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## BARCLAYS BANK PLC

*(Incorporated with limited liability in England and Wales)*

### iPath® Inverse VSTOXX® Short-Term Futures Index

### Exchange Traded Notes

*issued pursuant to the*

### GLOBAL STRUCTURED SECURITIES PROGRAMME

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#### iPath® Inverse VSTOXX® Programme

Barclays Bank PLC may from time to time issue Securities that are senior, unsecured, unsubordinated, zero-coupon, EURO STOXX 50® Volatility Short-Term Futures Excess Return Index linked, exchange traded notes under the iPath® Inverse VSTOXX® Programme that may be issued in the form of Notes or Certificates. This iPath® Inverse VSTOXX® Base Prospectus comprises a base prospectus (for the purposes of Article 5.4 of the Prospectus Directive) in respect of this iPath® Inverse VSTOXX® Programme. This iPath® Inverse VSTOXX® Base Prospectus, any Base Prospectus Supplement and the applicable Final Terms for a Series will comprise the offering documents (the "Offering Documents") in respect of such Series. The Securities do not guarantee any return of principal at maturity and do not pay interest during their term.

#### Listing and Admission to Trading

This iPath® Inverse VSTOXX® Base Prospectus has been approved by the UK Financial Services Authority (the "FSA"), which is the United Kingdom competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom, 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 Securities under the iPath® Inverse VSTOXX® Programme issued within 12 months following the date of this document.

The Issuer has requested the FSA to complete a passport request of this iPath® Inverse VSTOXX® Base Prospectus in accordance with Article 18 of the Prospectus Directive to BaFin and AMF (in their respective capacities as competent authorities in Germany and France for the purposes of the Prospectus Directive) by providing them, *inter alia*, with certificates of approval attesting that this iPath® Inverse VSTOXX® Base Prospectus has been drawn up in accordance with the Prospectus Directive. The Issuer may request the UK Regulatory Authority to provide competent authorities in other EEA Member States with such certificates whether for the purposes of making a public offer in such EEA Member States or for admission to trading of all or any Series of Securities on a regulated market therein or both.

Applications may be made to admit this iPath® Inverse VSTOXX® Base Prospectus and any such Securities issued thereunder to listing on the Official List and to trading on the London Stock Exchange's Regulated market and/or for such Securities to be admitted to the German Official List and to be admitted to trading on the German Market and/or for such Securities to be admitted to the French Official List and to trading on the French Market. The London Stock Exchange's Regulated market, the German Market and the French Market are Regulated Markets for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Application may be made to any other stock exchange for a listing of a particular Series of Securities issued under the iPath® Inverse VSTOXX® Programme.

Certain Series of Securities may not be listed on any stock exchange. If any Series of Securities is to be listed, the applicable Final Terms will specify on which exchange(s) such Securities will be listed.

#### Offer and Sale of Securities

Any Investor intending to acquire or acquiring any Securities from an Offeror should be aware that, in the context of an offer to the public as defined in Section 102B of the Financial Services and Markets Act 2000 ("FSMA"), the Issuer may be responsible to the Investor for this iPath® Inverse VSTOXX® Base Prospectus under Section 90 of the FSMA, only if the Issuer has authorised that Offeror to make the offer to the Investor. Each Investor should therefore enquire whether the Offeror is so authorised by the Issuer. If the Offeror is not authorised by the Issuer, the Investor should check with the Offeror whether anyone is responsible for this iPath® Inverse VSTOXX® Base Prospectus for the purposes of section 90 of the FSMA in the context of the offer to the public, and, if so, who that person is. If the Investor is in any doubt about whether it can rely on this iPath® Inverse VSTOXX® Base Prospectus and/or who is responsible for its contents, it should take legal advice. **Where information relating to the terms of the relevant offer required pursuant to the Prospectus Directive is not contained in the Offering Documents, it will be the responsibility of the relevant Offeror at the time of such offer to provide the Investor with such information. This does not affect any responsibility which the Issuer may otherwise have under applicable laws.**

