SUPPLEMENTARY PROSPECTUS DATED 31 MARCH 2010

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

This Supplement (the "**Supplement**") to the Base Prospectus dated 11 November 2009 (the "**Base Prospectus**"), which comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**") and is prepared in connection with the U.S.$35,000,000,000 Medium-Term Note Programme (the "**Programme**") established by Lloyds Banking Group plc (the "**Company**" or the "**Guarantor**") and Lloyds TSB Bank plc (the "**Bank**") (each, an "**Issuer**" and together, the "**Issuers**").

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and the documents incorporated by reference therein. This Supplement should also be read and construed in conjunction with the supplement to the Base Prospectus dated 4 January 2010 and the supplement to the Base Prospectus dated 5 March 2010 (the "**March 2010 Supplement**"), each of which were previously published and approved by the Financial Services Authority (the "**FSA**") and filed with it and forms part of the Base Prospectus.

Each of the Issuers and the Guarantor accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuers and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

AMENDMENTS TO THE BASE PROSPECTUS

Incorporation of Information by Reference

The section entitled "Documents Incorporated by Reference" on pages 8 to 10 of the Base Prospectus, as amended by the March 2010 Supplement, shall be deleted and replaced with the contents of Appendix 1 hereto.

Overview of the Programme

The section entitled "Issuers" under the heading "Overview of the Programme" on page 15 of the Prospectus shall be deleted and replaced with the following:

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 The Mound, Edinburgh, EH1 1YZ. 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. The Company and its subsidiaries from time to time are referred to as the "**Lloyds Banking Group**" or the "**Group**". The businesses of the Lloyds Banking Group are in or owned by the Bank. Lloyds Banking 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

Risk Factors

The fifth sentence of Risk Factor 1.19 as set out on page 23 of the March 2010 Supplement shall be deleted and replaced with the following: "The Group continues to provide for its share of the management expenses levy and the estimated interest cost on the FSCS borrowings."

The penultimate sentence of the penultimate paragraph of Risk Factor 1.21 as set out on page 24 of the March 2010 Supplement shall be deleted and replaced with the following: "See Note 52 to the 2009 consolidated financial statements beginning on page 218 of the Company's 2009 Annual Report (such pages being incorporated by reference into this Prospectus)."

Lloyds Banking Group

The section entitled "Lloyds Banking Group" in Appendix 2 to the March 2010 Supplement shall be deleted and replaced with the contents of Appendix 2 hereto.

Impairments

The contents of the sub-section entitled "Impairments" under the heading "Recent Developments – Capital Restructuring" on pages 55 to 56 of Appendix 3 to the March 2010 Supplement shall be deleted and replaced with the following:

"A significant proportion of Lloyds Banking Group's impairments to date have originated in Lloyds Banking Group's Wholesale division, primarily reflecting the decline in commercial property valuations and reducing levels of corporate cash flow. In particular the real estate related lending exposures in the legacy HBOS portfolios were more sensitive to the downturn in the economic environment. The Board continues to believe that the overall Wholesale impairment charge peaked in the first half of 2009 and Lloyds Banking Group has seen a significant reduction in the Wholesale impairment charge in the second half of 2009. The Board expects a significant overall reduction in the Wholesale impairment charge in 2010, and beyond.

In the Retail division impairment losses increased, particularly reflecting increases in UK unemployment during 2009 on the unsecured charge, which was partly offset by a lower secured impairment charge as house prices stabilised. Compared to 2009, the Board expects to see a reduction in the impairment charge in 2010, with further improvements thereafter as the UK economic environment improves and house prices continue to stabilise.

In the Wealth and International division, the impairment charge increased in 2009, reflecting significant provisions against Lloyds Banking Group's Irish and Australian commercial real estate portfolios. Lloyds Banking Group continues to have ongoing concerns with regard to the outlook for the Irish economy although the Board expects 2009 to have been the peak for the international impairment charge.

In conclusion, given its view of the economic outlook for the UK, the Board believes that, at Lloyds Banking Group level, the overall impairment charge has now peaked and that the overall impairment charge in 2010 will be significantly lower than the overall impairment charge in 2009."

General Information

Paragraph 7 of the section entitled "General Information" on page -2- of the March 2010 Supplement shall be deleted and replaced with the following:

"There has been no significant change in the financial or trading position of Lloyds Banking Group since 31 December 2009, the date to which the Group's last published audited financial information was prepared, and there has been no material adverse change in the prospects of Lloyds Banking Group since 31 December 2009."

Paragraph 8 of the section entitled "General Information" on page -2- of the March 2010 Supplement shall be deleted and replaced with the following:

"Save as disclosed in the sub-section entitled "Group Reorganisation" under the heading "Recent Developments" on page 47 of the supplement published on 5 March 2010, there has been no significant change in the financial or trading position of Lloyds TSB Bank Group since 31 December 2009, the date to which Lloyds TSB Bank Group's last published audited financial information was prepared, and there has been no material adverse change in the prospects of Lloyds TSB Bank Group since 31 December 2009."

