2008 to £370.9 billion as at 31 August 2009, a decline of £10.1 billion, or 2.7 per cent. over the eight month period. This is primarily the result of the managed reduction in highly price sensitive Bank of Scotland corporate and fixed rate deposits.

Wholesale funding analysis

Group comparable funding analysis of residual maturity as at 31 August 2009

	Total funding raised as at 31 August 2009	**Percentage of total wholesale funding raised as at 31 August 2009**	**Total funding raised as at 31 Dec 2008**	**Percentage of total wholesale funding raised as at 31 Dec 2008**
Wholesale Residual Maturity Analysis	*(£ billion)*	*(%)*	*(£ billion)*	*(%)*
Less than one year	179.4	53.1	192.3	56.1
One to two years	62.7	18.6	29.8	8.7
Two to five years	46.7	13.8	62.2	18.1
More than five years	49.1	14.5	58.6	17.1
Total Wholesale Funding	337.9	100.0	342.9	100.0

In the eight month period from 31 December 2008 to 31 August 2008, the Group's total wholesale funding requirements decreased from £342.9 billion as at 31 December 2008 to £337.9 billion as at 31 August 2009, a reduction of £5 billion or 1.5 per cent.

The Group has been able to take advantage of the improved market sentiment and amend the size and shape of its wholesale funding structure over the eight month period from 31 December 2008 to 31 August 2009. In particular, the Group has extended the duration of much of its wholesale funding, successfully tapping the term debt markets in unguaranteed benchmark format. At 31 August 2009, the Group's term funding percentage (which comprises all wholesale funding other than funding with a term of less than one year, expressed as a percentage of total wholesale funding) had improved to 47 per cent. from 44 per cent. as at 31 December 2008 (as illustrated in Figure 2). The extension of the funding profile has reduced the potential short term refinancing risk for the Group, and influenced the size of the liquid asset holdings. The Group feels that, taking this eight month period as a whole, investor confidence and market conditions have continued to improve.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING HOLDERS OF NOTES

Subject to the withholding tax requirements set out under the section entitled "Taxation – U.K. Taxation", there are currently no U.K. laws, decrees or regulations that would affect the payment of interest or other payments to holders of notes who are neither residents of, nor trading in, the United Kingdom. For further discussion, see the section entitled "Taxation – U.K. Taxation". There are also no restrictions under either Issuer's memorandum and rules or under current U.K. laws that limit the right of non-resident or foreign owners to hold the notes or to vote, when entitled to do so.

UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE GROUP AS AT 30 JUNE 2009

Unaudited pro forma net assets statement of the Group as at 30 June 2009

The unaudited pro forma net assets statement of the Group as at 30 June 2009 and the notes thereto set out below (together, the "**pro forma net assets statement**") are based on the unaudited Interim Statutory Results of the Group, prepared in accordance with IAS 34, after applying the adjustments described in the notes set out below. The unaudited pro forma net assets statement has been prepared to show the effects of the Proposals on the assets, liabilities and core tier 1 capital ratio of the Group for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Group's actual financial position or results. The unaudited pro forma net assets statement has been prepared on the basis set out in the notes below and in accordance with Annex I and Annex II of regulation number 809/2004 of the European Commission (the "**PD Regulation**") and is provided herein solely for the purposes of Annex II of the PD Regulation.

		Adjustments			
Note	**Lloyds Banking Group (1)**	**Rights Issue (2)**	**Enhanced Capital Notes (3)**	**Other (4)**	**Pro forma**
			(£ million)		
Assets					
Cash and balances at central banks	60,384	13,500	7,500	(3,000)	78,384
Items in course of collection from banks	2,046	–	–	–	2,046
Trading and other financial assets designated at fair value through profit or loss	132,634	–	–	–	132,634
Derivative financial instruments	52,187	–	–	–	52,187
Loans and receivables	728,139	–	–	–	728,139
Available-for-sale financial assets	41,914	–	–	–	41,914
Investment property	4,587	–	–	–	4,587
Investment in joint ventures and associates	686	–	–	–	686
Goodwill	2,016	–	–	–	2,016
Value of in-force business	5,696	–	–	–	5,696
Other intangible assets	4,558	–	–	–	4,558
Tangible fixed assets	9,088	–	–	–	9,088
Current tax recoverable	1,071	–	–	800	1,871
Deferred tax assets	4,103	–	–	–	4,103
Other assets	14,020	–	–	–	14,020
Total assets	1,063,129	13,500	7,500	(2,200)	1,081,929

Note	Lloyds Banking Group (1)	Adjustments: Rights Issue (2)	Adjustments: Enhanced Capital Notes (3)	Adjustments: Other (4)	Pro forma
			(£ million)		
Liabilities					
Deposits from banks	112,909	–	–	–	112,909
Customer deposits	429,082	–	–	–	429,082
Items in course of transmission to banks	1,361	–	–	–	1,361
Trading and other financial liabilities designated at fair value through profit or loss	19,121	–	–	–	19,121
Derivative financial instruments	49,686	–	–	–	49,686
Notes in circulation	956	–	–	–	956
Debt securities in issue	240,589	–	–	–	240,589
Liabilities arising from insurance contracts and participating investment contracts	68,928	–	–	–	68,928
Liabilities arising from non participating investment contracts	42,921	–	–	–	42,921
Unallocated surplus within insurance businesses	720	–	–	–	720
Other liabilities	27,918	–	–	–	27,918
Retirement benefit obligations	1,982	–	–	–	1,982
Current tax liabilities	91	–	–	–	91
Deferred tax liabilities	190	–	–	–	190
Other provisions	683	–	–	–	683
Subordinated liabilities	30,966	–	7,500	–	38,466
Total liabilities	1,028,103	–	7,500	–	1,035,603
Net assets	35,026	13,500	–	(2,200)	46,326
Key balance sheet measures					
Risk-weighted assets	482,455	–	–	–	482,455
Core tier 1 capital	30,306	13,500	–	(2,200)	41,606
Core tier 1 capital ratio (%)	6.3				8.6

Notes to pro forma net assets statement

The pro forma net assets statement has been prepared on a basis consistent with the accounting policies adopted by the Company in preparing its Interim Statutory Results.

The pro forma net assets statement includes appropriate adjustments to account for the events directly associated with the Exchange Offers and the Rights Issue. Lloyds Banking Group costs which have been or are expected to be directly incurred as part of the Rights Issue and the Exchange Offers have been included.