Each Tranche (as defined herein) of Securities will be represented on issue by a temporary global security in bearer form or a permanent global security in bearer form. Global Bearer Securities will be issued in CGN form and will be deposited on or prior to the original issue date of the relevant Tranche with Clearstream, Frankfurt. Interests in the Securities may also be cleared through Euroclear France, Euroclear and Clearstream, Luxembourg using the bridge between Clearstream, Frankfurt and Clearstream, Luxembourg. Securityholders may also hold interests in the Securities through CREST through the issuance of CREST Depository Interests representing Underlying Securities. CREST Depository Interests are independent securities constituted under English law and transferred through CREST and will be issued by CREST Depository Limited pursuant to the CREST Deed Poll. If the Securities are to be cleared through an additional or alternative clearing system, the appropriate information will be set out in the applicable Final Terms.

Securities may be offered at any time between the Issue Date of the first Tranche of a Series of Securities and the Redemption Date of such Securities.

#### Definitions

Unless otherwise defined, capitalised terms used in this iPath® Inverse VSTOXX® Base Prospectus have the meanings set out in the Conditions.

#### Investment Risks

Prospective Investors should have regard to the factors described under the section headed "Risk Factors" herein.

#### Barclays Capital

19 June 2012

**Responsibility:** The Issuer accepts responsibility for the information contained in this iPath® Inverse VSTOXX® Base Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this iPath® Inverse VSTOXX® Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

**Ratings:** The credit ratings included or referred to in this Base Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the “**CRA Regulation**”) as having been issued by Fitch Ratings Limited, Moody’s Investor Service Limited and Standard & Poor’s Credit Market Services Europe Limited, each of which is established in the European Union and has been registered under the CRA Regulation.

**Offers in Relevant Member States:** This iPath® Inverse VSTOXX® Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Securities in any Member State of the European Economic Area which has implemented the Prospectus Directive (each a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Securities. Accordingly, any person making or intending to make an offer in that Relevant Member State of Securities which are the subject of an offering contemplated in this iPath® Inverse VSTOXX® Base Prospectus as completed by the applicable Final Terms in relation to the offer of those Securities may only do so (i) in circumstances in which no obligation arises for the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Manager has authorised, nor does any of them authorise, the making of any offer of Securities in circumstances in which an obligation arises for the Issuer or any Manager to publish or supplement a prospectus for such offer.

**Public Offers:** Any Investor intending to acquire or acquiring any Securities from any person (an “**Offeror**”) should be aware that, in the context of an offer to the public as defined in section 102B of the FSMA, the Issuer may only be responsible to the Investor for this iPath® Inverse VSTOXX® Base Prospectus under section 90 of the FSMA if the Issuer has authorised the Offeror to make the offer to the Investor. Each Investor should therefore enquire whether the Offeror is so authorised by the Issuer. If the Offeror is not so authorised by the Issuer, the Investor should check with the Offeror whether anyone is responsible for this iPath® Inverse VSTOXX® Base Prospectus for the purposes of section 90 of the FSMA in the context of the offer to the public, and, if so, who that person is. If the Investor is in any doubt about whether it can rely on this iPath® Inverse VSTOXX® Base Prospectus and/or who is responsible for its contents, it should take legal advice. Where information relating to the terms of the relevant offer required pursuant to the Prospectus Directive is not contained in this iPath® Inverse VSTOXX® Base Prospectus or the relevant Final Terms, it will be the responsibility of the relevant

Offeror at the time of such offer to provide the Investor with such information. This does not affect any responsibility which the Issuer may otherwise have under applicable laws.

**Group:** References herein to the “**Group**” are to the Bank and its subsidiaries.

**Independent Investigation:** None of this iPath® Inverse VSTOXX® Base Prospectus or any financial statements or any other financial information supplied in connection with the iPath® Inverse VSTOXX® Programme or any Securities is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer that any recipient of this iPath® Inverse VSTOXX® Base Prospectus or any financial statements or any other financial information supplied in connection with the iPath® Inverse VSTOXX® Programme or any Securities should purchase any Securities. Investors should conduct their own independent investigations into the financial condition and affairs of, and their own appraisal of the creditworthiness of, the Issuer and of the suitability of the relevant Securities as an investment in the light of their own circumstances and financial condition and after due consideration of an investment linked to any relevant Index and, in deciding whether to purchase Securities, Investors should form their own views of the merits of such an investment based upon such investigations and not in reliance solely upon any information given in this iPath® Inverse VSTOXX® Base Prospectus or any Final Terms. Prospective Investors should have regard to the factors described in the section headed “Risk Factors”.