Paragraph 9 of the section entitled "General Information" on pages -3- to -4- of the March 2010 Supplement shall be deleted and replaced with the following:

"For so long as the medium-term note programme described in this Base Prospectus remains in effect or any notes shall be outstanding, the following documents may be inspected and, where appropriate, copies obtained, during normal business hours at the specified office of the paying agent and the registered office of the Company, The Mound, Edinburgh EH1 1YZ, 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 2009, 2008 and 2007;

(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 2009, 31 December 2008 and 31 December 2007; 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.

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."

The Issuers and Guarantor will provide, without charge, to each person to whom a copy of this Supplement 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 or in the Base Prospectus. Written or oral requests for such documents should be directed to the Company at its registered office at The Mound, Edinburgh, EH1 1YZ or to the Bank at its registered office at 25 Gresham Street, London, EC2V 7HN.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

An investor should be aware of its rights arising pursuant to Section 87Q(4) of the FSMA.

Appendix 1
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 audited consolidated annual financial statements of the Company for the financial year ended 31 December 2009, together with the audit report thereon, as set out on pages 127 to 248 and 126, respectively, of the Company's Annual Report and Accounts 2009 (the "**Company's 2009 Annual Report**");

(ii) 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";

(iii) 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**");

(iv) 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**");

(v) 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**"); and

(vi) 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;

Lloyds TSB Bank plc financial statements:

(i) The Bank's Annual Report and Accounts 2009;

(ii) 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**");

(iii) 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; and

(iv) 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;

HBOS plc financial statements:

(i) HBOS's Annual Report and Accounts 2009;

(ii) 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**"); and

(iii) 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;

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-l 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;

(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**");

(iv) The following sections of the Company's 2009 Annual Report:

a) The portion of the risk governance section as set out on pages 57 to 62 thereof together with table 1.3 and the paragraphs under the heading "Risk Drivers" on page 63 thereof;

b) the fourth complete paragraph on page 19 (together with note 12 on page 159 of the Company's 2009 Annual Report, the "**Impairment Update**"); and

c) the first sentence of the third complete paragraph on page 21;

(v) The second paragraph and the first two sentences of the third paragraph of the Company's Regulatory News Service announcement entitled "Update on Current Trading" published on 19 March 2010,

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.

Appendix 2

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 subsequent to a change to the Group's corporate structure on 1 January 2010 now operates all its business through Lloyds TSB Bank Group.

Pursuant to two placing and open offers which were completed by the Company in January and May 2009 and the Rights Issue completed in December 2009, the UK Government acquired 43.4 per cent. of the Company's issued ordinary share capital. Following the issue of ordinary shares in February 2010 as part of the Exchange Offers, the UK Government's holding was reduced to approximately 41.3 per cent. 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. 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 has a diversified UK financial services business and is a leading financial services provider in the UK. 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 Years Ending 31 December 2009 and 2008 - Overview, Trend Information and Outlook" for a discussion of the post-Acquisition synergies achieved in 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.

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. In 2009 the Group continued to reinforce its funding position initially by participating in the liquidity initiatives introduced by the Bank of England and HM Treasury and latterly by further developing its independent capital markets issuance capabilities. The focus on independent issuance has been successfully pursued into 2010, the Group having accessed multiple diverse investor bases publicly, including senior, subordinated, residential mortgage-backed and covered bonds.

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 will enable the Group to achieve its vision to be recognised as the best financial services organisation in the UK.

Businesses and Activities

The Group's activities are organised into four divisions: Retail, Wholesale, Wealth and International and Insurance. The main activities of these divisions and key statistics as at 31 December 2009 are described below.

Retail

The Retail division provides current accounts, savings, personal loans, credit cards and mortgages in the UK. With its strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland and Cheltenham & Gloucester, it serves over 30 million customers through one of the largest branch and fee free ATM networks in the UK.

Retail has approximately 22 million current account customers and provides social banking to over 4 million people through basic banking or social banking accounts. It is also a leading provider of personal loans and credit cards in the UK. Retail provides one in four residential mortgages, making it a leading UK mortgage lender in addition to being a major provider of home finance for the first time buyer. Retail is the largest private sector savings provider in the UK, with over 21 million savers. It is also a major bancassurance distributor, selling a wide range of long term savings and investment products.

Wholesale

The Wholesale division comprises Corporate Markets, Treasury and Trading and Asset Finance.