(1) This column reflects the consolidated financial information of the Group as at 30 June 2009, which has been extracted without material adjustment from the Interim Statutory Results.

(2) This adjustment represents the gross proceeds arising from the Rights Issue (£13.5 billion). See note 4 below for details of costs associated with this issue.

(3) For the purposes of the pro forma net assets statement, in relation to the fully underwritten Exchange Offers, it has been assumed that the Group will issue £7.5 billion of Enhanced Capital Notes for cash. This adjustment represents the issue of these Enhanced Capital Notes. No value has been attributed to the conversion features embedded in the Enhanced Capital Notes as it is not possible to determine their accounting value, which will be based on market conditions on the pricing date. The fair value of the conversion features will be recognised as a derivative asset and an offsetting increase in subordinated liabilities. To the extent the Exchange Offers

are taken up by existing holders of eligible securities, the cash received as a result of the underwriting will reduce accordingly. See note 4 for details of costs associated with this issue.

(4) This adjustment represents Lloyds Banking Group costs directly attributable to the Proposals (estimated in total to be £500 million before tax relief of £100 million). These costs include, inter alia, the commitment commission paid to HM Treasury and the other aggregated costs and commissions payable by the Group. In addition adjustment has been made to reflect the GAPS Payment of £2.5 billion before tax relief of £700 million. All of these costs have been deducted from cash and balances at central banks for the purpose of the pro forma net assets statement.

(5) No adjustment has been made to reflect the trading results of the Group since 30 June 2009.

(6) If the Group's published core tier 1 capital ratio falls to less than 5 per cent., the Enhanced Capital Notes to be issued pursuant to the Proposals shall automatically convert into Ordinary Shares. In such circumstances, assuming the full amount of £7.5 billion of Enhanced Capital Notes are issued under the Proposals, the Group's core tier 1 capital would be increased by £7.5 billion, which, based on the Group's actual risk-weighted assets at 30 June 2009, would result in an increase in the Group's core tier 1 capital ratio of approximately 1.6 per cent.

FORM OF FINAL TERMS

[Date]

[Lloyds Banking Group plc] [Lloyds TSB Bank plc]
Issue of [Title of relevant Series of Notes (specifying type of Notes)] (the "Notes")
[guaranteed by Lloyds Banking Group plc]
issued pursuant to the Lloyds Banking Group plc and Lloyds TSB Bank plc
$35,000,000,000 Senior and Subordinated Medium-Term Notes Programme

PART A — CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Description of the Notes and the Guarantees set forth in the prospectus dated [*date*] [and the supplemental prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such prospectus [as supplemented]. Full information on the Issuer [and the Guarantor] and the offer of the notes is only available on the basis of the combination of these Final Terms and the base prospectus. The prospectus [and the supplemental prospectus [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [Lloyds Banking Group plc] [Lloyds TSB Bank plc], 25 Gresham Street, London EC2V 7HN and the specified offices of each of the paying agents, One Canada Square, London E14 5AL, United Kingdom; 101 Barclay Street, New York, NY 10286, USA; and Aerogolf Center, 1A, Hochenhof, L-1736, Senningerberg.]

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Description of the Notes and the Guarantees (the "Conditions") set forth in the prospectus dated [*original date*]. This document constitutes the Final Terms of the notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") and must be read in conjunction with the prospectus dated [*current date*] [and the supplemental prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the prospectus dated [*original date*] [and the supplemental prospectus dated [date]] and are attached hereto. Full information on the Issuer[, the Guarantor] and the offer of the notes is only available on the basis of the combination of these Final Terms and the prospectuses dated [*current date*] and [*original date*] [and the supplemental prospectus[es] dated [date] [and [date]]]. The prospectuses [and the supplemental prospectuses are available for viewing at [address] [and] [website] and copies may be obtained from [Lloyds Banking Group plc] [Lloyds TSB Bank plc], 25 Gresham Street, London EC2V 7HN and the specified offices of each of the paying agents, One Canada Square, London E14 5AL, United Kingdom; 101 Barclay Street, New York, NY 10286, USA; and Aerogolf Center, 1A, Hochenhof, L-1736, Senningerberg.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.*]

[*When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the base prospectus under Article 16 of the Prospectus Directive.*]

TYPE OF NOTE

1	[(a)]	Status of the Notes:	[Senior/Subordinated]
	[(b)	Guarantor:	Lloyds Banking Group plc]
	[(c)	Status of the Guarantee:	Senior/Subordinated]
2	(a)	Interest/Payment Basis:	[●]
	(b)	Redemption Basis:	[Fixed Rate/Floating Rate/Index Linked/ Amortising/Other] [Redemption at par/Index Linked Redemption/Dual Currency/Partly-paid/Instalment/Other] *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*
3	If Original Issue Discount Note, insert:		
	Total Amount of OID:		[●]
	Yield to Maturity:		[●]
	Initial Accrual Period:		[●]
4	If Extendible Maturity Notes, insert:		
	Initial Maturity Date:		[●]
	Final Maturity Date:		[●]
	Election Dates:		[●]
	Minimum Denominations for extension:		[●]
	Notice Period:		[●]
	Method for delivery of Notice:		[●]
	Method for revocation of election:		[●]

DESCRIPTION OF THE NOTES

5	Registered Notes:		The notes are in [certificated/book-entry] form [*Specify the name and address of Registrar*]
6	(a)	Series Number:	[●]
	(b)	Details (including the date, if any, on which the notes become fully fungible) if forming part of an existing Series:	[number and other details]

7	(a)	Nominal Amount of notes to be issued:	[●]
	(b)	Aggregate nominal amount of Series (if more than one Tranche for the Series):	[●]
	(c)	Specified Currency:	[●]
	(d)	Currency Determination Agent:	[●]
	(e)	Specified Denomination(s):	[●]
	(f)	Method for Making U.S. Dollar Payments for a Specified Currency (if other than as set out in the Note):	[●]
8	Issue Price:		[●] (before deduction of commission) [●] (after deduction of commission)
9	Issue Date:		[●]
10	Interest Commencement Date:		[*Specify*/Issue Date/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE ON FIXED RATE NOTES [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

