

# BASE PROSPECTUS

LLOYDS  
BANKING  
GROUP



## 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 (the “**Senior 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)) (the “**Subordinated Notes**”) and together with the Senior Notes, the “**Notes**”) denominated in U.S. dollars or in other currencies or composite currencies (the “**Programme**”). The Issuers are privately placing the Notes on a delayed or continuous basis to one or more of the dealers named below or otherwise appointed by an Issuer from time to time, in connection with a specific issuance or otherwise (the “**Dealers**”), or through the 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 2003/7 I/EC (the “**Prospectus Directive**”). 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**”) approved this document 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 Notes 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 16 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 within the meaning of and in reliance on Rule 144A under the Securities Act (“**Rule 144A**”) and outside the United States in reliance on Regulation S under the Securities Act (“**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 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 Dealer at the time of resale or, if so agreed, at a fixed offering price. In addition, the Issuers may agree with a 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 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 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, societe 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  
BNP PARIBAS  
Credit Suisse  
Goldman, Sachs & Co.  
J.P. Morgan  
Morgan Stanley  
UBS Investment Bank

Barclays Capital  
Citi  
Deutsche Bank Securities  
HSBC  
Lloyds TSB Corporate Markets  
RBS  
Wells Fargo Securities

The date of this Base Prospectus is 14 May 2010

## 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 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 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 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 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 subsidiary and associated undertakings (the "**Group**" or the "**Lloyds Banking 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 Dealers by the Financial Services and Markets Act 2000 (the “FSMA”) or the regulatory regime established thereunder, each of the 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 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 Dealer 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 CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES 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 THAT ANY DOCUMENT FILED UNDER RSA421-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 A TRANSACTION MEANS THAT THE SECRETARY OF STATE 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**

This Base Prospectus includes certain forward looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group’s or its directors’ and/or management’s beliefs and expectations, are forward looking statements. Words such as “believes”, “anticipates”, “estimates”, “expects”, “intends”, “aims”, “potential”, “will”, “would”, “could”,

“considered”, “likely”, “estimate” and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

Examples of such forward looking statements include, but are not limited to, projections or expectations of the Group’s future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, expenditures or any other financial items or ratios; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of the integration of HBOS and the achievement of certain synergy targets; statements about the future business and economic environments in the United Kingdom (“UK”) and elsewhere including future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments and any impact on the Group; 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 Lloyds Banking Group or on Lloyds Banking Group’s behalf include, but are not limited to the risks identified herein under “Risk Factors”, as well as general economic conditions in the UK and internationally; inflation, deflation, interest rates, policies of the Bank of England and other G8 central banks and interest rate, 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 and other acts of war or hostility and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, taxation, government policies, including those relating to share ownership, or accounting standards or practices and similar contingencies outside Lloyds Banking Group’s control; the ability to derive cost savings and other benefits as well as mitigate exposures from the acquisition and integration of HBOS; inadequate or failed internal or external processes, people and systems; 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 degree of borrower credit quality; the ability to achieve value-creating mergers and/or acquisitions at the appropriate time and prices and the success of Lloyds Banking Group in managing the risks of the foregoing.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the U.S. Securities and Exchange Commission (the “**Commission**”), Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by law, the forward looking statements contained in this Base Prospectus are made as of the date hereof, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Base Prospectus to reflect any change in Lloyds Banking Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## **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 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) 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, 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 LIABILITIES, SERVICE OF PROCESS**

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 their respective directors and executive officers reside outside the United States. All or a substantial portion of the assets of the Company, the Bank and/or those non-resident persons 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 the Company, the Bank or those persons or to enforce against them judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States. The Company has been advised by its Scottish solicitors, Dundas & Wilson CS LLP (as to Scots law), and its English solicitors, Linklaters LLP (as to English law), that, both in original actions and in actions for the enforcement of judgments of U.S. courts, there is doubt as to whether civil liabilities predicated solely upon the U.S. federal securities laws are enforceable in Scotland and England, respectively.

## CERTAIN DEFINITIONS

In this Base Prospectus, reference to:

- (i) “**Acquisition**” is to the acquisition by Lloyds TSB Group plc of 100 per cent. of the ordinary share capital of HBOS plc on 16 January 2009. Upon completion of the Acquisition, Lloyds TSB Group plc changed its name to Lloyds Banking Group plc. Accordingly, where in this Base Prospectus information is presented for dates prior to 16 January 2009, unless otherwise indicated, such information relates to Lloyds Banking Group prior to the Acquisition;
- (ii) “**BOS**” is to Bank of Scotland plc;
- (iii) “**Company**” is to Lloyds Banking Group plc;
- (iv) “**Group Reorganisation**” is to the transfer by Lloyds Banking Group plc of its holding in HBOS plc to Lloyds TSB Bank plc on 1 January 2010;
- (v) “**Guarantor**” is to the Company in its capacity as guarantor of Notes issued by the Bank;
- (vi) “**HBOS**” or “**HBOS Group**” is to HBOS plc and its subsidiary and associated undertakings;
- (vii) “**Issuers**” is to the Company and the Bank, each an “**Issuer**”;
- (viii) “**Lloyds Banking Group**”, “**Lloyds**” or the “**Group**” is to the Company and its subsidiary and associated undertakings;
- (ix) “**Lloyds TSB Bank**” or “**Bank**” is to Lloyds TSB Bank plc;
- (x) “**Lloyds TSB Bank Group**” is to the Bank and its subsidiary and associated undertakings; and
- (xi) “**Lloyds TSB Group**” is to the Company and its subsidiary and associated undertakings but excluding the HBOS Group.

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## 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;
- (ii) 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; and
- (iii) 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, including the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2009, together with the audit report thereon, as set out on pages 10 to 106 and 9, respectively;
- (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; and
- (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;

### ***HBOS plc financial statements:***

- (i) HBOS plc's Annual Report and Accounts 2009, including the audited consolidated annual financial statements of HBOS plc for the financial year ended 31 December 2009, together with the audit report thereon, as set out on pages 12 to 116 and 10 to 11, respectively;
- (ii) The audited consolidated annual financial statements of HBOS plc 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 plc's Annual Report and Accounts 2008; and
- (iii) The audited consolidated annual financial statements of HBOS plc 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 plc's Annual Report and Accounts 2007;

### ***Other documents incorporated by reference:***

- (i) The section entitled "Description of the Notes and Guarantees" set out on pages 51 to 87 of the Base Prospectus dated 11 November 2009 relating to Lloyds Banking Group plc and Lloyds TSB Bank plc's \$35,000,000,000 U.S. MTN Programme;



- (ii) The following sections of the annual report of the Company for the financial year ended 31 December 2009 on Form 20-F filed with the Commission on 13 May 2010 pursuant to the United States Securities Exchange Act of 1934 (the “**Exchange Act**”) (the “**Company’s 2009 Annual Report on Form 20-F**”):
- (a) “**Selected Consolidated Financial Data**” as set out on page 3;
  - (b) “**Exchange Rates**” as set out on page 4;
  - (c) “**Business – Environmental Matters**” as set out on pages 6 to 7;
  - (d) “**Business – Properties**” as set out on page 7;
  - (e) “**Operating and Financial Review and Prospects**” as set out on pages 11 to 100, except for the subsection entitled “Combined Businesses Basis Summary – 2009 Compared with 2008” as set out on pages 39 to 40 and the subsection entitled “Continuing Businesses Basis Summary – 2008 Compared with 2007” as set out on pages 51 to 52;
  - (f) “**Management and Employees—Employees**” as set out on page 103;
  - (g) “**Compensation**” as set out on pages 104 to 122;
  - (h) “**Corporate Governance**” as set out on pages 123 to 128;
  - (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 F-1 to F-123;
- (iii) The interim management statement of the Company for the three months ended 31 March 2010 published on 27 April 2010 save for the second sentence of the last paragraph under “Good trading performance with guidance reaffirmed”,

all of which have been previously published and filed with the FSA and, in the case of the Company’s 2009 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 Programme Agreement (as defined herein) that it will comply with section 87G of the FSMA.

## PRESENTATION OF INFORMATION

In this Base Prospectus, references to the “**consolidated financial statements**” or “**financial statements**” are to Lloyds Banking Group’s consolidated financial statements included in the Company’s 2009 Annual Report on Form 20-F. References to the “**Financial Services Authority**” or “**FSA**” are to the United Kingdom (the UK) Financial Services Authority.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). In this Base Prospectus, amounts described as “statutory” refer to amounts included within the Group’s consolidated financial statements.

Lloyds Banking Group publishes its consolidated financial statements expressed in British pounds (“pounds sterling”, “sterling” or “£”), the lawful currency of the UK. In this Base Prospectus, references to “pence” and “p” are to one-hundredth of one pound sterling; references to “U.S. dollars”, “U.S.\$” or “\$” are to the lawful currency of the United States (the U.S.); references to “cent” or “c” are to one-hundredth of one U.S. dollar; references to “euro” or “e” are to the lawful currency of the member states of the European Union that have adopted a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty of European Union; references to “euro cent” are to one-hundredth of one euro; and references to “Japanese yen”, “Japanese ¥” or “¥” are to the lawful currency of Japan. Solely for the convenience of the reader, this Base Prospectus, including the documents incorporated herein, contains translations of certain pounds sterling amounts into U.S. dollars at specified rates. These translations should not be construed as representations by Lloyds Banking Group that the pounds sterling amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate. Unless otherwise stated, the translations of pounds sterling into U.S. dollars have been made at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) in effect on 31 December 2009, which was \$1.6167 = £1.00. The Noon Buying Rate on 31 December 2009 differs from certain of the actual rates used in the preparation of the consolidated financial statements, which are expressed in pounds sterling, and therefore U.S. dollar amounts appearing in this Base Prospectus may differ significantly from actual U.S. dollar amounts which were translated into pounds sterling in the preparation of the consolidated financial statements in accordance with IFRS.

## 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 Notes or 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.

### Issuers

Lloyds Banking Group plc

Lloyds Banking Group plc 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**" or "**Lloyds TSB 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 subsidiary and associated undertakings are referred to as the "**Lloyds Banking Group**", "**Lloyds**" 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.

### 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".

### 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

<b>Trustee, Paying Agent and Calculation Agent</b>	The Bank of New York Mellon, London branch
<b>Paying Agent and Note Registrar</b>	The Bank of New York Mellon, New York branch
<b>Paying Agent and Note Registrar</b>	The Bank of New York Mellon (Luxembourg) S.A.
<b>Method of Distribution</b>	The Notes are being offered on a continual basis by the Issuers through the Dealers. The Issuers may also sell Notes to the Dealers acting as principals for resale to investors or other purchasers. See “Plan of Distribution”.
<b>Programme Size</b>	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.
<b>Currencies</b>	Subject to any applicable legal or regulatory restrictions, the relevant Issuer may issue Notes in any currency as it may agree with the relevant Dealer(s).
<b>Issuance in Series</b>	The Issuers will issue Senior Notes in series under a Senior Indenture (as defined below) and Subordinated Notes in series under a Subordinated Indenture (as defined below). 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.
<b>Status of Senior Notes</b>	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.
<b>Status of Subordinated Notes</b>	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 (as defined below), the paying agent, currency determination agent and note registrar agreement, the calculation agency agreement and the amended and restated programme agreement for the programme (the “**Programme 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 Relating to the Group**

- Risks associated with the shareholding of The Commissioners of Her Majesty’s Treasury (“**HM Treasury**”).
- Risks associated with reform of the structure and regulation of the banking system set out in a White Paper issued by the UK Government in July 2009.
- Risks arising from certain undertakings provided to HM Treasury in relation to the operation of the Group’s business.
- Risks relating to adverse regulatory developments or changes in UK Government policy.

- Risks of failing to realise benefits from, and incurring unanticipated costs associated with, the acquisition by Lloyds Banking Group of HBOS.
- Risks arising from general and sector specific economic conditions in the UK and other markets and further adverse economic developments, including credit rating downgrades of sovereigns.
- Risks of material negative changes to the estimated fair values of financial assets of the Group.
- Risks relating to borrower and counterparty credit quality.
- Risks concerning the Group's access to liquidity and sources of funding.
- Risks associated with changes in taxation rates or law or interpretation of the law.
- Risks that the Group could fail to attract or retain senior management or other key employees.
- Risks of assumptions and estimates on which the Group's financial statements are based being wrong.