Corporate Markets comprises Corporate, Commercial, Corporate Real Estate, Specialist Finance and Wholesale Markets. Corporate, Commercial and Corporate Real Estate provide relationship-based banking, risk management and advisory services to corporate and commercial customers principally in the UK. Relationships with customers with an annual turnover greater than £15 million are managed within Corporate, and commercial property-based relationships (including hotel, property-based leisure and construction) are managed within the Corporate Real Estate business. Commercial provides financial services to business customers ranging from new start-ups to those with a turnover of up to £15 million and invoice discounting and factoring services to a broader range of customers. Specialist Finance includes the acquisition finance and private equity businesses; all new business is being written under the brand of Lloyds Acquisition Finance or Lloyds Development Capital. Wholesale Markets provides risk management solutions, specialised lending, capital markets advisory and multi-product financing solutions to its customers, whilst managing the Group's own portfolio of structured credit investments and treasury assets.

Treasury and Trading's role is to provide access to financial markets in order to meet the Group's balance sheet management requirements, and it provides trading infrastructure to support execution of customer-driven risk management transactions whilst operating within a well controlled and conservative risk appetite.

Asset Finance consists of a number of leasing and speciality lending businesses including Contract Hire (Lex, Autolease and Hill Hire), Specialist Assets and Consumer Finance (Black Horse Motor and Personal Finance).

Wealth and International

The Wealth business comprises private banking, wealth and asset management businesses in the UK and overseas. The key operations are UK and International Private Banking (which operate under the Lloyds TSB and Bank of Scotland brands), the Channel Islands and Isle of Man offshore businesses, the expatriates business and the asset management business, which following the completion of the sale of Insight Investment, is now consolidated within the Scottish Widows Investment Partnership. In addition, the Group holds a 60 per cent. stake in St. James's Place plc and a 55 per cent. stake in Invista Real Estate, the UK's largest independent listed wealth manager and real estate fund management group, respectively.

The International business comprises the Group's other international banking businesses outside the UK, with the exception of corporate business in North America which is managed through the Group's Wholesale division. These largely comprise corporate, commercial and asset finance businesses in Australia, Ireland and Continental Europe and retail businesses in Ireland, Germany and the Netherlands.

Insurance

The Insurance division comprises: Life, Pensions and Investments UK; Life, Pensions and Investments Europe; and General Insurance.

Life, Pensions and Investments UK

The UK Life, Pensions and Investments business is the leading bancassurance provider in the UK and has one of the largest intermediary sales forces in the industry. The business includes Scottish Widows, which, for a number of years, has been a subsidiary of the Bank and the provider of long term savings and investment products distributed through all channels of that group. Following the Acquisition, the Life, Pensions and Investments business also includes business written through the intermediary and bancassurance channels under the Clerical Medical and Halifax brands respectively.

Life, Pensions and Investments Europe

The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands. The business unit was included within the International division of the former HBOS group.

General Insurance

The combined General Insurance business is a leading distributor of home and payment protection insurance in the UK, with products sold through the branch network, direct channels and strategic corporate partners. The business is one of the largest underwriters of personal insurance business in the UK and also has significant brokerage operations for personal and commercial insurances. It operates primarily under the Lloyds TSB, Halifax and Bank of Scotland brands.

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 30 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 historically allowed the Banking Code Standards Board to prescribe conduct rules governing the deposit-taking and account operating activities of banks and building societies (as is described further below). On 1 November 2009, responsibility for the regulation of deposit and payment products transferred to the FSA. In light of this change the Banking Code Standards Board has changed its name to the Lending Standards Board. The Lending Standards Board will monitor and enforce compliance with a new Lending Code that replaces those elements of the Banking Code and Business Banking Code relating to lending.

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. In the Group's view, 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.

A second Turner Review discussion paper (October 2009) developed issues highlighted for further discussion in the March review, specifically how to offset the moral hazard created by the existence of systemically important banks and the cumulative impact of changes to the capital and liquidity schemes. Key proposals include: using contingent capital which converts to equity when required; reducing the interconnectedness of large cross-border banks; restricting retail banks from engaging in proprietary trading activities; and emphasising the need to prioritise capital conservation and enhancement above employee bonus payments.

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 1 January 2010 (subject to the rules of the FSCS):

- eligible deposit claimants remain 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 100 per cent. compensation for financial loss up to £50,000; and
- eligible insurance claimants are entitled to receive 90 per cent. 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 31 December 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.

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. In November 2009 the draft Financial Services Bill was presented to Parliament. This bill consolidates some of the proposals presented in the White Paper, in addition to enhancing the FSA's disciplinary and enforcement powers. Specifically, the bill provides the FSA with the power to require authorised firms to prepare recovery and resolution plans (living wills) and proposes new mechanisms for consumer redress and class actions. The bill also proposes additional powers be given to the FSA in relation to remuneration following the introduction of the FSA's new Remuneration Code in August 2009. The code will take effect from 1 January 2010 and sets out how employers should mitigate risk when rewarding staff with pay and bonuses. The code is designed to make sure that boards focus more closely on ensuring that the total amount distributed by a firm is consistent with good risk management and sustainability, as well as ensure that individual compensation practices provide the right incentives.