11	(a)	Interest Basis/Bases:	[●] per cent. per annum
	(b)	Interest Payment Date(s):	[●]
	(c)	Day Count Fraction:	[Actual/Actual (ICMA) or 30/360 or *specify other*]
	(d)	[Determination Dates:	[●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*]
	(e)	Business Day convention:	[next succeeding Business Day]
	(f)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not applicable/give details]

FLOATING RATE NOTES OR INDEX LINKED INTEREST NOTES [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

12	(a)	Interest Payment Date(s):	[●]
	(b)	Minimum Interest Rate (if any):	[●] per cent. per annum
	(c)	Maximum Interest Rate (if any):	[●]

			[●] per cent. per annum
	(d)	Business Day convention:	[next succeeding Business Day/preceding Business Day/other convention — insert details]
	(e)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/360 30/360 *Other*]
	(f)	Other terms relating to the method of calculating interest, including party responsible for such calculation if not the Calculation Agent:	[●]
FLOATING RATE NOTES			[Applicable/Not Applicable]
			(If not applicable, delete the remaining sub-paragraphs of this paragraph)
13	(a)	Type of Floating Rate Note:	[Regular Floating Rate Note OR Floating Rate/Fixed Rate Note OR Inverse Floating Rate Note]
	(b)	Fixed Rate Commencement Date:	[●]
	(c)	Fixed Interest Rate:	[●]
	(d)	Interest Rate Basis/Bases:	[●]
	(e)	Initial Interest Rate:	[●]
	(f)	Initial Interest Reset Date:	[●]
	(g)	Interest Determination Date:	[●]
	(h)	Interest Reset Dates:	[●]
	(i)	Index Maturity:	[●]
	(j)	Spread:	[●]
	(k)	Spread Multiplier:	[●]
INDEX LINKED INTEREST NOTES			[Applicable/Not Applicable]
			(If not applicable, delete the remaining subparagraphs of this paragraph)
14	Index/Formula:		[*insert details of the index to which amounts payable in respect of interest are linked and/or the formulae to be used in determining the rate of interest together with details of the Calculation Agent and the fallback provisions including a description of market disruption or settlement disruption events and adjustment provisions*]

PROVISIONS REGARDING REDEMPTION/MATURITY

15	Maturity:		[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year or (for Extendible Notes) specify Initial Maturity Date and Final Maturity Date*]
16	(a)	Redemption at Issuer's option: [If Yes, insert Initial Redemption Date(s)/Redemption Percentage of each Note:	[No/Yes] [●] per Note of [●] Specified Denomination]
	(b)	Notice Period:	[●]
17	(a)	Redemption at holder's option:	[No/Yes] [If Yes, insert Optional Repayment Date(s)/repayment price of each Note [●] per Note of [●] Specified Denomination]
	(b)	Notice Period:	[●]
18	Redemption where index/formula linked:		[Include a description of market disruption or settlement disruption events and adjustment provisions]
19	Calculation Agent responsible for calculating final redemption amount:		[*Name and address*]
20	Other terms applicable to maturity or applicable on redemption:		[●] [*specify (for Extendible Notes) the election dates to extend Maturity*]

GENERAL PROVISIONS APPLICABLE TO THIS ISSUE OF NOTES

21	Other final terms:	[insert details]
22	Additional selling restrictions:	(*When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the base prospectus under Article 16 of the Prospectus Directive.*) [insert details]
23	Additional federal income tax considerations:	[insert details/None]
24	Method of distribution:	[Syndicated/Non-syndicated] [insert name(s) of relevant dealer(s) here]
25	Stabilising Manager:	[insert details/None]
26	Clearing System:	[●]
27	Redenomination and Exchange provisions:	[●]
28	Date [Board] approval for issuance of notes [and guarantee] obtained:	[●]

(*N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of notes or related guarantee*)

[LISTING AND ADMISSION TO TRADING:

These final terms comprise the final terms required for the issue of Notes described herein pursuant to the $35,000,000,000 Senior and Subordinated Medium-Term Notes Programme of Lloyds Banking Group plc and Lloyds TSB Bank plc to be admitted to listing on the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange's regulated market (as from [insert Issue Date for the Notes]) for which purpose it is hereby submitted.]

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. [Each of the] [The] Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Acceptance for and on behalf of [each of] the Issuer [and the Guarantor] of the terms of the Final Terms

SIGNED ON BEHALF OF LLOYDS BANKING GROUP PLC AS [ISSUER] [GUARANTOR]

By: ________________________________

Title: ________________________________

[SIGNED ON BEHALF OF LLOYDS TSB BANK PLC AS ISSUER

By: ________________________________

Title: ________________________________]

PART B — OTHER INFORMATION

1 **LISTING AND ADMISSION TO TRADING**

(i)	Listing:	[London/other (*specify*/None)]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [●] with effect from [●].] [Not Applicable.]
(iii)	Estimate of total expenses related to admission to trading:	[●]

2 **RATINGS**

Ratings: The [Programme/Notes to be issued] [has/have] been rated:

[Moody's: [●]]

[S&P: [●]]

[Fitch: [●]]

[[Other]: [●]]

(*The above disclosure should reflect the rating allocated to notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3 **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the dealers, so far as the Issuer is aware, no person involved in the issue of the notes has an interest material to the offer. — *Amend as appropriate if there are other interests*]

4 **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i)	Reasons for the offer	[●] (*See "Use of Proceeds" wording in the base prospectus— if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here*)]
[(ii)]	Estimated net proceeds:	[●] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)
[(iii)]	Estimated total expenses:	[●]. [*Include breakdown of expenses*] (*If the notes are derivative securities to which Annex XII of the*

Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)

5 **YIELD** *(Fixed Rate Notes only)*

Indication of yield:	[●]
	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6 **PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING** (Index Linked Notes only)

[*Need to include details of where past and future performance and volatility of the index/formula can be obtained.*]

[*Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.*]

The Issuer [intends to provide post-issuance information] [specify what information will be reported and where it can be obtained] [does not intend to provide post-issuance information].