**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 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.*

### 1 GOVERNMENT RELATED RISKS

**1.1** *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 holds approximately 41.3 per cent. of the ordinary share capital of the Company. This follows a dilution in February 2010 associated with the two exchange offers announced by the Group on 3 November 2009 (the "**Exchange Offers**"). In the longer term, the Exchange Offers could lead to further dilution of the HM Treasury shareholding through the potential conversion of the enhanced capital notes (the "**Enhanced Capital Notes**" or "**ECNs**"), into ordinary shares pursuant to their terms. It is not possible to calculate precisely the total dilutive effect any potential conversion of ECNs may have on HM Treasury's ownership interest in the Company but 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. 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 ("**UKFI**") published on 13 July 2009. The framework document states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined herein) (including with respect to individual lending or remuneration decisions)". This document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision and "will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets)". 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.

***1.2 The Group is subject to European state aid obligations following the approval of its restructuring plan by the European Commission on 18 November 2009. The implementation of this restructuring plan may have consequences that are materially adverse to the interests of the Group. Moreover, should a third party successfully challenge the European Commission's decision to approve the Group's restructuring plan, or should the Group require additional state aid in the future, further restructuring measures could be required and these may be materially adverse to the interests of the Group.***

As a result of HM Treasury's investment in the Company in the context of the placing and open offer in November 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, including the aid received pursuant to its participation in HM Treasury's credit guarantee scheme (the "**Credit Guarantee Scheme**") which was announced on 8 October 2008.

On 18 November 2009 the European Commission, through its College of Commissioners, approved the Group's restructuring plan. The principal elements of the plan 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 the rights issue in November 2009 (the "**Rights Issue**"), as well as any commercial benefit received by the Group following its announcement in March 2009 of the intention it held at that time to participate in the Government Asset Protection Scheme ("**GAPS**"). The approval also covers the Group's ongoing participation in HM Treasury's Credit Guarantee Scheme at current levels up to June 2010. The Company has agreed with HM Treasury in the deed of withdrawal 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.

It is possible that a third party could challenge the decision of the College of Commissioners to approve the restructuring plan 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 could result in more extensive remedies being applied including the disposal of a significantly larger proportion of the Group's assets and/or a significantly more stringent divestment timetable or more onerous behavioural restrictions than those contemplated in the approved restructuring plan.

The Group will also be subject to a variety of risks as a result of implementing the restructuring plan. 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 is 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 approved restructuring plan 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.

Should the Group require any further state aid that was not covered in the European Commission's approval decision of 18 November 2009, this may require the Group to commit to further restructuring measures. Any such measures could be materially adverse to the interests of the Group.

**1.3 *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 formerly proposed 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 to 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 £14 billion in the 12 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 12 month period commencing 1 March 2010.

On 23 March 2010, the Company entered into a commitment whereby it agreed to provide gross new lending to support UK businesses amounting to £44 billion and to support homeowners amounting to £23.1 billion, in respect of the year commencing 1 March 2010, in line with these requirements. The additional lending in 2009 and 2010 is subject to the Group's prevailing commercial terms and conditions (including appropriate risk-adjusted pricing and satisfaction of risk acceptance criteria) and, in relation to mortgage lending, the Group's standard credit and other acceptance criteria. The business lending commitment in 2010 is in addition subject to the availability of sufficient demand from customers who meet the above criteria and through the best endeavours of the Company, the availability of the capital, liquidity and funding position on acceptable terms necessary to support the level of lending that the Company has committed to during the 2010 commitment period.

This commitment could, however, limit the operational flexibility of the Group.

#### ***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 UK banking system.

Proposals in the White Paper included: 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".

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.

In November 2009 the draft Financial Services Bill was presented to Parliament and in April 2010 the Financial Services Act 2010 (the "**FS Act**") was passed. The FS Act consolidated some of the proposals presented in the White Paper, in addition to enhancing the FSA's disciplinary and enforcement powers. Specifically, the FS Act provides the FSA with a new regulatory objective to contribute to UK financial stability, and new powers in respect of (*inter alia*) altering firms' regulatory permissions, short selling, consumer redress schemes, recovery and resolution plans for authorised firms, disciplinary and enforcement proceedings (against firms and individuals) and the FSA's

remuneration rules. The FSA's implementation of these changes, together with further proposals set out in the White Paper, Turner Reviews and elsewhere, if implemented, could have a significant impact on the operations, structure and costs of the Group.

There is a risk that the further regulation or legislation that may be developed over time to implement these or new proposals 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 factors – Financial soundness related risks – 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 will face refinancing risk as transactions under these schemes mature" for a fuller discussion of liquidity risks affecting the Group.

## **2 ACQUISITION RISKS**

### **2.1 *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 of HBOS. 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 of HBOS. 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 of HBOS 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 of HBOS 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 in respect 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 of HBOS 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.

### **3 BUSINESS AND ECONOMIC RISKS**

#### ***3.1 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 severe dislocation 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. In addition, any credit rating downgrades of sovereigns, particularly the United Kingdom, Spain and Republic of Ireland (or a perception that downgrades may occur) may severely destabilise the markets and could have a material adverse effect on the Group's operating results, financial condition and prospects.***

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 but 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 to 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 half 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 has been in a severe recession, possibly the worst since World War II, although indications are that the UK has now emerged from its 18 month recession. 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 recent economic figures show a number of countries exiting

recession, forecasts are that the recovery will be at a modest pace and is likely to be protracted. Any 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.

In addition, the Group's businesses are subject to risks arising from the current UK macroeconomic environment, high and increasing levels of UK government debt and uncertainty around the outcome of the UK general election (including the possibility of a minority or coalition administration which may be unable to take decisive fiscal and other measures to reduce government debt levels resulting in heightened market uncertainty). Further, any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and have a material adverse effect on the Group's operating results, financial condition and prospects. This might also include impact on the Group's own credit ratings, borrowing costs and ability to fund itself.

A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a "double-dip" recession.

These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in, Italy, the Republic of Ireland, Greece, Portugal, and Spain in particular. Further instability in these countries or others within the Eurozone might lead to contagion, which may have a material adverse effect on the Group's operating results, financial condition and prospects.

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 whether the recovery will be sustained and at what rate, and (iii) the fact that many of the related risks to the business are totally, or in part, outside the control of the Group.

**3.2 *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.

**3.3 *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. 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 condition and results of operations.

**3.4 *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 severe dislocation 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 market dislocation and the fragility of the economic recovery. 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 made asset redesignations as permitted by recent amendments to IAS 39 ("Financial Instruments: Recognition and Measurement"). 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. 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.

#### **4 CREDIT-RELATED RISKS**

##### ***4.1 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 risk 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 of HBOS, 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 U.S.

At the time of the acquisition of HBOS, 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 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 potentially 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 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 modest increases have been evident 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 interest rates rise, or the current economic recovery falters, causing 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. Any such unforeseen material further impairments could have a material and adverse effect on the Group's operations, financial condition and prospects.

#### **4.2 *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 of HBOS 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.

**4.3 *If the perceived creditworthiness of 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 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. 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 market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of 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. 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.

**4.4 *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 Lloyds TSB Bank plc, HBOS and the Bank of Scotland plc and any deterioration could materially adversely affect the Group's results of operations, financial condition and prospects.***

As at 13 May 2010, 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 13 May 2010, 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 13 May 2010, 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 13 May 2010, 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 13 May 2010, 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 financial 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.

## **5 FINANCIAL SOUNDNESS RELATED RISKS**

### ***5.1 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 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, including its ability to meet its regulatory minimum liquidity requirements. 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) and the UK Government Credit Guarantee 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 factors – Business and economic risks – 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" 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.

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, and central banks have taken substantial measures to ease the crisis in liquidity, (for example, the UK 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 longer 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 was closed for new issuance in February 2010). Accordingly, the Group will face a refinancing concentration during 2011 and 2012 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 Company 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 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 of HBOS, the HBOS Group had a funding profile that involved the need to refinance a higher volume of maturing wholesale funding than that of heritage Lloyds TSB. As this continues to be the case, the funding profile of the Group involves substantially higher refinancing risk than the funding profile of heritage Lloyds TSB on a stand-alone basis. 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.

**5.2 *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 the recent high cost of funds relative to official rates in the interbank lending market, which was 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.

**5.3 *The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators.***

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. 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. Specifically, in relation to the consultation

papers issued by the Basel Committee on Banking Supervision (“strengthening the resilience of the banking sector” and “International framework for liquidity risk measurement, standards and monitoring”), the Group is participating in the industry-wide consultation and calibration exercises taking place through 2010. 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 of HBOS, 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.

## **6 INSURANCE RELATED RISKS**

### ***6.1 The Group’s insurance businesses and employee pension schemes are subject to risks relating to insurance claim 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 Factors – Business and economic risks – 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 insurance assets are subject to the risk of market fluctuations.

## **7 LEGAL AND REGULATORY RISKS**

### ***7.1 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 the United Kingdom and elsewhere, there is increased political and regulatory scrutiny of the banking industry and, in particular, retail banking. The UK Government, the FSA and other regulators in the United Kingdom or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Group.

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. 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.

In addition, the Group faces increased political and regulatory scrutiny as a result of the Group's perceived size and systemic importance following the HBOS Acquisition. Such scrutiny may focus on, or include review of, the historical operations of the HBOS Group as well as the characteristics of the enlarged Group. The outcome of any regulatory review, proceeding or complaint against the Group or the heritage HBOS Group is inherently uncertain and difficult to predict. In clearing the acquisition of HBOS 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 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.

In April 2009 the OFT indicated its intention to focus its efforts in the financial services markets on the banking sector, including credit, leasing and debt recovery activities. Amongst other plans, it had announced its intention to launch a review of the unsecured consumer credit sector in 2009.

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 continued 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.

Amendments to a number of EU directives are being considered, including the Distance Marketing Directive, Markets in Financial Instruments Directive; Capital Requirements Directive, E-Money Directive, Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Financial Groups Directive. 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.

**7.2 *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 continues to provide for 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.

The FSA requires 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. 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. FSA intends to carry out a consultation exercise in the fourth quarter of 2010 before introducing any further proposals relating to the FSCS.

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 European Directive on Deposit Guarantee Schemes (1994/19/EC) was amended by Directive 2009/14/EC (the “**Amended Directive**”). The Amended Directive required 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.

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. 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.

**7.3 *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;
- (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 U.S. 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 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), for example, see note 52 to the 2009 consolidated financial statements contained within the Company's 2009 Annual Report on Form 20-F. A major focus of U.S. governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with U.S. 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.

## **8 OPERATIONAL RISKS AND RELATED ISSUES**

### **8.1 *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 are subject to the FSA's Rule and supporting Code on remuneration (which only apply to certain financial institutions), effective 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.

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 an 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 and reputational loss.

### **8.2 *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 and/or systems (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).

**8.3 *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.

**9 OTHER RISKS**

**9.1 *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; which are discussed in detail in the Company's Annual Report on Form 20-F under the section entitled "Critical Accounting Estimates and Judgements" as set out on pages F-19 to F-23 therein.

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 and a corresponding impact on its funding requirements and capital ratios.

**9.2 *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, and to provide funds for payment of dividends to shareholders.***

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 shareholders and debt holders as they fall due.

**9.3 *The Bank is partly dependent on dividends from its subsidiaries to meet its obligations, including its obligations with respect to its debt securities.***

Lloyds TSB Bank plc is a bank as well as a holding company and as such one of its sources of income is dividends from its operating subsidiaries in order to be able to pay obligations to debt holders as they fall due. Following the Group Reorganisation, a proportion of Lloyds TSB Bank plc's income will in future be derived from the businesses and assets of the HBOS Group. As a result, Lloyds TSB Bank plc relies in part on remittance of dividends and other funds through the HBOS Group in order to be able to pay obligations to debt holders as they fall due.

**9.4 *Failure to manage the risks associated with changes in taxation rates or law, 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. 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.