**Indices:** All information relating to any Index contained in this iPath® Inverse VSTOXX® Base Prospectus has been reproduced from publicly available information. The Issuer confirms that this information has been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published in such publicly available information, no facts have been omitted which would render the reproduced information inaccurate or misleading. Accordingly, the Issuer accepts responsibility for the accurate reproduction of such information but does not accept any further responsibility in respect of such information. Unless otherwise expressly stated in the applicable Final Terms, any information contained in such Final Terms relating to any Index will only consist of extracts from, or summaries of, information contained in financial and other information released publicly by the issuer, owner or sponsor, as the case may be, of any such Index. The Issuer will accept responsibility that such extracts or summaries have been accurately reproduced but will accept no further responsibility in respect of such information.

THE EURO STOXX 50® INDEX, THE EURO STOXX 50® VOLATILITY INDEX OR EURO STOXX 50® VOLATILITY SHORT-TERM FUTURES EXCESS RETURN INDEX AND THE TRADEMARKS USED IN THE INDEX NAMES ARE THE INTELLECTUAL PROPERTY OF STOXX LIMITED, ZURICH, SWITZERLAND AND/OR ITS LICENSORS. THE INDICES ARE USED UNDER LICENSE FROM STOXX LIMITED. THE SECURITIES BASED ON THE INDEX ARE IN NO WAY SPONSORED, ENDORSED, SOLD OR PROMOTED BY STOXX LIMITED AND/OR ITS LICENSORS AND NEITHER STOXX LIMITED NOR ITS LICENSORS SHALL HAVE ANY LIABILITY WITH RESPECT THERETO.

The Index Sponsor does not guarantee the accuracy and/or completeness of the Indices, any data included therein, or any data on which it is based, and the Index Sponsor shall have no liability for any errors, omissions or interruptions therein.

The Index Sponsor makes no warranty, express or implied, as to the results to be obtained from the use of the Indices. The Index Sponsor makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the Indices or any data included therein. Without limiting any of the foregoing, in no event shall the Index

Sponsor have liability for any special, punitive, indirect or consequential damages, lost profits, loss of opportunity or other financial loss, even if notified of the possibility of such damages.

Neither the Index Sponsor nor any of its affiliates or subsidiaries or any of their respective directors, officers, employees, representatives, delegates or agents shall have any responsibility to any person (whether as a result of negligence or otherwise) for any determination made or anything done (or omitted to be determined or done) in respect of the Indices or publication of the Index Level (or failure to publish such value) and any use to which any person may put the Indices or their respective levels. In addition, although the Index Sponsor reserves the right to make adjustments to correct previously incorrectly published information, including but not limited to the Index Level, the Index Sponsor is under no obligation to do so and shall have no liability in respect of any errors or omissions.

Nothing in this disclaimer shall exclude or limit liability to the extent such exclusion or limitation is not permitted by law.

**Change of Circumstances:** Neither the delivery of any Offering Documents nor any sale of Securities pursuant thereto shall, in any circumstances, create any impression that the information contained therein concerning the Issuer is correct at any time subsequent to the date thereof or that any other information supplied in connection with the iPath® Inverse VSTOXX® Programme is correct as of any time subsequent to the date indicated in the document containing the same. Investors should review, *inter alia*, the most recent consolidated financial statements, if any, and any public announcements, if any, of the Issuer, if applicable, when deciding whether to purchase any Securities.

**Distribution:** The distribution of the Offering Documents and the offer or sale of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession the Offering Documents come are required by the Issuer to inform themselves about and to observe any such restrictions. The Securities have not been and will not be registered under the US Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States. The Securities are in the form of Global Bearer Securities and therefore may be subject to US tax law requirements. Subject to certain exceptions, Securities may not be offered or sold, or, in the case of Securities subject to US tax law requirements, delivered within the United States or to US persons (as defined in Regulation S under the Securities Act) or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act and/or in the US Internal Revenue Code of 1986 and the regulations thereunder). Details of selling restrictions for various jurisdictions are set out in the section headed “Purchase and Sale” in the Principal Base Prospectus, as supplemented by the selling restrictions under the section “Purchase and Sale” herein. The information contained therein may be amended from time to time by the applicable Final Terms.