7 **PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT** (Dual Currency Notes only)

[*Need to include details of where past and future performance and volatility of the relevant rates can be obtained.*]

8 **OPERATIONAL INFORMATION**

(i)	CUSIP	[●]
(ii)	ISIN Code:	[●]
(iii)	Common Code:	[●]
(iv)	Clearing system(s) and, if applicable, the relevant identification number(s):	[DTC/Euroclear and/or Clearstream/give name(s) and number(s)]
(v)	Settlement Procedures	
(vi)	Delivery	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●]

TAXATION

U.S. FEDERAL INCOME TAXATION

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUERS IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUERS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of note which may be issued under the Programme, and the relevant Final Terms may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of note as appropriate. This summary deals only with purchasers of notes that are U.S. Holders and that will hold the notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with notes with a term of 30 years or less. The U.S. federal income tax consequences of owning notes with a longer term will be discussed in the applicable Final Terms.

As used herein, the term "U.S. Holder" means a beneficial owner of notes that is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of notes by the partnership.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT

THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. Federal Income Tax Characterisation of the Notes

The determination whether an obligation represents a debt or equity interest is based on all the relevant facts and circumstances, and courts at times have held that obligations purporting to be debt constituted equity for U.S. federal income tax purposes. There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities with terms substantially the same as the notes. The Issuers intend to take the position that the Senior Notes and the Subordinated Notes are debt of the relevant Issuer for U.S. federal income tax purposes. There is a risk that the Subordinated Notes could be treated as equity for U.S. federal income tax purposes. The balance of the discussion herein assumes that, for U.S. federal income tax purposes, the Senior Notes and the Subordinated Notes will be treated as debt for U.S. federal income tax purposes, although no opinions have been sought, and no assurances can be given, with respect to such treatment. Prospective purchasers should consult their tax advisers concerning the U.S. federal income tax characterisation of the notes.

Payments of Interest

General

Interest on a note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "foreign currency"), other than interest on a "Discount Note" that is not "qualified stated interest" (each as defined below under "Original Issue Discount — General"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuers on the notes and OID, if any, accrued with respect to the notes (as described below under "Original Issue Discount") generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the notes.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of notes issued with original issue discount ("OID"). The following summary does not discuss notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuers issue contingent payment debt instruments the applicable Final Terms may describe the material U.S. federal income tax consequences thereof.

A note, other than a note with a term of one year or less (a "Short-Term Note"), will be treated as issued with OID (a "Discount Note") if the excess of the note's "stated redemption price at maturity" over its issue price is equal to or more than a de minimis amount (0.25 per cent. of the note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "instalment obligation") will be treated as a Discount Note if the excess of the note's stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the note's stated redemption price at maturity multiplied by the weighted average maturity of the note. A note's weighted average maturity is the sum of the following amounts determined for each payment on a note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the

numerator of which is the amount of the payment and the denominator of which is the note's stated redemption price at maturity. Generally, the issue price of a note will be the first price at which a substantial amount of notes included in the issue of which the note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a note is the total of all payments provided by the note that are not payments of "qualified stated interest." A qualified stated interest payment is generally any one of a series of stated interest payments on a note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "Variable Interest Rate Notes"), applied to the outstanding principal amount of the note. Solely for the purposes of determining whether a note has OID, the Issuers will be deemed to exercise any call option that has the effect of decreasing the yield on the note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a note may be of any length selected by the U.S. Holder and may vary in length over the term of the note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the note allocable to the accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the issue price of the note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "acquisition premium") and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the note immediately after its purchase over the note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the note after the purchase date, other than payments of qualified stated interest, over the note's adjusted issue price.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the

extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service (the "**IRS**").

Fungible Issue

The Issuers may, without the consent of the holders of outstanding notes, issue additional notes with identical terms. These additional notes, even if they are treated for non-tax purposes as part of the same series as the original notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional notes may be considered to have been issued with OID even if the original notes had no OID, or the additional notes may have a greater amount of OID than the original notes. These differences may affect the market value of the original notes if the additional notes are not otherwise distinguishable from the original notes.

Market Discount

A note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "Market Discount Note") if the note's stated redemption price at maturity or, in the case of a Discount Note, the note's "revised issue price", exceeds the amount for which the U.S. Holder purchased the note by at least 0.25 per cent. of the note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the note's maturity (or, in the case of a note that is an instalment obligation, the note's weighted average maturity). If this excess is not sufficient to cause the note to be a Market Discount Note, then the excess constitutes "de minimis market discount". For this purpose, the "revised issue price" of a note generally equals its issue price, increased by the amount of any OID that has accrued on the note and decreased by the amount of any payments previously made on the note that were not qualified stated interest payments.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Variable Interest Rate Notes

Notes that provide for interest at variable rates ("Variable Interest Rate Notes") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified de minimis amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A "qualified floating rate" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the relevant Issuer (or a related party) or that is unique to the circumstances of the relevant Issuer (or a related party), such as dividends, profits or the value of the relevant Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the relevant Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than 3 months prior to the first day on which that value is in effect and no later than 1 year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the note which is unconditionally payable in cash or property (other than debt instruments of the relevant Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" generally will not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the note's stated principal amount) in excess of a specified de minimis amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be

treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Final Terms.

Notes Purchased at a Premium

A U.S. Holder that purchases a note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as "amortisable bond premium", in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the note will be reduced by the amount of amortisable bond premium allocable (based on the note's yield to maturity) to that year. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also " — Election to Treat All Interest as Original Issue Discount". A U.S. Holder that does not elect to take bond premium into account currently will recognise a loss when the note matures.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a note using the constant-yield method described above under "Original Issue Discount — General," with certain modifications. For purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium (described above under "Notes Purchased at a Premium") or acquisition premium. This election generally will apply only to the note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under "Market Discount" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Purchase, Sale and Retirement of Notes

A U.S. Holder's tax basis in a note generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the note and the amount, if any, of income attributable to de minimis OID and de minimis market discount included in the U.S. Holder's income with respect to the note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the note.

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a note equal to the difference between the amount realised on the sale or retirement and the tax basis of the note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under "Original Issue Discount — Market Discount" or "Original Issue Discount — Short Term Notes" or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the notes exceeds one year.

Gain or loss realised by a U.S. Holder on the sale or retirement of a note generally will be U.S. source for purposes of U.S. foreign tax credit limitation. The deductibility of capital losses is subject to significant limitations.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

OID

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the note or a sale or disposition of the note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market discount on a note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount offset multiplied by the difference between the spot rate in effect on the date of the offset, and the spot rate in effect on the date the notes were acquired by the U.S. Holder.