**9.5 *Following the acquisition of HBOS, any further increase in HM Treasury's shareholding percentage in the Company, or the aggregation of HM Treasury's interests with that of other shareholders holding 5 per cent. or more, could lead to the Group suffering adverse tax consequences.***

Certain companies have material tax losses and reliefs which they anticipate carrying forward to reduce tax payable in the future and restrictions on the ability to utilise these losses and reliefs could affect the post-tax profitability and capital position of the Group. Following the acquisition of HBOS, actions which could possibly cause the loss of these reliefs to occur would include any further increase in HM Treasury's shareholding in Lloyds Banking Group plc, or the aggregation of HM Treasury's interests with that of other shareholders holding 5 per cent. or more. These actions, if coupled with the occurrence of certain specified events in relation to the Group companies (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) would, in the case of legacy HBOS Group companies, and could, in the case of legacy Lloyds TSB Group companies, cause restrictions on the ability to utilise these losses and reliefs. 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.

## **10 RISKS RELATING TO THE NOTES**

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

### **10.1 *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 10.2 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.

## ***10.2 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 their 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.

### **10.3 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 holders of the Notes including holders who did not vote and holders 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 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, 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.

### **10.4 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.

#### ***10.5 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 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, as amended and restated as of 14 May 2010 and as supplemented and amended from time to time (the “**Senior Indenture**”), between the Company, as issuer and guarantor of Notes issued by the Bank, the Bank as 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, as amended and restated as of 14 May 2010 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 required to be paid as described under “— Payment of Additional Amounts” in respect of tax incurred by the holder, 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 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 additional amounts required to be paid as described under “— Payment of Additional Amounts” in respect of tax incurred by the holder, 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 depository 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 depository 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 depository 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 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 144A 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 14 May 2010 (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 14 May 2010 (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 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.federalreserve.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 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 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:

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

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 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 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 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 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 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 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 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 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 (the Amortised Fee Amount).

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 U.S. 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;
- (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 of a Note, or which holds the Note 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.

Whenever reference is made in this Base Prospectus, any Final Terms or under any relevant Guarantee, in any context, to 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, such references include the payment of additional amounts to the extent that, in the context, additional amounts are, were or would be payable.

## **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 and additional amounts, 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 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 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, provided that such opinion must state it is based on a change in law 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.

*Any substitution of a Substituted Issuer for the Issuer may be considered for U.S. federal income tax purposes to be an exchange of the Notes for new Notes by the beneficial owners of such Notes, resulting in recognition of taxable gain or loss for U.S. federal income tax purposes and other possible adverse tax consequences. U.S. beneficial owners should consult their own tax advisers regarding the U.S. federal, state and local income tax consequences of any substitution.*

### **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 the case of the Bank, section 5.3 and, in the case of the Company, section 5.3.1 (only) 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 (other than section 11.4.5(ii)) (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 depository for the global notes. The global notes for which DTC acts as the depository 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 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 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 depository). 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 depository 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 depository.

### **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 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, primarily in the UK, to personal and corporate customers.

### 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 the company's general meeting on 19 November 2008. On 16 January 2009, the acquisition was completed and Lloyds TSB Group plc changed its name to Lloyds Banking Group plc.

Pursuant to two placing and open offers which were completed by the Company in January and June 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 pursuant to the Group's capital raising announced in November 2009, the UK Government's holding was reduced to approximately 41.3 per cent.

### Strategy

The Group's corporate strategy supports its vision of being recognised as the best financial services company in the UK by customers, colleagues and shareholders. The strategy is focused on being a conservative, "through the cycle" relationship-based business.

The main focus for the Group remains the financial services markets in the UK and the Group's strategic position was strengthened through the acquisition of HBOS in January 2009. The Group is a well diversified UK financial services group and the largest retail financial services provider in the UK. The

Group has leading positions in many of the markets in which it participates, a market leading distribution capability, well recognised brands and a large customer base. The scale of the organisation provides the opportunity to further invest in products and services, systems and training that combined will offer improved choice and service to the Group's customers. The effective integration of the two businesses will be a significant challenge over the next few years, but comprehensive plans are in place and progress is already being made. The Group's corporate strategy is focused on the following.

#### *Developing strong customer franchises that are based on deep customer relationships*

The Group's businesses are focused on extending the reach and depth of its customer relationships, whilst enhancing product capabilities to build competitive advantage. Striving to understand and effectively meet the needs of the Group's customers from core banking products to the more specialist services such as insurance, wealth management or corporate banking is at the heart of the Group's business and is fundamental to ensuring that the Group is developing long-lasting customer relationships.

#### *Building a high performance organisation*

In building a high performance organisation the Group is focused on improving its cost efficiency and utilising its capital more effectively whilst maintaining a prudent approach to risk.

- The Group aspires to have one of the lowest cost: income ratios amongst UK financial institutions and further improving the Group's processing efficiency and effectiveness will remain a priority. The anticipated synergies arising from the acquisition will be key to further improving the Group's efficiency.
- Utilising capital more effectively is increasingly important in the current environment and capital will be rigorously allocated across the Group's portfolio of businesses to support business growth.
- The prudent Lloyds TSB "through the cycle" approach to risk has been applied to the enlarged Group. The Group's conservative and prudent approach to risk is core to the business model and the "through the cycle" approach means that the Group will continue to support its customers throughout the economic cycle. The risk structures and frameworks that have been implemented are the foundation for good business management.

#### *Managing the Group's most valuable resource, people*

Executing the Group's strategy effectively will only be possible if the Group ensures that deliverables are effectively aligned with its corporate strategy and it manages its most valuable resource, people, well. In driving performance it is important to encourage, manage and develop staff whilst creating a great place to work.

#### *Summary*

The Group believes that the successful execution of its strategy to focus on core markets, customer and cost leadership, capital efficiency, a prudent risk appetite and the effective management of its most valuable resource, its people, will bring the Group closer to achieving its vision of being recognised as the best financial services company in the UK.

## **Businesses and Activities**

At 31 December 2008, the Group's activities were organised into three segments: UK Retail Banking; Insurance and Investments; and Wholesale and International Banking. Following the acquisition of HBOS plc on 16 January 2009, the Group was reorganised into four segments: Retail; Wholesale; Wealth and International; and Insurance.

### **Retail**

Retail is the largest retail bank in the UK and the leading provider of current accounts, savings, personal loans, credit cards and mortgages. With its strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland, Birmingham Midshires and Cheltenham & Gloucester, at 31 December 2009 Retail served over 30 million customers through one of the largest branch and fee free ATM networks in the UK.

At 31 December 2009, Retail had approximately 22 million current account customers and provided social banking to over 4 million people through basic banking or social banking accounts. It was also the largest provider of personal loans in the UK, as well as being the UK's leading credit card issuer. Retail provides one in four residential mortgages making it the leading UK mortgage lender as well as 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 at 31 December 2009. It is also a major general insurance and bancassurance distributor, selling a wide range of long-term savings, investment and general insurance products.

### **Wholesale**

The Wholesale division serves in excess of a million businesses, ranging from start-ups and small enterprises to global corporations, with a range of propositions fully segmented according to customer need. The enlarged division, following the acquisition of HBOS, 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 generally 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 brands 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 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, hire purchase and speciality lending businesses including Contract Hire (Lex, Autolease and Hill Hire), Specialist Assets and Consumer Finance (Black Horse Motor and Personal Finance). Hire purchase is a form of consumer financing where a customer takes

possession of goods on payment of an initial deposit but the legal title to the goods does not pass to the customer until the agreed number of instalments have been paid and the option to purchase has been exercised.

## **Wealth and International**

Wealth and International is a new division formed in 2009 to give increased focus and momentum to the private banking and asset management businesses and to closely co-ordinate the management of the Group's international businesses.

The Wealth business comprises private banking, wealth and asset management business 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 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, respectively the UK's largest independent listed wealth manager and real estate fund management group.

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 consists of three business units:

### *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 Lloyds TSB Group and the provider of long-term savings and investment products distributed through all channels of that group. Following the acquisition of HBOS, the Life, Pensions and Investments business also includes business written through the intermediary and bancassurance channels under the Clerical Medical and Halifax brands respectively.

In common with other life assurance companies in the UK, the life and pensions business of each of the life assurance companies in the Lloyds Banking Group is written in a long-term business fund. The main long-term business funds are divided into With Profit and Non-Profit sub-funds.

With-profits life and pensions products are written from the respective With Profit sub-funds in the Group. The benefits accruing from these policies are designed to provide a smoothed return to policyholders who hold their policies to maturity through a mix of annual and final (or terminal) bonuses added to guaranteed basic benefits. The guarantees generally only apply on death or maturity. The actual bonuses declared will reflect the experience of the With Profit sub-fund.

Other life and pensions products are generally written from Non-Profit sub-funds.

Examples include unit-linked policies, annuities, term assurances and health insurance (under which a predetermined amount of benefit is payable in the event of an insured event such as being unable to work through sickness). The benefits provided by linked policies are wholly or partly determined by reference to a specific portfolio of assets known as unit-linked funds.

### *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 Group's earnings are predominantly generated. Following the acquisition of HBOS, 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 two and a half years, 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 but substantially worsened in 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, EU or other 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 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 Financial Services and Markets Act 2000 (FSMA) which came into force on 1 December 2001. The FSA has responsibility under the FSMA for the regulation and oversight of a wide range of financial services activities in the UK. The FSA is responsible for the authorisation and supervision of institutions that perform regulated activities as defined in the FSMA. As part of its authorisation process, the FSA reviews applicants to ensure that they satisfy the necessary criteria, including suitability, competence and financial soundness, to engage in regulated activity.

These responsibilities include the regulation of mortgage lending, sales and administration (October 2004) and general insurance sales and administration (January 2005). More recently, on 1 November 2009, responsibility for the regulation of banking conduct of business and for payment services, under the Payment Services Regulations 2009, transferred to the FSA.

The FS Act received Royal Assent on 8 April 2010. The FS Act establishes a new consumer financial education body, amends the FSMA to provide the FSA with a new financial stability statutory objective, gives the FSA powers to make rules on remuneration arrangements, short selling, living wills, consumer redress schemes, and extends its enforcement powers. The FSA is currently consulting on implementing certain powers in the FS Act.

Significant changes to the UK regulatory regime are likely following the UK general election on 6 May 2010.

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.

### ***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.

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. The FSA reporting rules were revised through the introduction of the Integrated Regulatory Reporting Programme, which came into effect in 2008.

The FSA Handbook sets out rules and guidance across a range of issues with which financial institutions are required to comply. These include, amongst other things:

- Principles for Businesses – 11 high level principles to which financial institutions are required to adhere.
- 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 and liquidity.

- 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 requirement that such promotions should be clear, fair and not misleading), 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, amongst other services, advice to retail customers.
- Code of Market Conduct – 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 expects all firms to be able to demonstrate that full TCF compliance has been embedded within their business activities, operations and culture. As mentioned above, the FS Act amends the FSMA to provide the FSA with an added regulatory objective of 'financial stability', defined as 'contributing to the protection and enhancement of the stability of the UK financial system'. In considering this objective, the FSA must have regard to the economic and fiscal consequences for the UK of instability of the UK financial system, the effects on the growth of the UK economy of any regulatory action taken to meet the financial stability objective and the impact on the stability of the UK financial system of events or circumstances outside the UK.

At this stage it is unclear how the addition of the financial stability objective will affect the operation of the FSA's policy and supervisory functions. It is clear that it could have significant ramifications for the FSA's approach to the regulation of systemic organisations, particularly as regards the setting of capital and liquidity requirements, and potentially may affect the willingness of the FSA to allow organisations to grow by acquisition where growth could have systemic implications.

The FS Act also gives the FSA a new financial stability information gathering power which applies to authorised and unauthorised persons and is aimed at assisting the FSA in identifying threats to financial stability. In its consultation paper, the FSA proposes that, when deciding whether to impose a financial stability information requirement, factors it will take into account include: (i) the nature and extent of the risks to financial stability; (ii) whether the information is readily available from another source; and (iii) whether the information may assist the FSA in fulfilling its functions.

### ***Other Bodies Impacting the Regulatory Regime***

#### *The Bank of England and HM Treasury*

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 (collectively "**the tri-partite**") 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 Special Resolution Regime (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.

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.

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.

## *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.

#### *Lending Standards Board*

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.