*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.

Banking Conduct Regime

On 1 November 2009, the FSA assumed responsibility for the regulation of deposit and payment products under a new Banking Conduct regime. Such regulation includes banking conduct of business rules regarding retail deposit-taking business and FSA requirements relating to payment services pursuant to the Payment Services Regulations 2009.

Lending Code

The Lending Standards Board (formerly the Banking Code Standards Board) is responsible for monitoring and enforcing compliance with a new Lending Code introduced on 1 November 2009 which relates to lending to private customers and small businesses.

Unarranged overdraft charges

The Supreme Court published its judgment in respect of the fairness of unarranged overdraft charges on personal current accounts on 25 November 2009, finding in favour of the litigant banks. On 22 December 2009, the OFT announced that it will not continue its investigation into the fairness of these charges. The Group is working with the regulators to ensure that outstanding customer complaints are concluded as quickly as possible and anticipate that most cases in the county courts will be discontinued. The Group expects that some customers will argue that despite the test case ruling they are entitled to a refund of unarranged overdraft charges on the basis of other legal arguments or challenges. The Group would robustly defend any such complaints or claims and does not expect any such complaints or claims to have a material effect on the Group.

The OFT is however continuing to discuss its concerns in relation to the personal current account market with the banks, consumer groups and other organisations under the auspices of its Market Study into personal current accounts. In October 2009, the OFT published voluntary initiatives agreed with the industry and consumer groups to improve transparency of the costs and benefits of personal current accounts and improvements to the switching process. The OFT aims to report on progress in respect of further changes it believes are required to make the market work in the best interest of bank customers by the end of March 2010.

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 General Court. 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. 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 General Court 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—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.

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. The ultimate impact on the Group of any review and/or assessment can only be known at the conclusion of these discussions and on publication of the FSA's final rules.

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 101 of the Treaty on the Functioning of the European Union 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.

The Payment Services Directive was fully implemented in the UK on 1 November 2009 and enhances 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.

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) and the Consumer Credit Directive are currently being implemented in the UK.

Draft provisions for implementing the Consumer Credit Directive were 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 directive 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.

Starting in 2007, the Bank 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 reported to be conducting a review of sanctions compliance by non-U.S. financial institutions. On 9 January 2009, the settlement reached by the Bank with both the U.S. Department of Justice and the New York County District Attorney's Office in relation to their investigations was announced. The settlement documentation contains details of the results of the investigations including the identification of certain activities relating to Iran, Sudan and Libya which the Bank conducted during the relevant period. In 2008, the Bank made a provision of £180 million which fully covered the settlement amount paid to the Department of Justice and the New York County District Attorney's Office. On 22 December 2009, OFAC announced the settlement it had reached with the Bank in relation to its investigation and confirmed that the settlement sum due to OFAC had been fully satisfied by the Bank's payment to the Department of Justice and the New York County District Attorney's Office. No further enforcement actions are expected in relation to the matters set out in the settlement agreements. 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 a very early stage.

The Group is involved in ongoing issues relating to unarranged overdraft charges, the payment of interchange fees and payment protection insurance. See "— Regulation — Other Relevant Legislation and Regulation — Unarranged overdraft charges", "— Regulation — Other Relevant Legislation and Regulation — Interchange fees" and "— Regulation — Other Relevant Legislation 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— 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— 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 26 February 2010, notification had been received that The Solicitor for the Affairs of Her Majesty's Treasury had a direct interest of approximately 41.3 per cent. in the Company's ordinary 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 2007; (ii) note 47 of the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2008; (iii) note 51 of the audited

consolidated annual financial statements of the Company for the financial year ended 31 December 2009; (iv) notes 47 and 48 of the audited consolidated annual financial statements of HBOS for the financial years ended 31 December 2007; (v) notes 51 and 52 of the audited consolidated annual financial statements of HBOS for the financial year ended 31 December 2008; and (vi) the section entitled "Material Contracts" as set out herein, the Group has not entered into any related party transactions other than with wholly owned subsidiaries during the period ended 31 December 2009.

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. A member of the Akbank International Advisory Board.
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 Arora Holdings 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 director of Sky Malta, 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.
Glen Moreno	Chairman of Pearson and a non-executive director of Fidelity International.
David Roberts	A member of the strategy board for Henley Business School, non-executive chairman of The Mind Gym and a non-executive director of Campion Willcocks.
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.

Dr. Wolfgang Berndt has informed the Group of his intention to retire from the Board at the Group's Annual General Meeting in May 2010.

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.