Sale or Retirement

As discussed above under "Purchase, Sale and Retirement of Notes", a U.S. Holder generally will recognise gain or loss on the sale or retirement of a note equal to the difference between the amount realised on the sale or retirement and its tax basis in the note. A U.S. Holder's tax basis in a note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the note. The U.S. dollar cost of a note purchased with foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of notes traded on an established securities market, as defined in the applicable Treasury regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of notes traded on an established securities market, as defined in the applicable Treasury regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the note (or, if less, the principal amount of the note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the note. Any such exchange gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Disposition of Foreign Currency

Foreign currency received as interest on a note or on the sale or retirement of a note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of interest and accrued OID on, and the proceeds of a sale, retirement or other disposition of, the notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments and to accruals of OID if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax

advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, holding or disposition of notes constitutes participation in a reportable transaction for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases generally is imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Accordingly, if a U.S. Holder realises a loss on any note (or, possibly, aggregate losses from the notes) satisfying the monetary thresholds discussed above, the U.S. Holder could be required to file an information return with the IRS, and failure to do so may subject the U.S. Holder to the penalties described above. In addition, the Issuers and their advisers may also be required to disclose the transaction to the IRS, and to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of notes.

CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto, including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor "plan assets" regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (collectively, "ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing such ERISA Plan. The prudence of a particular investment will be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed in "Risk Factors" and the fact that in the future there may be no market in which the fiduciary will be able to sell or otherwise dispose of the Notes.

In addition, Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, a sale or exchange of property or an extension of credit between a Plan and a "party in interest" or "disqualified person" may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

We, directly or through our affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer or an affiliate is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with

an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. Included among these exemptions are Prohibited Transaction Class Exemption ("PTCE") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts) and PTCE 96-23 (relating to transactions determined by an in-house asset manager). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide a limited exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more than "adequate consideration" (within the meaning of ERISA Section 408(b)(17) and Section 4975(f)(10) of the Code) in connection with the transaction (the "service provider exemption").There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

BY ITS PURCHASE AND HOLDING OF A NOTE, EACH PURCHASER AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT (A) EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO TITLE I OF ERISA, OR A PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH PLAN OR (ii) ITS PURCHASE AND HOLDING OF A NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR ANY SUBSTANTIALLY SIMILAR PROVISIONS OF ANY FEDERAL, STATE OR LOCAL LAW AND (B) NEITHER THE ISSUER NOR ANY OF ITS AFFILIATES IS A "FIDUCIARY" (WITHIN THE MEANING OF ERISA SECTION 3(21) OR, WITH RESPECT TO A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, ANY SIMILAR LAWS) WITH RESPECT TO THE PURCHASER OR HOLDER IN CONNECTION WITH SUCH PERSON'S PURCHASE OR HOLDING OF THE NOTES, OR AS A RESULT OF ANY EXERCISE BY THE ISSUER OR ANY OF ITS AFFILIATES OF ANY RIGHTS IN CONNECTION WITH THE NOTES, AND NO ADVICE PROVIDED BY THE ISSUER OR ANY OF ITS AFFILIATES HAS FORMED A PRIMARY BASIS FOR ANY INVESTMENT DECISION BY OR ON BEHALF OF SUCH PURCHASER OR HOLDER IN CONNECTION WITH THE NOTES AND THE TRANSACTIONS CONTEMPLATED WITH RESPECT TO THE NOTES.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing Notes.

Any Plan fiduciary that proposes to cause a Plan to purchase Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA or the Code.

The sale of Notes to a Plan is in no respect a representation by the Issuer that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

U.K. TAXATION

The following is a summary of the United Kingdom ("**U.K.**") withholding taxation treatment as at the date of this Base Prospectus in relation to payments of principal and interest in respect of the notes and payments under the Guarantee and does not deal with other U.K. tax aspects of acquiring, holding or disposing of the notes. This summary relates only to the position of persons who are absolute beneficial owners of the notes. Prospective holders should be aware that the particular terms of issue of any series of the notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of notes. This summary is a general guide based on current U.K. law and H.M. Revenue and Customs practice and does not purport to be a complete or exhaustive analysis of all tax considerations relating to the notes, and prospective purchasers should treat it with appropriate caution.

Prospective purchasers should seek independent professional advice should they have any doubt as to their tax position. If prospective purchasers may be liable to taxation in jurisdictions other than the U.K. in respect of the acquisition, ownership, holding and disposition of notes, they are particularly advised to consult professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain U.K. taxation aspects of payments in respect of the notes. In particular, prospective purchasers should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the notes, even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the U.K.

U.K. Withholding on U.K. Source Interest

Notes Listed on a Recognised Stock Exchange

Notes issued by an issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for those purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange. While the notes are and continue to be quoted Eurobonds, payments of interest by an issuer on the notes may be made without withholding or deduction for or on account of U.K. income tax.

Other Cases

In other cases, interest on the notes will generally be paid under deduction of U.K. income tax at the basic rate of (currently) 20 per cent., subject to the availability of other relief or exemption or to any direction to the contrary from H.M. Revenue and Customs in respect of such relief as may be available under the provisions of any applicable double taxation treaty.

Provision of Information

Holders should note that where any interest on notes is paid to them (or to any person acting on their behalf) by an issuer, or any person in the U.K. acting on behalf of that issuer (a "paying agent"), or is received by any person in the U.K. acting on behalf of the relevant holder (a "collecting agent"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to H.M. Revenue and Customs details of the payment and certain details relating to the holder or person entitled to the interest (including the name and address of the holder or person entitled to the interest). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of U.K. income tax and whether or not the holder is resident in the U.K. for U.K. taxation

purposes. Where the holder or person entitled to the interest is not so resident, the details provided to HMRC may, in certain cases, be passed by HMRC to the tax authorities of the jurisdiction in which the holder or person entitled to the interest is resident for taxation purposes.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any notes where the amount payable on redemption is greater than the issue price of the notes.

Other Rules Relating to U.K. Withholding Tax

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such notes should not be subject to any U.K. withholding tax pursuant to the provisions mentioned above, but may be subject to reporting requirements as outlined above.

Where notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to U.K. withholding tax and reporting requirements as outlined above.