#### *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. For further details see note 52 to the 2009 consolidated financial statements contained in the Company's 2009 Annual Report on Form 20-F and "Risk Factors – Legal and regulatory risks".

#### *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.

#### *EU Regulation*

The UK has implemented all of the directives introduced under the Financial Services Action Plan which was intended to create a single market for financial services across the EU. However, these directives are regularly reviewed at EU level and could be subject to change. 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.

#### *U.S. Operations and Regulation*

In the United States, Lloyds TSB Bank maintains a branch in New York and an agency in Miami, licensed by the States of New York and Florida, respectively. Lloyds Banking Group maintains representative offices in several U.S. cities. The existence of branch and agency offices in the U.S. subjects Lloyds Banking Group plc and its subsidiaries doing business or conducting activities in the U.S. to oversight by the Federal Reserve Board and limits the nature of the activities in which Lloyds Banking Group plc and its subsidiaries can engage in the U.S. Lloyds TSB Bank's branch and agency offices are subject to extensive federal and state supervision and regulation relating to their operations.

A major focus of U.S. governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with U.S. economic sanctions, with serious legal and reputational consequences for any failures arising in these areas. The Group engages, or has engaged, in a limited amount of business with counterparties in certain countries which the U.S. State Department currently designates as state sponsors of terrorism, including Iran, Syria, Cuba, and Sudan. In January 2008, the Group introduced an enhanced financial sanctions policy which applies to all of the Group's operations and severely restricts activity with certain high risk jurisdictions including the countries designated by the U.S. State Department. From their acquisition in January 2009, HBOS plc and its subsidiaries became subject to the same policy and the Group has undertaken the activities necessary to implement policy requirements across the HBOS heritage businesses. The Group continues to reduce its outstanding exposures to such states which have arisen through historical business activity. In accordance with this policy, the Group intends to engage only in new business in such jurisdictions in very limited circumstances where the Group is satisfied concerning legal, compliance and reputational issues.

Since its implementation the policy has resulted in a significant reduction in the contacts that the Group had (in terms of value and volume) and the Group expects a further reduction in its contacts in the coming years. The Group does not have, and does not anticipate having, a physical presence in any of the countries designated as state sponsors of terrorism.

At 31 December 2009, the Group does not believe the Group's business activities relating to countries designated as state sponsors of terrorism were material to its overall business.

The Group estimates that the value of the Group's business in respect of such states represented less than 0.02 per cent. of the Group's total assets and, for the year ended 31 December 2009, the Group believes that the Group's revenues from all activities relating to such states were less than 0.01 per cent. of its total income net of insurance claims. This information has been compiled from various sources within the Group, including information manually collected from relevant business units, and this has necessarily involved some degree of estimate and judgement.

#### *Other 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. 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 been endorsed at subsequent G20 meetings and 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.

#### *Current Regulatory Themes*

Regulatory themes which have a current bearing on the business of the Group include, but are not limited to, the following:

### *Liquidity Regime*

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 quantification 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 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.

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 detailed reporting requirements (which may require Lloyds Banking Group to change or upgrade its systems) may result in reduced profitability for Lloyds Banking Group.

Lloyds Banking Group manages liquidity on a consolidated basis. In order to comply with certain FSA requirements regarding the management of liquidity resources on a consolidated basis certain FSA-authorized deposit-taking subsidiaries of Lloyds Banking Group plc have entered into intra-group facilities.

### *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.

### *Basel II*

Basel II has been implemented throughout the EU through the Capital Requirements Directive. This came into force for all European banks on 1 January 2007. 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.

### *Continuing Obligations*

Those Companies in 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.

### *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.

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).

Further specific regulatory matters are set out in "Lloyds Banking Group — Legal actions" herein.

## **Legal Actions**

During the ordinary course of business the Group is subject to threatened or actual legal proceedings and regulatory challenge both in the UK and overseas.

### *Unarranged Overdraft Charges*

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.

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 is robustly defending any such complaints or claims and does not expect any such complaints or claims to have a material effect on the Group.

The OFT however continued 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. On 16 March 2010 the OFT published a further update announcing several further voluntary industry wide initiatives to improve a customer's ability to control whether they used an unarranged overdraft and to assist those in financial difficulty. However, in light of the progress it noted in the unarranged overdraft market since July 2007 and the progress it expects to see over the next two years, it has decided to take no further action at this time and will review the unarranged overdraft market again in 2012. The OFT also announced it will shortly be commencing an investigation into the barriers to entry in the personal current accounts market.

### *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 General Court of the European Union (the General Court). Lloyds TSB Bank plc and Bank of Scotland plc (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 General Court appeal supporting the European Commission position and Visa reached an agreement with the European Commission to reduce the level of interchange for cross-border debit card transactions to the

interim levels agreed by MasterCard. The ultimate impact of the investigations on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

#### *Payment Protection Insurance—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 has been 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.

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 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. 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. On 9 March, the FSA issued a further consultation paper on this area, the consultation period for which closed on 22 April (the Group has responded to this consultation). The FSA's proposals are materially the same, although it has placed the new rule requiring firms to reassess historically rejected claims on hold for the present.

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 the FSA's complaints handling proposals can only be known at the conclusion of these discussions and on publication of the FSA's final rules.

#### *U.S. Economic Sanctions*

Starting in 2007 Lloyds TSB Bank plc provided information in relation to its review of historic US 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 Lloyds TSB Bank plc 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 Lloyds TSB Bank plc conducted during the relevant period. In 2008, Lloyds TSB Bank plc made a provision of £180 million which fully covered the settlement amount paid to the Department of Justice and the New York District Attorney's Office. On 22 December 2009 OFAC announced the settlement it had reached with Lloyds TSB Bank plc in relation to its investigation and confirmed that the settlement sum due to OFAC had been fully satisfied by Lloyds TSB Bank plc's payment to the Department of Justice and the New York 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 Lloyds TSB Bank plc and the Company, seeking various forms of relief following the settlement. The derivative action is at a very early stage, but the ultimate outcome of the action is not expected to have a material impact on the Group.

#### *Other Legal Actions*

In addition to the matters listed above the Group is subject to threatened or actual legal proceedings and regulatory challenge both in the UK and overseas. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case

and no provisions are held against such cases. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position.

## **Material Contracts**

Lloyds Banking Group plc and its subsidiaries are party to various contracts in the ordinary course of business.

In 2008, the Company entered into a placing and open offer agreement with The Commissioners of Her Majesty's Treasury ("**HM Treasury**") and the joint sponsors and joint bookrunners named therein, as well as a preference share subscription agreement with HM Treasury, both with effect from 13 October 2008. Prior to the completion of the acquisition of HBOS, HBOS also entered into a placing and open offer agreement with HM Treasury and the joint sponsors and joint bookrunners named therein, as well as a preference share subscription agreement with HM Treasury, both with effect from 13 October 2008.

In 2009, the Company entered into a placing and compensatory open offer agreement with HM Treasury (as amended and restated on 20 March 2009 between the Company, HM Treasury, Citigroup Global Markets U.K. Equity Limited, J.P. Morgan Cazenove Limited and UBS Limited and further amended and restated between the same parties on 18 May 2009). In addition, the Company entered into a registration rights agreement with HM Treasury on 12 January 2009 (as amended with effect from 11 June 2009) pursuant to an obligation to do so under the 2008 placing and open offer agreement referred to above. The Company also entered into a resale rights agreement with HM Treasury pursuant to its obligations under the 2009 placing and open offer agreement. The Company entered into a Pre-Accession Commitments Deed dated 7 March 2009 and a Lending Commitments Deed dated 6 March 2009 (as amended on 23 March 2010) with HM Treasury, both relating to the Company's proposed participation in the Government Asset Protection Scheme. In addition, in connection with the 2009 rights issue and the Group's withdrawal from its proposed participation in the Government Asset Protection Scheme, the Company entered into a GAPS Withdrawal Deed with HM Treasury as well as the HMT Undertaking to Subscribe and the Cost Reimbursement Deed. For further details on each of the 2008 and 2009 agreements described above, see "Lloyds Banking Group – Major shareholders and related party transactions – Information about the Lloyds Banking Group's Relationship with the UK Government".

In addition to those agreements discussed above, the Company entered into the following agreements, which it considers to be material:

### *Rights Issue Underwriting Agreement*

Pursuant to an underwriting agreement dated 3 November 2009 (entered into in relation to the 2009 rights issue described in "Lloyds Banking Group – Major shareholders and related party transactions – Information about the Lloyds Banking Group's Relationship with the UK Government" between the Company, the banks, the senior co-lead managers, the co-lead managers and the co-bookrunner (all as named therein)), new shares in the Company were issued at a price of 37 pence per share. Sufficient new shares were issued to ensure that the gross proceeds of the rights issue receivable by the Company, including pursuant to the HMT Undertaking to Subscribe, were not less than £13.5 billion.

HM Treasury undertook to subscribe for its pro rata entitlement under the rights issue and the new shares that were the subject of the HMT Undertaking to Subscribe were not underwritten pursuant to the Rights Issue Underwriting Agreement. Further details of the HMT Undertaking to Subscribe are set out in "Lloyds Banking Group – Major Shareholders and Related Party Transactions – Information about the Lloyds Banking Group's Relationship with the UK Government".



In consideration of their services under the Rights Issue Underwriting Agreement, (i) the underwriters (as named in the Rights Issue Underwriting Agreement) were paid an aggregate base fee of 2.25 per cent. of the issue price multiplied by the aggregate number of new shares issued (excluding the new shares that were subscribed by HMT), and (ii) the joint bookrunners (as named in the Rights Issue Underwriting Agreement) were paid additional performance-based discretionary fees. Out of such fees (to the extent received by the joint global coordinators (as named in the Rights Issue Underwriting Agreement), the joint global coordinators were to pay any sub-underwriting commissions (to the extent that sub-underwriters were procured). The joint global coordinators had the ability to arrange sub-underwriting in respect of some, all or none of the new shares issued (other than the new shares to be subscribed by HM Treasury).

The Company agreed to pay all costs and expenses of, or in connection with, the rights issue, the general meeting of the Company convened to approve the rights issue, the related subdivision of the Company's shares, the allotment and issue of the new shares and the Rights Issue Underwriting Agreement, including (but not limited to) the UK Listing Authority and the London Stock Exchange listing and trading fees, other regulatory fees and expenses, printing and advertising costs, postage, Equiniti Limited's charges (as registrar), its own and the banks', the senior co-lead managers' and the co-lead managers' properly incurred legal and other out-of-pocket expenses, all accountancy and other professional fees, properly incurred public relations fees and expenses and all stamp duty and stamp duty reserve tax (if any) and other duties and taxes (other than corporation tax incurred by any of the banks, the senior co-lead managers and the co-lead managers on the commissions payable to them).

The obligations of the banks, the senior co-lead managers and the co-lead managers under the Rights Issue Underwriting Agreement were subject to certain limited conditions which were satisfied.

#### *Top Up Issues Underwriting Agreement*

Pursuant to the Top Up Issues Underwriting Agreement dated 3 November 2009 among the Company, LBG Capital No.2 plc (as issuer), Lloyds TSB Bank plc (as guarantor) and the joint bookrunners (as named therein), in the event that the exchange offers described in *Risk factors – Government-related risks* did not generate or were not expected to generate prior to 30 April 2010, or such other date as the Company and the joint global bookrunners (as named therein) might agree, £7.5 billion or more of core tier 1 and/or nominal value of contingent core tier 1 capital, the joint bookrunners severally agreed to underwrite one or more further issues of enhanced capital notes in an aggregate amount sufficient to reduce such shortfall to zero by such date.

In consideration of their underwriting services under the Top Up Issues Underwriting Agreement, and subject to their obligations under the Top Up Issues Underwriting Agreement having become unconditional and the Top Up Issues Underwriting Agreement not having been terminated, the joint bookrunners were to be paid an aggregate underwriting fee of £75 million and additional performance-based discretionary fees.

The obligations of the joint bookrunners under the Top Up Issues Underwriting Agreement and, in relation to each issue of additional enhanced capital notes, the obligations of the joint bookrunners under the Top Up Underwriting Agreement were subject to certain conditions which were satisfied.