**Representations:** In connection with the issue and sale of Securities, no person has been authorised to give any information or to make any representation not contained in or consistent with the Offering Documents and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Manager. The Issuer does not accept responsibility for any information not contained in the Offering Documents. This document does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offering or solicitation and no action is being taken to permit an offering of the Securities or the distribution of this iPath® Inverse VSTOXX® Base Prospectus in any jurisdiction where action is required.

**No Investment Advice:** None of the Principal Base Prospectus, any Base Prospectus Supplement, this iPath® Inverse VSTOXX® Base Prospectus or any Final Terms is, nor does it purport to be, investment advice. Unless expressly agreed otherwise with a particular Investor, none of the Issuer or any Manager is acting as an investment adviser or providing advice of any other nature, or assumes any fiduciary obligation, to any Investor in Securities.

**References:** In this iPath® Inverse VSTOXX® Base Prospectus, references to “USD”, “\$”, “US\$” and “US dollars” are to United States dollars, references to “€”, “EUR” and “Euros” are to the Euro and references to “GBP”, “£” and “sterling” are to pounds sterling.

**Securities Act:** The Securities are being offered and sold outside the United States to non-US persons in reliance on Regulation S (“**Regulation S**”) under the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of Securities and distribution of the Offering Documents, see “Purchase and Sale” in the Principal Base Prospectus and “Clearance, Settlement and Transfer Systems” herein.

**Exchange of Temporary Global Security:** Interests in a Temporary Global Security will be exchangeable, in whole or in part, for interests in a Permanent Global Security on or after the date 40 days after the later of the commencement of the offering and the relevant issue date (the “**Exchange Date**”), upon certification as to non-US beneficial ownership.

**Verification:** No Manager has separately verified the information contained in this iPath® Inverse VSTOXX® Base Prospectus. To the fullest extent permitted by law, none of the Managers makes any representation, express or implied, or accepts any responsibility for the contents of this iPath® Inverse VSTOXX® Base Prospectus or for any other statement made or purported to be made by a Manager or on its behalf in connection with the Issuer, or the issue and offering of the Securities. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this iPath® Inverse VSTOXX® Base Prospectus or any such statement. Each potential purchaser of Securities should determine for itself the relevance of the information contained in this iPath® Inverse VSTOXX® Base Prospectus and its purchase of Securities should be based upon such investigation as it deems necessary. None of the Managers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this iPath® Inverse VSTOXX® Base Prospectus nor to advise any Investor or potential Investor in the Securities of any information coming to the attention of any of the Managers.

**Regulatory Review:** The contents of this iPath® Inverse VSTOXX® Base Prospectus have not been reviewed or approved by any regulatory authority (other than the UK Regulatory Authority for the purposes of the Prospectus Directive).

**Defined Terms:** Unless otherwise defined, capitalised terms used in this iPath® Inverse VSTOXX® Base Prospectus have the meanings set out in the Conditions. In addition, in this iPath® Inverse VSTOXX® Base Prospectus:

“**AMF**” means the French Financial Markets Regulatory Authority (*Autorité des Marchés Financiers*);

“**BaFin**” means the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*);

“**Conditions**” means the terms and conditions of the relevant Securities;

“**Euroclear France**” means Euroclear France S.A.;

“**Euronext Paris**” means Euronext Paris S.A.;

“**Frankfurt Stock Exchange**” means the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*);

“**French Market**” means the Regulated Market maintained by Euronext Paris;

“**French Official List**” means the official list of Euronext Paris;

“**German Market**” means the Regulated Market (General Standard) (*Regulierter Markt General Standard*) of the Frankfurt Stock Exchange;

“**German Official List**” means the official list of the Frankfurt Stock Exchange;

“**Index**” means the index specified in the applicable Final Terms, being either (a) the EURO STOXX 50® Volatility Short-Term Futures Excess Return Index described in “Description of the Index” in this iPath® Inverse VSTOXX® Base Prospectus or (b) any other index linked to the VSTOXX® Futures that may be described in a supplement to this iPath® Inverse VSTOXX® Base Prospectus from time to time;