In addition to the above, in relation to U.K. withholding tax, where interest has been paid under deduction of U.K. income tax, holders who are not resident in the U.K. may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" in this U.K. Taxation summary mean "interest" as understood in U.K. tax law. The statements in this summary do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation. This description of the U.K. withholding tax position assumes that there will be no substitution of the issuer of the notes pursuant to the terms and conditions of the notes and does not consider the tax consequences of any such substitution.

Holders should be aware that the withholding tax treatment of payments under the Guarantee is not free from uncertainty and any holder who is in any doubt as to the tax treatment of payments under the Guarantee is advised to obtain professional advice.

Subject to the availability of any relief, payments under the Guarantee may be subject to United Kingdom withholding tax at a maximum rate of 20 per cent.

EU Savings Directive

Under European Commission Council Directive 2003/48/EC on the taxation of savings income, each member state, including Belgium from 1 January 2010, is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other member state or to certain limited types of entities established in that member state. For a transitional period, however, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments unless during that period they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

A number of non-EU countries, and certain dependent or associated territories of certain member states have adopted similar measures (either provision of information or transitional withholding arrangements) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other persons in a member state. In addition, the member states have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident in one of those territories.

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the European Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

TRANSFER RESTRICTIONS

The notes have not been registered under the Securities Act or any other applicable securities laws, and they may not be offered or sold except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States, to qualified institutional buyers ("QIBs") in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or
- outside of the United States, to certain persons, other than U.S. persons within the meaning of Regulation S, in offshore transactions meeting the requirements of Rule 903 of Regulation S.

Purchasers' Representations and Restrictions on Resale

Each purchaser of notes (other than a Permanent Dealer in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein, will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(i) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States within the meaning of Regulation S;

(ii) It is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the relevant Issuer and is not acting on the relevant Issuer's behalf;

(iii) It acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below,

(iv) It understands and agrees that notes initially offered in the United States to QIBs will be represented by U.S. global notes and that notes offered outside the United States in reliance on Regulation S will be represented by international global notes;

(v) If the purchaser is in the United States or is a U.S. person, it shall not resell or otherwise transfer any of such notes except (a) to the relevant Issuer or a Permanent Dealer or by, through, or in a transaction approved by a Permanent Dealer, (b) within the United States to a QIB in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States, in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;

(vi) If the purchaser is outside the United States and is not a U.S. person, if it should resell or otherwise transfer the notes prior to the expiration of the Distribution Compliance Period (as defined in Regulation S) applicable to such notes, it will do so only (a) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (b) to a QIB in compliance with Rule 144A;

(vii) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;

(viii) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the relevant Indenture;

(ix) It acknowledges that the trustee for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to the relevant Issuer and such trustee that the restrictions set forth herein have been complied with; and

(x) It acknowledges that the relevant Issuer, the Permanent Dealers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify the relevant Issuer and the Permanent Dealers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

A legend to the following effect will appear on the face of notes, other than international global notes, and which will be used to notify transferees of the foregoing restrictions on transfer. Additional copies of this notice may be obtained from the trustee.

"THE SECURITIES EVIDENCED HEREBY (THE "NOTES") HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR ANY OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THE NOTES, (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A")), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE U.S. SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF THE NOTES (OR OF ANY PREDECESSOR THEREOF) OR THE LAST DAY ON WHICH LLOYDS BANKING GROUP PLC (THE "COMPANY") OR LLOYDS TSB BANK PLC (THE "BANK," AND EACH OF THE COMPANY AND THE BANK, AN "ISSUER") OR ANY AFFILIATE OF THE RELEVANT ISSUER WERE THE OWNERS OF THE NOTES (OR ANY PREDECESSOR THEREOF) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THE NOTES EXCEPT (I) TO THE RELEVANT ISSUER OR ONE OR MORE PERMANENT DEALERS FOR THE NOTES (EACH, A "PERMANENT DEALER" AND COLLECTIVELY, THE "PERMANENT DEALERS") OR BY, THROUGH OR IN A TRANSACTION APPROVED BY A PERMANENT DEALER, (II) SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (III) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT OR (VI) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION. THE HOLDER OF THE NOTES, BY

PURCHASING THE NOTES, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THE NOTES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (VI) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE RELEVANT ISSUER. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT."

"THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN".

BY ITS PURCHASE AND HOLDING OF A NOTE, EACH PURCHASER AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT (A) EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO TITLE I OF ERISA, OR A PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH PLAN OR (ii) ITS PURCHASE AND HOLDING OF A NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR ANY SUBSTANTIALLY SIMILAR PROVISIONS OF ANY FEDERAL, STATE OR LOCAL LAW AND (B) NEITHER THE ISSUER NOR ANY OF ITS AFFILIATES IS A "FIDUCIARY" (WITHIN THE MEANING OF ERISA SECTION 3(21) OR, WITH RESPECT TO A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, ANY SIMILAR LAWS) WITH RESPECT TO THE PURCHASER OR HOLDER IN CONNECTION WITH SUCH PERSON'S PURCHASE OR HOLDING OF THE NOTES, OR AS A RESULT OF ANY EXERCISE BY THE ISSUER OR ANY OF ITS AFFILIATES OF ANY RIGHTS IN CONNECTION WITH THE NOTES, AND NO ADVICE PROVIDED BY THE ISSUER OR ANY OF ITS AFFILIATES HAS FORMED A PRIMARY BASIS FOR ANY INVESTMENT DECISION BY OR ON BEHALF OF SUCH PURCHASER OR HOLDER IN CONNECTION WITH THE NOTES AND THE TRANSACTIONS CONTEMPLATED WITH RESPECT TO THE NOTES.

For further discussion of the requirements (including the presentation of transfer certificates) under the Indentures to effect exchanges or transfers of interest in global notes and certificated notes, see the section entitled "Description of the Notes and the Guarantees—Form, Transfer, Exchange and Denomination".