Each of the Company, the issuer and the guarantor gave certain customary representations, warranties, undertakings and indemnities to the joint bookrunners, all of which have now expired.

In addition to the fees described above, the joint bookrunners and their affiliates were to be paid pursuant to the Rights Issue Underwriting Agreement and the Top Up Issues Underwriting Agreement:

- (i) an aggregate transaction praeipuum of 0.088 per cent. of £15.1 billion (being the aggregate of the underwriting commitments of the underwriters and the joint bookrunners), or of a sum in

excess thereof dependent on the notional amount of the securities submitted in the exchange offers; and

- (ii) a further discretionary aggregate transaction praecipuum (to be paid at the sole discretion of the Company, as to payment and allocation) of 0.088 per cent. of £15.1 billion (being the aggregate of the underwriting commitments of the underwriters and the joint bookrunners), or of a sum in excess thereof dependent on the notional amount of the securities submitted in the exchange offers.

## **Major Shareholders and Related Party Transactions**

### ***Major Shareholders***

At 30 April, 2010, notification had been received that The Solicitor for the Affairs of Her Majesty's Treasury had a direct interest of 41.26 per cent. in the Company's issued share capital with rights to vote in all circumstances at general meetings. No other notification has been received that anyone has an interest of 3 per cent. or more in the Company's issued ordinary share capital.

All shareholders within a class of the Company's shares have the same voting rights.

### ***Related Party Transactions***

The Group, as at 31 December 2009, had related party transactions with 14 key management personnel. See note 51 to the consolidated financial statements of the Company for the financial year ended 31 December 2009. In addition, material contracts with HM Treasury are described below under “– Information about the Lloyds Banking Group's relationship with the UK Government”.

Except as described in “Lloyds Banking Group – Material contracts” and below under “– Information about the Lloyds Banking Group's relationship with the UK Government”, there are no transactions to which the Group is a party involving the UK Government or any body controlled by the UK Government which are material to the Group or, to the Group's knowledge, to the UK Government or any UK Government controlled body, that were not made in the ordinary course of business, or that are unusual in their nature or conditions. However, considering the nature and scope of the bodies controlled by the UK Government, it may be difficult for the Group to know whether a transaction is material for such a body.

To the best of the Group's knowledge, any outstanding loans made by the Group to or for the benefit of the UK Government or any body controlled by the UK Government, were made (1) in the ordinary course of business, (2) on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, (3) did not involve more than the normal risk of collectability or present other unfavourable features, and (4) were made on arm's length basis.

### ***Information about the Lloyds Banking Group's Relationship with the UK Government***

On 18 September 2008, with the support of the UK Government, the boards of the Company and HBOS announced that they had reached agreement on the terms of a recommended acquisition by the Company of HBOS. On 13 October 2008, in the context of further unprecedented turbulence in global financial markets and as part of a co-ordinated package of capital and funding measures for the UK banking sector implemented by HM Treasury, the boards of both the Company and HBOS announced that they intended to participate in the proposed UK Government funding package and that they had agreed to proceed with the acquisition on revised terms. In this context, a combined total of £17,000 million of new capital was raised, consisting of £4,500 million in ordinary shares and £1,000 million in preference shares (before costs and expenses) by the Company and £8,500 million by ordinary shares and £3,000 million in preference shares (before costs and expenses) by HBOS.

### *2008 Placing and Open Offer Agreement and Preference Share Subscription Agreement*

Pursuant to a placing and open offer agreement with effect from 13 October 2008 entered into between the Company, HM Treasury and the joint sponsors and joint bookrunners named therein (the “**2008 Placing and Open Offer Agreement**”), (i) the Company agreed to invite qualifying shareholders to apply to acquire open offer shares at an issue price of 173.3 pence per ordinary share by way of an open offer; (ii) the joint sponsors and joint bookrunners agreed to use reasonable endeavours to procure placees to acquire open offer shares at not less than the issue price on the basis that the open offer shares placed were subject to clawback to the extent they were taken up by qualifying shareholders in the open offer; and (iii) HM Treasury agreed that, to the extent not placed or taken up under the open offer, HM Treasury would acquire the open offer shares at the issue price. The 2008 placing and open offer comprised a placing and open offer of 2,596,653,203 shares at the issue price. The 2008 placing and open offer was successfully completed in accordance with its terms; however, the Company gave certain customary representations and warranties and indemnities to each of HM Treasury, the joint sponsors and joint bookrunners under the 2008 Placing and Open Offer Agreement that are unlimited as to time and amount.

The Company and HM Treasury also entered into a preference share subscription agreement, with effect from 13 October 2008, pursuant to which HM Treasury agreed to acquire, and the Company agreed to allot and issue, 1,000,000 new preference shares to HM Treasury for a total consideration of £1,000 million (before costs and expenses).

HBOS also entered into a placing and open offer agreement with effect from 13 October 2008 with HM Treasury and the joint sponsors and joint bookrunners named therein, on similar terms and for similar purposes as the Company’s 2008 Placing and Open Offer Agreement and corresponding placing and open offer. A total of 7,482,394,366 HBOS open offer shares were offered at the issue price of 113.6 pence per share. In addition, HBOS entered into a preference share subscription agreement with HM Treasury with effect from 13 October 2008, pursuant to which HM Treasury agreed to acquire, and HBOS agreed to allot to HM Treasury, new HBOS preference shares for a total consideration of £3,000 million (before costs and expenses).

Pursuant to the placing and open offer, which was completed in January 2009 (and the concomitant placing and open offer by HBOS) and the acquisition of HBOS by the Company completed on 16 January 2009, the UK Government acquired 43.38 per cent. of the Company’s issued ordinary share capital. In addition, £3,000 million non-cumulative 12 per cent. fixed to floating rate preference shares were issued by the Company to HM Treasury on 16 January 2009 in exchange for the £3,000 million preference shares which had been issued by HBOS plc to HM Treasury on 15 January 2009 (as referred to above).

### *2009 Placing and Open Offer Agreement*

In June 2009 the Company issued approximately 10,408 million new ordinary shares as part of a placing and compensatory open offer. HM Treasury subscribed for approximately 4,521 million of these new ordinary shares at a price of 38.43 pence per share. As placees were procured for all the new ordinary shares for which valid acceptances were not received under the placing and compensatory open offer, HM Treasury’s shareholding remained at 43.4 per cent. The Company used the proceeds from this placing and compensatory open offer to redeem the £4,000 million preference shares issued by the Company to HM Treasury, described above, at 101 per cent. of their issue price (in accordance with the terms agreed with HM Treasury) together with accrued dividends thereon.

In connection with the placing and compensatory open offer, a Placing and Open Offer Agreement dated 7 March 2009 (the “**2009 Open Offer Agreement**”) was entered into between the Company and HM Treasury (as amended and restated on 20 March 2009 between the Company, HM Treasury, Citigroup Global Markets U.K. Equity Limited, J.P. Morgan Cazenove Limited and UBS Limited and further amended and

restated between the same parties on 18 May 2009), pursuant to which (i) the Company agreed to invite qualifying shareholders to apply to subscribe for the new ordinary shares described above at an issue price of 38.43 pence per share by way of a compensatory open offer, (ii) the joint sponsors and joint bookrunners were appointed and agreed to use reasonable endeavours to procure placees to subscribe for the open offer shares not taken up under the compensatory open offer, and (iii) HM Treasury agreed that, to the extent not placed or taken up under the compensatory open offer and subject to the terms and conditions set out in the Open Offer Agreement, HM Treasury would subscribe for such open offer shares itself at the issue price.

In consideration of the provision of its services under the 2009 Open Offer Agreement, the Company agreed to pay to HM Treasury (i) a commission of 0.5 per cent. of the aggregate value of the open offer shares at the issue price per open offer share payable on the earlier of admission to the Official List and to trading on the London Stock Exchange's main market and the second business day after the day on which the 2009 Open Offer Agreement is terminated, and (ii) a further commission of 1 per cent. of the aggregate value of the open offer shares subscribed for by HM Treasury (or its nominee) or by placees (including, for the avoidance of doubt, HM Treasury) at the issue price per open offer share payable on such date.

The Company also agreed to pay to each of HM Treasury, the joint sponsors and joint bookrunners all legal and other costs and expenses (properly incurred in the case of the joint bookrunners), and those of HM Treasury's financial advisers incurred in connection with the placing and compensatory open offer, the redemption of the preference shares or any arrangements referred to in the 2009 Open Offer Agreement.

The Company also agreed to bear all costs and expenses relating to the placing and compensatory open offer and the preference share redemption, including (but not limited to) the fees and expenses of its professional advisers, the cost of preparation, advertising, printing and distribution of the prospectus document and all other documents connected with the placing and compensatory open offer and the preference share redemption, the listing fees of the FSA, any charges by CREST and the fees of the London Stock Exchange and Euronext. The costs and commissions incurred by the joint bookrunners in connection with the rump placing were deducted from the aggregate proceeds of the rump placing.

The Company gave certain representations and warranties and indemnities to each of HM Treasury, the joint sponsors and joint bookrunners under the 2009 Open Offer Agreement. The Company's liabilities thereunder are unlimited as to time and amount. HM Treasury is entitled to novate its rights under the agreement to any entity that is wholly-owned, directly or indirectly, by HM Treasury.

#### *Registration Rights Agreement*

Pursuant to its obligations to HM Treasury under the open offer agreement entered into by the Company with effect from 13 October 2008, the Company entered into a Registration Rights Agreement with HM Treasury on 12 January 2009, granting customary demand and "piggyback" registration rights in the United States under the United States Securities Act of 1933, as amended to HM Treasury with respect to any ordinary shares of the Group held by HM Treasury ("**Registrable Securities**"). Pursuant to the Registration Rights Agreement, HM Treasury is permitted to transfer its registration rights to any of its wholly-owned, directly or indirectly, entities, as well as to any third party to whom it transfers not less than U.S.\$500 million in Registrable Securities. In connection with any registered offering of ordinary shares by the Group under the Securities Act, any holders of Registrable Securities will have the right to participate in the offering, pursuant to customary "piggyback" registration rights, to the extent that such participation would not prevent successful completion of the offering. In addition, all holders of Registrable Securities have "piggyback" registration rights, on a pro rata basis, in any demand registration made by another holder pursuant to the Registration Rights Agreement.

The Registration Rights Agreement was amended with effect from 11 June 2009 to include as "Registrable Securities" (as defined in the Registration Rights Agreement) any new shares subscribed for

under the 2009 Open Offer Agreement, any B shares and other securities in the Company called by HM Treasury to be issued by any person 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 any such securities.

#### *Resale Rights Agreement*

Pursuant to its obligations to HM Treasury under the 2009 Open Offer Agreement, the Company entered into a Resale Rights Agreement with HM Treasury with effect from 11 June 2009, in which it agreed to provide its assistance to HM Treasury in connection with any proposed sale by HM Treasury of ordinary shares, B shares and other securities held by HM Treasury in the Company from time to time, by HM Treasury and of any securities of any description caused by HM Treasury to be issued by any person from time to time and which are exchangeable for, convertible into, give rights over or are referable to such ordinary shares or other securities issued by the Group, to be sold in such jurisdictions (other than the United States) and in such manner as HM Treasury may determine. Such assistance may include, the provision by the Company of assistance with due diligence and the preparation of marketing and such other documentation (including any offering memorandum, whether or not a prospectus) as HM Treasury may reasonably request.

#### *Government Asset Protection Scheme*

The Company entered into a Pre-Accession Commitments Deed dated 7 March 2009 and a Lending Commitments Deed dated 6 March 2009 with HM Treasury, both relating to the Company's proposed participation in the GAPS. As further detailed below, the Company subsequently withdrew from its proposed participation in GAPS.

#### *Lending Commitments Deed*

On 6 March 2009, the Company entered into a "deed poll" in favour of certain UK Government departments under which it undertook to support lending to creditworthy borrowers in the UK in a commercial manner with effect from 1 March 2009. This lending commitment was a pre-requisite to the Group's proposed participation in the GAPS, the objective of which was to reinforce the stability of the UK financial system and support the recovery of the UK economy. A condition to the Group's proposed participation in the GAPS was the commitment by the Company to increase net lending by approximately £14,000 million in the twelve months commencing 1 March 2009 to support UK businesses (approximately £11,000 million) and homeowners (approximately £3,000 million), and to maintain in the twelve months commencing 1 March 2010 similar levels of lending as in the twelve months commencing 1 March 2009, subject to adjustment of the lending commitments by agreement with HM Treasury and the Department for Business, Enterprise and Regulatory Reform to reflect circumstances at the start of the twelve month period commencing 1 March 2010.