“**Investor**” means any person intending to acquire or acquiring any Securities;

“**listed on the Frankfurt Stock Exchange**” shall mean that such Securities have been admitted to trading on the Regulated Market of the Frankfurt Stock Exchange;

“**listed on the London Stock Exchange**” shall mean that such Securities have been admitted to trading on the Regulated Market of the London Stock Exchange;

“**London Stock Exchange**” means the London Stock Exchange plc;

“**Market Maker**” means each entity (if any) specified as such in the applicable Final Terms;

“**Offeror**” means any person offering the Securities;

“**Official List**” means the Official List of the FSA;

“**Prospectus Directive**” means Directive 2003/71/EC;

“**Regulated Market**” means the London Stock Exchange’s Regulated market, the German Market and the French Market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive); and

“**VSTOXX® Index**” means the EURO STOXX 50® Volatility Index or any successor index thereto.

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## SUMMARY

*This summary must be read as an introduction to this iPath® Inverse VSTOXX® Base Prospectus. Any decision to invest in the Securities should be based on a consideration of the sections of this iPath® Inverse VSTOXX® Base Prospectus as a whole. No civil liability will attach to the responsible persons solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this iPath® Inverse VSTOXX® Base Prospectus. Where a claim relating to the information contained in this iPath® Inverse VSTOXX® Base Prospectus is brought before a court in an EEA Member State, the plaintiff may, under the national legislation where the claim is brought, be required to bear the costs of translating this iPath® Inverse VSTOXX® Base Prospectus before legal proceedings are initiated. Unless otherwise defined, capitalised terms used in this Summary shall have the meaning given to them in the Base Conditions.*

### General Description of the Issuer

Barclays Bank PLC (the “Issuer”) is a public limited company registered in England and Wales under number 1026167, with members having limited liability. Its registered and head office is at 1 Churchill Place, London E14 5HP, United Kingdom. The Issuer was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, the Issuer was re-registered as a public limited company and its name was changed from “Barclays Bank International Limited” to “Barclays Bank PLC”.

The Issuer and its subsidiary undertakings (together, the “Group”) are a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Barclays PLC (the “Holding Company”) is the ultimate holding company of the Group and beneficial owner of the Issuer, holding all the issued ordinary share capital.

### Summary of the iPath® Inverse VSTOXX® Programme

<b>Description:</b>	Programme for the issue of Notes or Certificates. Securities are issued pursuant to the Agency Agreement. The terms of any Securities comprise the Base Conditions, as supplemented by the Final Terms.
<b>Manager:</b>	The Issuer and any other Manager specified in the Final Terms.
<b>Issue and Paying Agent:</b>	The Bank of New York Mellon (acting through its London Branch).
<b>Paying Agents:</b>	The Bank of New York Mellon (Luxembourg) S.A. and The Bank of New York Mellon, (acting through its Frankfurt Branch).
<b>Determination Agent:</b>	The Issuer.
<b>Distribution:</b>	Syndicated or non-syndicated.
<b>Status of Securities:</b>	Direct, unsubordinated and unsecured obligations of the Issuer ranking equally among themselves and with all its other present and future unsecured and unsubordinated obligations (except for obligations preferred by law). The Securities do not evidence deposits, are not insured or guaranteed by any government or agency or under the UK Government

credit guarantee scheme.