PLAN OF DISTRIBUTION

The notes are being offered on a continuous basis for sale by the Issuers to or through Banc of America Securities LLC, Barclays Capital Inc., BNP Paribas Securities Corp., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman, Sachs & Co., HSBC Securities (USA) Inc., J. P. Morgan Securities Inc., Lloyds TSB Bank plc, Morgan Stanley & Co. Incorporated, RBS Securities Inc., UBS Securities LLC and Wells Fargo Securities, LLC together with such other Permanent Dealer as may be appointed by the relevant Issuer with respect to a particular tranche of notes. These entities are referred to collectively as the "**Permanent Dealers**". One or more Permanent Dealers may purchase notes, as principal, from the Issuers from time to time for resale to investors and other purchasers at varying prices relating to prevailing market prices at the time of resale as determined by any Permanent Dealer, or, if so specified in the applicable Final Terms, for resale at a fixed offering price. If the Issuers and a Permanent Dealer agree, a Permanent Dealer may also utilise its reasonable efforts on an agency basis to solicit offers to purchase the notes. Any Permanent Dealers of the notes that are not U.S. registered broker-dealers will agree that they will offer and sell the notes within the United States only through U.S. registered broker-dealers. The relevant Issuer will pay a commission to a Permanent Dealer to be agreed between the relevant Issuer and such Permanent Dealer at the time of such sale.

Unless otherwise specified in an applicable Final Terms, any note sold to one or more Permanent Dealers as principal will be purchased by such Permanent Dealers at a price equal to 100 per cent. of the principal amount thereof less a percentage of the principal amount equal to the commission as agreed between the relevant Issuer and the Permanent Dealer. A Permanent Dealer may sell notes it has purchased from the Issuers as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with such purchase. The Permanent Dealer may allow, and such dealers may reallow, a discount to certain other dealers. After the initial offering of notes, the offering price (in the case of notes to be resold at a fixed offering price), the concession and the reallowance may be changed.

The relevant Issuer may withdraw, cancel or modify the offering contemplated hereby without notice and may reject offers to purchase notes in whole or in part. Each Permanent Dealer shall have the right to reject in whole or in part any offer to purchase notes received by it on an agency basis.

In connection with an offering of notes purchased by one or more Permanent Dealers as principal on a fixed offering price basis, such Permanent Dealer(s) will be permitted to engage in transactions that stabilise the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If the Permanent Dealer creates or the Permanent Dealers create, as the case may be, a short position in notes, that is, if it sells or they sell notes in an aggregate principal amount exceeding that set forth in the applicable Final Terms, such Permanent Dealer(s) may reduce that short position by purchasing notes in the open market. In general, purchase of notes for the purpose of stabilisation or to reduce a short position could cause the price of notes to be higher than it might be in the absence of such purchases.

Neither the Issuers nor any of the Permanent Dealers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of notes. In addition, neither the Issuers nor the Permanent Dealers make any representation that the Permanent Dealers will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Issuers have agreed to indemnify the Permanent Dealers against some liabilities (including liabilities under the Securities Act) or to contribute to payments the Permanent Dealers may be required to make in respect thereof. The Issuers have also agreed to reimburse the Permanent Dealers for some other expenses.

The Permanent Dealers may from time to time purchase and sell notes in the secondary market, but they are not obligated to do so, and there can be no assurance that there will be a secondary market for the notes or liquidity in the secondary market if one develops. From time to time, the Permanent Dealers may make a market in the notes.

The notes have not been registered under the Securities Act or any other applicable securities laws and they are being offered and sold only in the United States, to qualified institutional buyers ("QIBs") in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or outside of the United States, to certain persons, other than U.S. persons within the meaning of Regulation S, in offshore transactions meeting the requirements of Rule 903 of Regulation S.

Each Permanent Dealer subscribing for or purchasing notes will be required to represent and agree (i) that it will not offer to sell notes (a) as part of its distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Permanent Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all notes of the tranche of which such notes are a part (such period, the "**Distribution Compliance Period**"), within the United States or to, or for the account or benefit of, U.S. persons other than in accordance with Rule 144A and (ii) that it will send to each dealer to which it sells any notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each purchaser of notes will be deemed, by its acceptance or purchase thereof, to have made the representations set forth under "Transfer Restrictions" herein.

Certain of the Permanent Dealers and/or their affiliates have, directly or indirectly, performed investment and commercial banking or financial advisory services for the Issuers, for which they have received customary fees and commissions, and they expect to provide these services to the Issuers and their affiliates in the future, for which they also expect to receive customary fees and commissions.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to an offer and sale of notes that are issued in reliance on Regulation S, each Permanent Dealer has represented and agreed that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this Base Prospectus as completed by the applicable Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such notes to the public in that Relevant Member State:

(i) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(ii) at any time to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000 and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Permanent Dealer or Dealers nominated by the relevant Issuer for any such offer;

(iv) at any time if the denomination per note being offered amounts to at least €50,000; or

(v) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to above shall require the relevant Issuer or any Permanent Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

In relation to an offer and sale of notes that are issued in reliance on Regulation S, each Permanent Dealer has represented and agreed:

(i) It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any notes in, from or otherwise, involving the United Kingdom;

(ii) In relation to notes issued by the Bank, it has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the FSMA would not, if the Bank was not an authorised person, apply to the Bank;

(iii) In relation to notes issued by the Company, it has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(iv) In relation to any notes issued by the Company which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any notes issued by the Company other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of such notes would otherwise constitute a contravention of section 19 of the FSMA by the Company.

SETTLEMENT

Unless otherwise specified in the applicable Final Terms, you must pay the purchase price of the notes in immediately available funds in the applicable specified currency in New York City three business days after the trade date.

INDEPENDENT AUDITORS

The financial statements of the Company as of 31 December 2008 and 2007 and for each of the three years in the period ended 31 December 2008 and Management's Report on Internal Control over Financial Reporting (incorporated by reference herein from page 104 of the Company's 2008 Annual Report on Form 20-F) as of 31 December 2008, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm, as stated in their reports incorporated by reference herein. With respect to the unaudited financial information of the Company as of 30 June 2009, and for the six-month periods ended 30 June 2009 and 2008, incorporated by reference in this Base Prospectus, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 4 August 2009 incorporated by reference herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The financial statements of the Bank as of 31 December 2008, 2007 and 2006, and for each of the years then ended, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports incorporated by reference herein. With respect to the unaudited financial information of the Bank as of 30 June 2009, and for the six-month periods ended 30 June 2009 and 2008, incorporated by reference in this Base Prospectus, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 4 August 2009 incorporated by reference herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The consolidated financial statements of HBOS as of and for the financial years ended 31 December 2008, 2007 and 2006 have been audited by KPMG Audit Plc, independent auditors, as stated in their reports incorporated by reference herein.