Under the GAPS Withdrawal Deed (detailed below), the Company has agreed to reaffirm the lending commitments which were originally given in the Lending Commitments Deed. On 23 March 2010, the Company entered into a deed poll in favour of the UK Government departments confirming its lending commitments for the 12 month period commencing 1 March 2010. The Company agreed subject to, amongst other things, sufficient customer demand, to provide gross new lending to UK businesses of £44,000 million and to adjust the undertakings given in connection with lending to homeowners for the 12 month period. 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.

### *HM Treasury Pre-Accession Deed*

On 7 March 2009, the Company entered into a deed poll in favour of HM Treasury, pursuant to which the Company gave a series of undertakings in relation to the provision of information and the management of the proposed assets, commitments and exposures proposed to be included in the GAPS (the “**Proposed Assets**”) in the period to the Group’s proposed accession to the GAPS.

The Company’s obligations under the Pre-Accession Deed referred to above (other than its commitment to inform the UK Government of certain deleveraging activities) were terminated pursuant to the GAPS Withdrawal Deed.

### *2009 Rights Issue*

In connection with the rights issue announced in November 2009, the Company issued approximately 36,505 million new ordinary shares in respect of a rights issue as part of an alternative to the Group’s proposed participation in GAPS (together with a liability management exercise). The Company entered into an Undertaking to Subscribe agreement with HM Treasury whereby HM Treasury undertook, amongst other things, to take up its rights to subscribe for all of the new shares to which it was entitled under the rights issue. HM Treasury subscribed for approximately 15,854 million new shares at a price of 37 pence per share. As subscribers were procured for all the new ordinary shares for which valid acceptances were not received under the rights issue, HM Treasury’s shareholding again remained at 43.4 per cent.

### *GAPS Withdrawal Deed*

Pursuant to the successful rights issue, the Company withdrew from its proposed participation in GAPS and on 3 November 2009, the Company entered into a GAPS Withdrawal Deed with HM Treasury (the “**GAPS Withdrawal Deed**”) pursuant to which, among other matters, the Company agreed to pay HM Treasury an amount of £2,500 million in recognition of the benefits to the Group’s trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group.

The GAPS Withdrawal Deed contained certain undertakings given by the Group to HM Treasury in connection with the state aid approval obtained from the European Commission and its withdrawal from GAPS. In particular, the Group is required to do all acts and things necessary to ensure the UK Government’s compliance with its obligations under the European Commission decision approving state aid to the Group. This undertaking includes an obligation: (i) to comply with the restructuring measures that the Group has agreed to undertake (as described herein); (ii) to comply with the terms of the restructuring plan accepted by the European Commission in connection with the 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 (without prejudice to any challenge to such state modifications). However, HM Treasury has undertaken that 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).

The GAPS Withdrawal Deed includes a number of other commitments given by the Company to HM Treasury. The Company has, among other things:

- (i) 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 be applied in such a way as to allow the Company to operate on a level playing field with its competitors. In addition, 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;

- (ii) reaffirmed the lending commitments as described above and, as part of its lending commitment to businesses, 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;
- (iii) agreed to implement a customer charter for lending to businesses;
- (iv) committed:
  - a. to ensure that its public financial statements comply with best industry practice; and
  - b. 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;
- (v) 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 and other members of the Tripartite; and
- (vi) 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.

#### *State Aid*

As part of the European Commission's decision approving state aid to the Group, Lloyds Banking Group was required to work with HM Treasury to submit a restructuring plan to the European Commission in the context of a state aid review. The plan was required to contain measures to limit any competition distortions resulting from the state aid received by Lloyds Banking Group. The College of Commissioners announced its formal approval of Lloyds Banking Group's restructuring plan on 18 November 2009.

The restructuring plan consists 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 Lloyds Banking Group's mortgage assets; (ii) an asset reduction programme to achieve £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 Lloyds Banking Group from paying dividends on its ordinary shares for the same duration.

The business referred to in (i) above will need to be disposed of within four years and consists 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. Lloyds

Banking Group is unable at this time to identify with any precision the assets and liabilities that will be divested, and associated income and expenses, until nearer the date of a sale.

#### *HMT Undertaking to Subscribe*

Under the HMT Undertaking to Subscribe, HM Treasury irrevocably undertook to procure that the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) (i) would vote in favour of all of the resolutions set out in the notice convening the general meeting of the Company held on 26 November 2009 in accordance with the recommendation of the board (except for resolution 4, as set out in the notice of general meeting) and (ii) would take up its rights to subscribe for all of the new shares to which it is entitled under the rights issue.

The Company agreed to pay to HM Treasury the HMT Commitment Commission, being a commission of up to £143.7 million, in consideration, amongst other things, for the undertakings given by HM Treasury in the HMT Undertaking to Subscribe.

#### *Cost Reimbursement Deed*

Under the cost reimbursement deed dated 2 November 2009, 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.

#### *Credit Guarantee Scheme*

HM Treasury launched the Credit Guarantee Scheme in October 2008 as part of a range of measures announced by the UK Government intended to ease the turbulence in the UK banking system. It charged a commercial fee for the guarantee of new short and medium term debt issuance. The fee payable to HM Treasury on guaranteed issues was based on a per annum rate of 50 basis points plus the median five-year Credit Default Swap spread. The drawdown window for the Credit Guarantee Scheme closed for new issuance at the end of February 2010. At 31 December 2009, the Group had £49,070 million of debt in issue under the Credit Guarantee Scheme. During the year, fees of £498 million were paid to HM Treasury in respect of guaranteed funding were included in the Group's income statement.

#### *Government Shareholding*

The Government's shareholding in the Company is currently held by the Solicitor for the Affairs of HM Treasury as nominee for HM Treasury and managed by UKFI (a company wholly owned by HM Treasury) on behalf of HM Treasury. No formal relationship agreement has been concluded between the Group and the UK Government and no specific measures are in place to ensure that control is not abused by HM Treasury. However, the relationship falls within the scope of the revised framework document between HM Treasury and UKFI published on 13 July 2009. The framework document states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined therein) (including with respect to individual lending or remuneration decisions)". This document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision and "will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets)".

These goals are consistent with the stated public policy aims of the UK Government, as articulated in a variety of public announcements (as at 10 May 2010). In the publication "An Introduction: Who We Are,



What We Do and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury”, it is stated that UKFI is to “develop and execute an investment strategy for disposing of the investments in the banks in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition”. UKFI has also stated that it intends to “engage robustly with banks’ boards and management, holding both strategy and financial performance to account, and taking a strong interest in getting the incentives structures right on the board and beyond – accounting properly for risk and avoiding inefficient rewards for failure”.

The Group, in common with other financial institutions, is also working closely with a number of Government departments and agencies on various industry-wide initiatives that are intended to support the Government’s objective of greater stability in the wider financial system. These initiatives currently include the potential extension of the Bank of England’s discount window facility whereby banks and building societies can exchange eligible securities and, potentially, other asset classes for HM Treasury gilts.

The Group also engages in numerous transactions on arm’s length commercial terms in the ordinary course of its business with the Government and its various departments and agencies, as well as with other companies in which the Government has invested. This includes financings, lendings, banking, asset management and other transactions with UK financial institutions in which the Government has invested. During 2008 and 2009, the Group has made use of these measures in order to maintain and improve a stable funding position.

## 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:

<b>Name</b>	<b>Principal outside activities</b>
<b>Sir Winfried Bischoff</b> 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.
<b>Lord Leitch</b> 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

<b>J. Eric Daniels</b> Group Chief Executive	A non-executive director of BT Group.
<b>Archie G. Kane</b> 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.

<b>G. Truett Tate</b> 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.
<b>Tim J.W. Tookey</b> Group Finance Director	None.
<b>Helen A. Weir CBE</b> Group Executive Director, Retail	A member of the Said Business School Advisory Board.
<b>Non-executive directors</b>	
<b>Sir Julian Horn-Smith</b>	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.
<b>Glen R. Moreno</b>	Chairman of Pearson and a non-executive director of Fidelity International.
<b>David Roberts</b>	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.
<b>T. Timothy Ryan Jr</b>	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.
<b>Martin A. Scicluna</b>	Chairman of Great Portland Estates. A member of the council of Leeds University and a governor of Berkhamsted School.
<b>Anthony Watson CBE</b>	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.

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

### Share Capital

As part of the Group's recapitalisation and withdrawal from its proposed participation in the Government Asset Protection Scheme, the Group announced on 23 November 2009 that an aggregate amount of £1.48 billion would be issued in the form of new ordinary shares of Lloyds Banking Group plc in exchange for certain existing preference shares and preferred securities. The conversion price was determined as the five day weighted average price for the five trading days ending on 11 February 2010.

On 18 February 2010, the exchange completed and 3,141 million ordinary shares in Lloyds Banking Group plc were issued as consideration for the redemption of preference shares and preferred securities. In accordance with the Group's accounting policy in respect of debt for equity exchanges, a gain of £85 million will be recognised on this exchange transaction in the year ended 31 December 2010.

### Sale of esure

On 11 February 2010, the Group announced the sale of its 70 per cent. stake in esure, the online insurer, to a management buyout vehicle to be called esure Group Holdings Limited, led by the esure chairman, for a cash consideration slightly in excess of book value in the Lloyds Banking Group accounts. The impact on the Group's accounts is not expected to be material.

## **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.

## 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, Hohenhof, 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, Hohenhof, 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.]*



- (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)*

*(If this is applicable, review the discussion under “United States Federal Income Taxation-Contingent Debt Obligations” to determine whether the Notes are CPDI Notes and contact U.S. tax counsel if you are unable to make such a determination. If the Notes are CPDI Notes, in order to comply with applicable U.S. treasury regulations, the issuer must include in the Final Terms either (i) a projected payment schedule prepared in accordance with the applicable U.S. treasury regulations or (ii) the name and contact information of a person who will provide the projected payment schedule upon request.)*

- 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)*

*(If this is applicable, review the discussion under “United States Federal Income Taxation-Contingent Debt Obligations” to determine whether the Notes are CPDI Notes and contact U.S. tax counsel if you are unable to make such a determination. If the Notes are CPDI Notes, in order to comply with applicable U.S. treasury regulations, the issuer must include in the Final Terms either (i) a projected payment schedule prepared in accordance with the applicable U.S. treasury regulations or (ii) the name and contact information of a person who will provide the projected payment schedule upon request.)*

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]*

*N.B. (If the Final Redemption Amount is linked to an underlying reference or security, the Notes will be derivative securities for the purpose of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply and the Issuer will prepare and publish a supplement to the prospectus).*

**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] (*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]
- 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 (e.g. projected payment schedule for CPDI Notes)/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] accepts] responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. [Each of the] [The] Issuer [and the Guarantor] confirmfs] 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

The following discussion is a summary of (i) 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 (ii) certain tax consequences of the acquisition, ownership and disposition of the Notes under the law and practice in the United States. The discussion reflects laws, regulations, rulings and decisions currently in effect, which may be subject to retroactive changes. The discussion is only a summary for general information purposes. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. **PROSPECTIVE PURCHASERS ARE URGED TO SATISFY THEMSELVES AS TO THE OVERALL TAX CONSEQUENCES OF PURCHASING, HOLDING AND/OR SELLING THE NOTES.**

### 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 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. although relief may be available under the provisions of the U.S./U.K. Treaty or under any other applicable double taxation treaty.

## EU Savings Directive

Under European Commission Council Directive 2003/48/EC on the taxation of savings income, each member state 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 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.

## United States Federal Income Taxation

**This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. This tax disclosure was written in connection with the promotion or marketing of the Notes by the Issuers, and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code. Holders should seek their own advice based on their particular circumstances from an independent tax adviser.**

The following is a discussion of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes. This discussion only applies to Notes that are purchased by a U.S. Holder described below who purchase Notes at the "issue price," which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money, and are held as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a U.S. Holder in light of its particular circumstances or to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- regulated investment companies;
- insurance companies;
- real estate investment trusts;
- dealers in securities or foreign currencies;



- traders in securities that elect to use a mark-to-market method of tax accounting;
- persons holding Notes as part of a hedging transaction, straddle, conversion or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons subject to the alternative minimum tax;
- persons that own, or are deemed to own, ten percent or more of any class of the Issuer's stock; or
- persons carrying on a trade or business in the United Kingdom through a permanent establishment.

If a partnership holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Thus, persons who are partners in a partnership holding the Notes should consult their own tax advisors.

This discussion is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes (possibly with retroactive effect) to any of which subsequent to the date of this Offering Memorandum may affect the tax consequences described herein. Persons considering the purchase of Notes are urged to consult their own tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This discussion assumes that the Notes described herein will be classified as indebtedness for U.S. federal income tax purposes.

This discussion does not apply to any Notes that are subject to different U.S. federal income tax consequences than those described below. Additional material U.S. federal income tax consequences of such Notes will be addressed in the applicable Final Terms.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

#### *Payments of Interest*

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is qualified stated interest (as defined below). Interest income earned by a U.S. Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant to a U.S. Holder in calculating the U.S. Holder's foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to two

classes of income. Special rules governing the treatment of interest paid with respect to Original Issue Discount Notes, including certain Floating Rate Notes, Foreign Currency Notes and Currency Indexed Notes (as defined below), are described under “—Original Issue Discount,” “— Foreign Currency Notes” and “—Currency Indexed Notes” below.

Any amounts withheld with respect to interest paid on the Notes and any additional amounts paid with respect to interest pursuant to the Notes would be treated as ordinary interest income.

#### *Original Issue Discount*

A Note that is issued at an issue price less than its “stated redemption price at maturity” will be considered to have been issued at an original issue discount for U.S. federal income tax purposes (and will be referred to in this section as an “OID Note”) unless the Note satisfies a *de minimis* threshold (as described below) or is a Short-Term Note (as defined below). The “stated redemption price at maturity” of a Note will equal the sum of all payments required under the Note other than payments of “qualified stated interest”. “Qualified stated interest” is stated interest unconditionally payable as a series of payments in cash or property (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest or, subject to certain conditions, based on one or more floating rates or indices.

In general, Floating Rate Notes providing for one or more qualified floating rates of interest, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate, as such terms are defined in applicable Treasury regulations, will have qualified stated interest if interest is unconditionally payable at least annually during the term of the Note at a rate that is considered to be a single qualified floating rate or a single objective rate, provided that the issue price of the Note does not exceed the total noncontingent principal payments due under the Note by more than an amount equal to the lesser of (x) 0.015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date or (y) 15% of the total noncontingent principal payments. A “qualified floating rate” is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Notes is denominated.

If a Floating Rate Note provides for two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Note, the qualified floating rates together constitute a single qualified floating rate. If interest on a debt instrument is stated 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 the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate. Two or more qualified floating rates will be conclusively presumed to meet the requirements of the preceding sentences if the values of the applicable rates on the issue date are within 1/4 of one percent of each other. If a Floating Rate Note provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually, then all stated interest on such Floating Rate Note will constitute qualified stated interest and the Floating Rate Note will therefore not be treated as having been issued with original issue discount unless the 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. Original issue discount on a Floating Rate Note arising from “true” discount is allocated to an accrual period using the constant yield method described below 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 Floating Rate Note.

In general, a Floating Rate Note that provides for (i) multiple floating rates or (ii) one or more floating rates in addition to one or more fixed rates will be converted into an “equivalent” fixed rate debt instrument for purposes of determining the amount and accrual of original issue discount and qualified stated interest on the Floating Rate Note. A Floating 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 Floating 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 Floating Rate Note’s Original Issue Date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Floating Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Floating Rate Note. In the case of a Floating Rate Note that 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 Floating Rate Note provides for a qualified inverse floating rate). Under such 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 Floating Rate Note as of the Floating 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 replaced 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 Floating Rate Note is then converted into an “equivalent” fixed rate debt instrument in the manner described above.

Once the Floating Rate Note is converted into an “equivalent” fixed rate debt instrument pursuant to the foregoing rules, the amount of original issue discount and qualified stated interest, if any, are determined for the “equivalent” fixed rate debt instrument by applying the general original issue discount rules to the “equivalent” fixed rate debt instrument and a U.S. Holder of the Floating Rate Note will account for such original issue discount 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, in certain circumstances, original issue discount) assumed to have been accrued or paid with respect to the “equivalent” fixed rate debt instrument in the event that such amounts differ from the actual amount of interest accrued or paid on the Floating Rate Note during the accrual period.

If the difference between a Note’s stated redemption price at maturity and its issue price is less than a de minimis amount, i.e., 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity, then the Note will not be considered to have original issue discount.

A U.S. Holder of OID Notes will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes. U.S. Holders of Original Issue Discount Notes will be required to include original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant-yield method based on a compounding of interest. Under this method, U.S. Holders of OID Notes generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including stated interest, original issue discount, de minimis original issue discount, and unstated interest as adjusted by any amortizable bond premium) in accordance with a constant-yield method based on the compounding of interest (a “constant-yield election”).

A Note that matures one year or less from its date of issuance (a “Short-Term Note”) will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. The Final Maturity Date will be used for the purpose of determining whether an Extendible Maturity

Note is a Short-Term Note. In general, a cash-method U.S. Holder of a Short-Term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. U.S. Holders who so elect and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant-yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant-yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry Short-Term Notes in an amount not exceeding the accrued discount until the accrued discount is included in income.

Under applicable Treasury regulations, if the Issuer or the U.S. Holder has an unconditional option to redeem a Note prior to its Maturity (or in the case of Extendible Maturity Notes, the Final Maturity Date), this option will be presumed to be exercised if, by utilizing any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, in the case of the Issuer's option, the yield on the Note would be lower than its yield to Maturity or, in the case of the U.S. Holder's option, the yield on the Note would be higher than its yield to Maturity. If this option is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. Unless otherwise provided for in the applicable Final Terms, in the case of an Extendible Maturity Note the Initial Maturity Date should be treated as a date upon which the holder has an unconditional option to redeem an Extendible Maturity Note.

#### *Contingent Debt Obligations*

Special rules govern the tax treatment of debt obligations that are treated under applicable Treasury regulations as providing for contingent payments. Certain Index Linked Notes and Floating Rate Notes that provide for interest based on rates other than a single qualified floating rate or a single objective rate will be treated as "contingent payment debt instruments" for U.S. federal income tax purposes (and will be referred to in this section as "CPDI Notes"), provided that such Notes are not Short-Term Notes. As a result, the CPDI Notes will be subject to special rules that govern the tax treatment of debt obligations that are treated under applicable Treasury regulations (the "contingent debt regulations") as providing for contingent payments.

Pursuant to the contingent debt regulations, a U.S. Holder of a CPDI Note will be required to accrue interest income on the CPDI Note on a constant yield basis, based on a comparable yield, as described below, regardless of whether such holder uses the cash or accrual method of accounting for U.S. federal income tax purposes. As such, a U.S. Holder generally will be required to include interest in income each year in excess of any stated interest payments actually received in that year, if any.

The contingent debt regulations provide that a U.S. Holder must accrue an amount of ordinary interest income, as original issue discount for U.S. federal income tax purposes, for each accrual period prior to and including the maturity date of the CPDI Note that equals the product of:

- the adjusted issue price (as defined below) of the CPDI Note as of the beginning of the accrual period,
- the comparable yield (as defined below) of the CPDI Note, adjusted for the length of the accrual period and

- the number of days during the accrual period that the U.S. Holder held the CPDI Note divided by the number of days in the accrual period.

The “adjusted issue price” of a CPDI Note is its issue price, increased by any interest income previously accrued, determined without regard to any adjustments to interest accruals described below, and decreased by the projected amount of any payments (in accordance with the projected payment schedule described below) previously made with respect to the CPDI Note.

The term “comparable yield” as used in the contingent debt regulations means the greater of (i) the annual yield the Issuer would pay, as of the issue date, on a fixed-rate, nonconvertible debt instrument with no contingent payments, but with terms and conditions otherwise comparable to those of the CPDI Notes, and (ii) the applicable federal rate.

The contingent debt regulations require that the Issuer provide to U.S. Holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments (the “projected payment schedule”) on the CPDI Notes. This schedule must produce a yield to maturity that equals the comparable yield. The projected payment schedule, or the information necessary to obtain the projected payment schedule, will be provided in the applicable Final Terms.

**The comparable yield and the projected payment schedule are not used for any purpose other than to determine a U.S. Holder’s interest accruals and adjustments thereto in respect of the CPDI Notes for U.S. federal income tax purposes. They do not constitute a projection or representation regarding the actual amounts that will be paid on the CPDI Notes.**

If, during any taxable year, a U.S. Holder of a CPDI Note receives actual payments with respect to such CPDI Note that, in the aggregate, exceed the total amount of projected payments for that taxable year, the U.S. Holder will incur a “net positive adjustment” under the contingent debt regulations equal to the amount of such excess. The U.S. Holder will treat a net positive adjustment as additional interest income in that taxable year.

If a U.S. Holder receives in a taxable year actual payments with respect to the CPDI Note that, in the aggregate, are less than the amount of projected payments for that taxable year, the U.S. Holder will incur a “net negative adjustment” under the contingent debt regulations equal to the amount of such deficit. This net negative adjustment:

- will first reduce the U.S. Holder’s interest income on the CPDI Note for that taxable year;
- to the extent of any excess, will give rise to an ordinary loss to the extent of the U.S. Holder’s interest income on the CPDI Note during prior taxable years, reduced to the extent such interest was offset by prior net negative adjustments; and
- to the extent of any excess after the application of the previous two bullet points, will be carried forward as a negative adjustment to offset future interest income with respect to the CPDI Note or to reduce the amount realized on a sale, exchange or retirement of the CPDI Note.

Generally, the sale, exchange or retirement of a CPDI Note will result in taxable gain or loss to a U.S. Holder. The amount of gain or loss on a sale, exchange or retirement of a CPDI Note will be equal to the difference between (a) the amount of cash plus the fair market value of any other property received by the U.S. Holder, including the fair market value of any common stock received (the “amount realized”), and (b) the U.S. Holder’s adjusted tax basis in the CPDI Note. As discussed above, to the extent that a U.S. Holder has any net negative adjustment carryforward, the U.S. Holder may use such net negative adjustment from a previous year to reduce the amount realized on the sale, exchange or retirement of the CPDI Notes.

For purposes of determining the amount realized on the scheduled retirement of a note, a U.S. Holder will be treated as receiving the projected amount of any contingent payment due at maturity. As previously discussed, to the extent that actual payments with respect to the notes during the year of the scheduled retirement are greater or lesser than the projected payments for such year, a U.S. Holder will incur a net positive or negative adjustment, resulting in additional ordinary income or loss, as the case may be.

A U.S. Holder's adjusted tax basis in a CPDI Note generally will be equal to the U.S. Holder's original purchase price for the CPDI Note, increased by any interest income previously accrued by the U.S. Holder (determined without regard to any adjustments to interest accruals described above) and decreased by the amount of any noncontingent payments and projected payments that previously have been scheduled to be made in respect of the CPDI Notes (without regard to the actual amount paid).

Gain recognized by a U.S. Holder upon a sale, exchange or retirement of a CPDI Note generally will be treated as ordinary interest income. Any loss will be ordinary loss to the extent of the excess of previous interest inclusions over the total net negative adjustments previously taken into account as ordinary losses in respect of the CPDI Note, and thereafter capital loss (which will be long-term if the CPDI Note has been held for more than one year). The deductibility of capital losses is subject to limitations.