LEGAL MATTERS

Certain legal matters will be passed upon for the Issuers by Linklaters LLP, their United States and English counsel, with respect to matters of New York law, U.S. federal law and English law and by Dundas & Wilson CS LLP with respect to matters of Scots law and for the Permanent Dealers by Allen & Overy LLP with respect to matters of New York law, U.S. federal law and English law.

GENERAL INFORMATION

1 The Company was incorporated and registered in Scotland on 21 October 1985 with registered number 95000 as a public company limited by shares under the name TSB Group Public Limited Company. On 28 December 1995, it changed its name to Lloyds TSB Group plc. On 16 January 2009, the Company changed its name to its present name. The principal legislation under which the Company operates is the Companies Act and regulations made thereunder. The Company is domiciled in Scotland. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44 (0)20 7626 1500) and its registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH.

2 The Bank was incorporated on 20 April 1865 (Registration number 2065). The Bank's registered office is 25 Gresham Street, London EC2V 7HN, England. The telephone number of the Company and the Bank is 020 7626 1500. The Bank, together with HBOS and BOS, are wholly owned subsidiaries of the Company.

3 The admission of the programme to trading on the regulated market of the London Stock Exchange is expected to take effect on or around 17 November 2009. The price of the notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any series of notes intended to be admitted to trading on the regulated market of the London Stock Exchange will be so admitted to trading upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant notes. Prior to admission to trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in New York after the day of the transaction, unless otherwise specified in the relevant Final Terms.

4 The global notes have been accepted for clearance either through DTC or its nominees or through Euroclear and Clearstream. If the global notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

5 Save as disclosed in the section entitled "Lloyds Banking Group – Legal Actions" on page 112 of this Base Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of Lloyds Banking Group.

6 Save as disclosed in the section entitled "Lloyds Banking Group – Legal Actions" on page 112 of this Base Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of Lloyds TSB Bank Group.

7 There has been no significant change in the financial or trading position of Lloyds Banking Group since 30 June 2009, the date to which the Group's last published financial information was prepared, and save as disclosed in Risk Factor 1.3 of this document relating to the European State Aid review of the aid given by HM Treasury to the Group, there has been no material adverse change in the prospects of Lloyds Banking Group since 31 December 2008.

8 There has been no significant change in the financial or trading position of Lloyds TSB Bank Group since 30 June 2009, the date to which Lloyds TSB Bank Group's last published financial information was prepared, and save as disclosed in Risk Factor 1.3 of this document relating to the European State Aid review of the aid given by HM Treasury to the Group, there has been no material adverse change in the prospects of Lloyds TSB Bank Group since 31 December 2008.

9 For so long as the medium-term note programme described in this Base Prospectus remains in effect or any notes shall be outstanding, copies and, where appropriate, the following documents may be inspected during normal business hours at the specified office of the paying agent and the registered office of the Company, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, including:

(a) the constitutive documents of the Company and the Bank;

(b) this Base Prospectus in relation to the medium-term note programme, together with any amendments;

(c) the Program Agreement;

(d) the Senior Indenture;

(e) the Subordinated Indenture;

(f) the most recent publicly available reviewed or audited consolidated financial statements for the Company and the Bank beginning with such financial statements for the six months ended 30 June 2009 and the years ended 31 December 2008, 2007 and 2006;

(g) the report of PricewaterhouseCoopers LLP in respect of the audited consolidated financial statements of the Company and the Bank for the financial years ended 31 December 2008, 31 December 2007 and 31 December 2006; and

(h) any Final Terms relating to notes issued under the medium-term note programme described in this Base Prospectus that are listed, traded and/or quoted on a stock exchange.

10 The issue of notes under the programme by the Company and the giving of the Guarantees by the Company has been authorised by resolutions of the board of directors of the Company dated 25 January 2008 and 19 June 2009. The issue of notes under the programme by the Bank has been authorised by resolutions of the board of directors of the Bank dated 25 January 2008, 17 April 2009 and 19 June 2009.

REGISTERED OFFICE OF THE COMPANY

Henry Duncan House
120 George Street
Edinburgh EH2 4LH

REGISTERED OFFICE OF THE BANK

25 Gresham Street
London EC2V 7HN

PERMANENT DEALERS

Banc of America Securities LLC
One Bryant Park
New York, NY 10036

Barclays Capital Inc.
745 Seventh Avenue
New York, NY 10019

BNP Paribas Securities Corp.
787 Seventh Avenue
New York, NY 10019

Citigroup Global Markets Inc.
388 Greenwich Street
New York, NY 10013

Credit Suisse Securities (USA) LLC
Eleven Madison Avenue
New York, NY 10010

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005

Goldman, Sachs & Co.
85 Broad Street, 20th Floor
New York, NY 10004

HSBC Securities (USA) Inc.
452 Fifth Avenue, 3rd Floor
New York, NY 10018

J. P. Morgan Securities Inc.
270 Park Avenue
New York, NY 10017

Lloyds TSB Bank plc
10 Gresham Street
London EC2V 7AE

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, NY 10036

RBS Securities Inc.
600 Washington Boulevard
Stamford, CT 06901

UBS Securities LLC
677 Washington Blvd.
Stamford, CT 06901

Wells Fargo Securities, LLC
301 S. College Street
Charlotte, NC 28288

TRUSTEE

The Bank of New York Mellon
One Canada Square
London E14 5AL

NOTE REGISTRAR AND PAYING AGENT

The Bank of New York Mellon
101 Barclay Street
New York, NY 10286

PAYING AGENT

The Bank of New York Mellon
One Canada Square
London E14 5AL

NOTE REGISTRAR AND PAYING AGENT

The Bank of New York Mellon (Luxembourg) S.A.
Aerogolf Center, 1A, Hoehenhof,
L-1736 Senningerberg

LEGAL ADVISERS

To the Issuers as to English and U.S. law

Linklaters LLP
One Silk Street
London EC2Y 8HQ

To the Issuers as to Scots law

Dundas & Wilson CS LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

To the Permanent Dealers as to English and U.S. law

Allen & Overy LLP
One Bishops Square
London E1 6AD

AUDITORS

PricewaterhouseCoopers LLP
P.O. Box 90, Erskine House
68-73 Queen Street
Edinburgh EH2 4NH

printed by **eprint*financial*.com**
tel: + 44 (0) 20 7613 1800   document number 4150