Special rules will apply if one or more contingent payments on a CPDI Note become fixed. If one or more contingent payments on a CPDI Note become fixed more than six months prior to the date each such payment is due, a U.S. Holder will be required to make a positive or negative adjustment, as appropriate, equal to the difference between the present value of the amounts that are fixed and the present value of the projected amounts of the contingent payments as provided in the projected payment schedule, using the comparable yield as the discount rate in each case. If all remaining scheduled contingent payments on a CPDI Note become fixed substantially contemporaneously, a U.S. Holder will be required to make adjustments to account for the difference between the amounts treated as fixed and the projected payments in a reasonable manner over the remaining term of the note. For purposes of the preceding sentence, a payment (including an amount payable at maturity) will be treated as fixed if (and when) all remaining contingencies with respect to it are remote or incidental within the meaning of the contingent debt regulations. A U.S. Holder's tax basis in the note and the character of any gain or loss on the sale of the note will also be affected. U.S. Holders should consult their tax advisers concerning the application of these special rules.

Any additional material U.S. federal income tax consequences of certain CPDI Notes will be disclosed in the applicable Final Terms.

#### *Tax Fungibility Issue*

As described in "Description of the Notes and the Guarantees—Additional Notes and Further Issues," the Issuers may, without the consent of the holders of outstanding Notes, issue Additional Notes with identical terms and conditions in all respects to a prior tranche of Notes except for the Original Issue Date, the first payment of interest and the public offering price. Such Additional Notes may have original issue discount for U.S. federal income tax purposes ("OID"), and if the existing Notes were issued with OID, may have more or less OID than the existing Notes. Purchasers of Notes after the date of any further issue will not be able to differentiate between Additional Notes and previously issued Notes. Depending on whether the Issuers issue Additional Notes with OID, purchasers of Notes after such further issue may be required to accrue OID (or greater or lesser amounts of OID than they would otherwise have accrued) with respect to their Notes. This may affect the price of outstanding Notes following a further issue. Purchasers are advised to consult their tax advisers with respect to the implications of any future decision by the Issuers to undertake a further issue of Notes with OID.

### *Amortizable Bond Premium.*

If a U.S. Holder purchases a Note for an amount that is greater than the sum of all amounts payable on the Note other than qualified stated interest, the U.S. Holder will be considered to have purchased the Note with amortizable bond premium. In general, amortizable bond premium with respect to any Note will be equal in amount to the excess of the purchase price over the sum of all amounts payable on the Note other than qualified stated interest and the U.S. Holder may elect to amortize this premium, using a constant-yield method, over the remaining term of the Note. Special rules may apply in the case of Notes that are subject to optional redemption. A U.S. Holder may generally use the amortizable bond premium allocable to an accrual period to offset qualified stated interest required to be included in the U.S. Holder's income with respect to the Note in that accrual period. A U.S. Holder who elects to amortize bond premium must reduce the U.S. Holder's tax basis in the Note by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the Internal Revenue Service.

If a U.S. Holder makes a constant-yield election (as described under “—Original Issue Discount” above) for a Note with amortizable bond premium, such election will result in a deemed election to amortize bond premium for all of the U.S. Holder's debt instruments with amortizable bond premium and may be revoked only with the permission of the Internal Revenue Service with respect to debt instruments acquired after revocation.

**Sale, Exchange or Retirement of the Notes.** Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. Gain or loss, if any, will generally be U.S.-source for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued interest. Amounts attributable to accrued interest are treated as interest as described under “—Payments of Interest” above. A U.S. Holder's adjusted tax basis in a Note (other than a CPDI Note) generally will equal such U.S. Holder's initial investment in the Note increased by any original issue discount included in income and decreased by any bond premium previously amortized and principal payments previously received.

Except as described below, gain or loss realized on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. Exceptions to this general rule apply in the case of a Short-Term Note, to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See “Original Issue Discount” above. In addition, other exceptions to this general rule apply in the case of certain Foreign Currency Notes and Contingent Debt Obligations. See “—Foreign Currency Notes” below and “—Contingent Debt Obligations” above.

### *Foreign Currency Notes.*

The rules applicable to Notes denominated in a Specified Currency other than U.S. dollars (referred to in this section as Foreign Currency Notes) could require some or all of the gain or loss on the sale, exchange or other disposition of a Foreign Currency Note to be recharacterized as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex and their application may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of Foreign Currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest (or who receives proceeds from a sale, exchange or other disposition attributable to accrued interest) in a foreign currency with respect to a Foreign Currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined based on a spot rate on the date the payment is received) regardless of whether the payment is in fact converted into U.S. dollars at that time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency.

An accrual-method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount, but reduced by amortizable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Foreign Currency Note during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder may recognize ordinary income or loss (which will not be treated as interest income or expense) with respect to accrued interest income on the date the interest payment or proceeds from the sale, exchange or other disposition attributable to accrued interest is actually received. The amount of ordinary income or loss recognized will equal the difference between the U.S. dollar value of the foreign currency payment received (determined based on a spot rate on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of cash-method U.S. Holders who are required to currently accrue original issue discount. A U.S. Holder may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service.

Original issue discount and amortizable bond premium on a Foreign Currency Note are to be determined in the relevant foreign currency.

If an election to amortize bond premium is made, amortizable bond premium taken into account on a current basis will reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realized on amortized bond premium with respect to any period by treating the bond premium amortized in the period in the same manner as it would have been treated on the sale, exchange or retirement of the Foreign Currency Note. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any bond premium will be taken into account in determining the overall gain or loss on the Notes and any loss realized on the sale, exchange or retirement of a Foreign Currency Note with amortizable bond premium by a U.S. Holder who has not elected to amortize the premium will be a capital loss to the extent of the bond premium.

A U.S. Holder's tax basis in a Foreign Currency Note, and the amount of any subsequent adjustment to the U.S. Holder's tax basis (including adjustments for original issue discount included as income and any bond premium previously amortized or principal payments received), will be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. Holder who purchases a Foreign Currency Note with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between the U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the Foreign Currency Note on the date of purchase.

Gain or loss realized upon the sale, exchange or retirement of a Foreign Currency Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal



the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of (or if the Note is traded on an established securities market, on the settlement date if the holder is a cash basis U.S. Holder or an electing accrual basis U.S. Holder); and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on Foreign Currency Notes described above. The foreign currency gain or loss will be recognized only to the extent of the total gain or loss realized by a U.S. Holder on the sale, exchange or retirement of the Foreign Currency Note. The foreign currency gain or loss for U.S. Holders will be U.S.-source. Any gain or loss realized by a U.S. Holder in excess of the foreign currency gain or loss will be capital gain or loss (except in the case of a Short-Term Note, to the extent of any discount not previously included in the U.S. Holder's income).

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Foreign Currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. Provided the Foreign Currency Notes are traded on an established securities market, a cash-method U.S. Holder who buys or sells a Foreign Currency Note is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement of the purchase or sale. An accrual-method U.S. Holder may elect the same treatment for all purchases and sales of Foreign Currency Notes, provided the Foreign Currency Notes are traded on an established securities market. This election cannot be changed without the consent of the Internal Revenue Service. Any gain or loss realized by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase foreign currency notes) will be ordinary income or loss.

A U.S. Holder may be required to file a reportable transaction disclosure statement with the U.S. Holder's U.S. federal income tax return, if such U.S. Holder realizes a loss on the sale or other disposition of a Foreign Currency Note and such loss is greater than applicable threshold amounts, which differ depending on the status of the U.S. Holder. A U.S. Holder that claims a deduction with respect to a Foreign Currency Note should consult its own tax adviser regarding the need to file a reportable transaction disclosure statement.

#### *Currency Indexed Notes*

The U.S. federal income tax treatment of payments of principal of and interest on Notes linked to a currency index will be described in the applicable Final Terms.

#### *Backup Withholding and Information Reporting*

Information returns may be filed with the Internal Revenue Service in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding tax on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

## 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 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 Dealer or by, through, or in a transaction approved by a 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 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 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 DEALERS FOR THE NOTES (EACH, A “**DEALER**” AND COLLECTIVELY, THE “**DEALERS**”) OR BY, THROUGH OR IN A TRANSACTION APPROVED BY A 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 the Dealers, including 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 Dealer as may be appointed by the relevant Issuer with respect to a particular tranche of Notes. One or more 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 Dealer, or, if so specified in the applicable Final Terms, for resale at a fixed offering price. If the Issuers and a Dealer agree, a Dealer may also utilise its reasonable efforts on an agency basis to solicit offers to purchase the Notes. Any 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 Dealer to be agreed between the relevant Issuer and such Dealer at the time of such sale.

Unless otherwise specified in an applicable Final Terms, any note sold to one or more Dealers as principal will be purchased by such 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 Dealer. A 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 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 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 Dealers as principal on a fixed offering price basis, such 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 Dealer creates or the 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 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 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 Dealers make any representation that the 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 Dealers against some liabilities (including liabilities under the Securities Act) or to contribute to payments the Dealers may be required to make in respect thereof. The Issuers have also agreed to reimburse the Dealers for some other expenses.

The 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 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 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 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 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 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 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 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 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 consolidated financial statements of the Company as of 31 December 2009 and 2008 and for the three years ended 31 December 2009 and management's assessment of the effectiveness of internal controls over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) for the year ended incorporated in this Base Prospectus by reference from the Annual Report on Form 20-F for the year ended 31 December 2009, have been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm, as stated in their reports incorporated herein.

The consolidated financial statements of the Bank as of 31 December 2009, 2008 and 2007 and for the three years ended 31 December 2009, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports incorporated herein.

The consolidated financial statements of HBOS plc as of 31 December 2009 and for the year ended 31 December 2009, incorporated by reference in this Base Prospectus, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report incorporated by reference herein, and the consolidated financial statements of HBOS plc as of 31 December 2008 and 2007 and for the two years ended 31 December 2008, incorporated by reference in this Base Prospectus, have been audited by KPMG Audit Plc, independent auditors, as stated in their reports incorporated herein.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for the Issuers by Davis Polk & Wardwell LLP, their United States counsel, with respect to matters of New York law and U.S. federal law, Linklaters LLP, their English counsel, with respect to matters of English law and by Dundas & Wilson CS LLP with respect to matters of Scots law and for the 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 The Mound, Edinburgh EH1 1YZ.
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 plc 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 19 May 2010. 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" (except for the first complete sentence thereunder and the subsection entitled "Other Legal Actions") on page 101 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" (except for the first complete sentence thereunder and the subsection entitled "Other Legal Actions") on page 101 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 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.
8. Save for the Group Reorganisation (as defined herein under "Certain Definitions"), 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. There has been no material adverse change in the prospects of Lloyds TSB Bank Group since 31 December 2009.

9. 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 Programme 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 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.
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 15 April 2010. The issue of Notes under the programme by the Bank has been authorised by resolutions of the board of directors of the Bank dated 15 April 2010.

**REGISTERED OFFICE OF THE COMPANY**

The Mound  
Edinburgh EH1 1YZ

**REGISTERED OFFICE OF THE BANK**

25 Gresham Street  
London EC2V 7HN

**DEALERS**

**Bank of America Securities LLC**

One Bryant Park  
New York, NY 10036

**BNP Paribas Securities Corp.**

787 Seventh Avenue  
New York, NY 10019

**Credit Suisse Securities (USA) LLC**

Eleven Madison Avenue  
New York, NY 10010

**Goldman, Sachs & Co.**

85 Broad Street, 20th Floor  
New York, NY 10004

**J. P. Morgan Securities Inc.**

270 Park Avenue  
New York, NY 10017

**Morgan Stanley & Co. Incorporated**

1585 Broadway  
New York, NY 10036

**UBS Securities LLC**

677 Washington Blvd.  
Stamford, CT 06901

**Barclays Capital Inc.**

745 Seventh Avenue  
New York, NY 10019

**Citigroup Global Markets Inc.**

388 Greenwich Street  
New York, NY 10013

**Deutsche Bank Securities Inc.**

60 Wall Street  
New York, NY 10005

**HSBC Securities (USA) Inc.**

452 Fifth Avenue, 3rd Floor  
New York, NY 10018

**Lloyds TSB Bank plc**

10 Gresham Street  
London EC2V 7AE

**RBS Securities Inc.**

600 Washington Boulevard  
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, 1 A, Hoehenhof,  
L-1736 Senningerberg

**LEGAL ADVISERS**

*To the Issuers as to U.S. law*

**Davis Polk & Wardwell LLP**  
99 Gresham Street  
London EC2V 7NG

*To the Issuers as to English 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 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