<b>Listing:</b>	Securities may be listed on the London Stock Exchange and/or the Frankfurt Stock Exchange and/or Euronext Paris and/or any other recognised stock exchange specified in the relevant Final Terms.
<b>Applications may be made to admit Securities to:</b>	The Official List and to trading on the London Stock Exchange's Regulated market and/or the German Official List and to trading on the German Market and/or the French Official List and to trading on the French Market and/or to any other Relevant Stock Exchange.
<b>Market Makers:</b>	The Market Makers for each Series of Securities will be specified in the Final Terms.
<b>Relevant Clearing Systems:</b>	For Securities; Euroclear France, Euroclear, Clearstream Luxembourg or Clearstream Frankfurt, and/or any clearing system in the Final Terms. For CDIs, to the extent applicable, CREST.
<b>Expenses and Taxation:</b>	<p>Securityholders must pay all Taxes and/or Settlement Expenses, arising from the ownership, transfer, sale, redemption or cancellation of Securities and/or receipt or transfer of any Securityholder Optional Settlement Amount, Specified Early Redemption Settlement Amount, Optional Cash Settlement Amount, Early Cash Settlement Amount or Final Cash Settlement Amount.</p> <p>Unless otherwise required by law, all payments on the Securities will be without withholding or deduction for any present or future Taxes. Where such withholding or deduction is required by law, the Issuer will, unless otherwise specified in the Conditions, pay additional amounts to Securityholders.</p>
<b>Governing Law:</b>	English law.
<b>Issue Price:</b>	The Issue Price may be par or at a discount to, or premium over, par.
<b>Currencies:</b>	Securities may be issued in any currency.
<b>Specified Denomination and Number:</b>	Notes may be issued in one or more specified denominations and Certificates may be issued in any number.
<b>Calculation Amount per Security:</b>	<p>Notes: As at the Issue Date the Specified Denomination or the specified Calculation Amount per Security. Payments will be determined on a Calculation Amount per Security basis.</p> <p>Certificates: No Specified Denomination. To calculate payments, each Certificate will have a specified Calculation Amount per Security at the Issue Date.</p>
<b>Maturities:</b>	Any maturity.
<b>Method of Issue:</b>	Securities are issued in one or more Series. Each Series may be issued in Tranches on the same or different issue dates. Securities fungible with an existing Series may also be issued.
<b>Form:</b>	Global Bearer Securities in CGN form delivered on or prior to the original issue date of the relevant Tranche to Clearstream, Frankfurt as depository for itself. Interests in the Securities may also be cleared through Euroclear and Clearstream, Luxembourg using the bridge between Clearstream,

Frankfurt and Clearstream, Luxembourg.

The Cleared Securities will be issued under circumstances such that they will be treated as issued in registered form for U.S. federal income tax purposes.

<b>Terms:</b>	Securities are zero-coupon, exchange traded notes and are redeemable for cash. Return on each Series of Securities is linked to the performance of the Index.
<b>Settlement:</b>	Cash settlement (subject to satisfaction of all applicable conditions to settlement, including payment or deduction of Taxes and Settlement Expenses).  The Early Cash Settlement Amount may be adjusted for costs, losses and expenses (if any) incurred (or expected to be incurred) by or on behalf of the Issuer in connection with the early redemption of Securities.
<b>Final Redemption of Securities:</b>	Securities will be redeemed at maturity at their Final Cash Settlement Amount.
<b>Specified Early Redemption Event:</b>	If a Specified Early Redemption Event occurs, the Issuer will redeem the Securities early at the Specified Early Redemption Settlement Amount.
<b>Call Option:</b>	Securities may be redeemed early by the Issuer exercising its Call Option at their Optional Cash Settlement Amount.
<b>Securityholder Put Option:</b>	If 'Securityholder Put Option' is specified as being applicable in the relevant Final Terms, Securities may be redeemed early, at their Securityholder Optional Settlement Amount, by a Securityholder, holding at least the minimum aggregate nominal amount or a number, as applicable, of Securities.
<b>Consequences of an Additional Disruption Event:</b>	Conditions of Securities may be adjusted and/or Securities redeemed early at their Early Cash Settlement Amount.
<b>Selling Restrictions:</b>	The offer and sale of the Securities and the distribution of the Offering Documents may be restricted in certain jurisdictions. Details of selling restrictions for various jurisdictions are set out in the section headed "Purchase and Sale" in the Principal Base Prospectus.

### **Summary of Risk Factors under the iPath® Inverse VSTOXX® Programme**

<b>Certain factors which may affect the Issuer's ability to fulfil its obligations under the Securities:</b>	<p>The Issuer is subject to the same risks as the Group, which include:</p> <ul style="list-style-type: none"><li>• financial performance may be affected by general business and geopolitical conditions, borrower, customer and counterparty credit quality, and by fluctuations in the value or effectiveness of any credit protection it has purchased or any collateral it holds;</li><li>• the Group's businesses, earnings and financial condition have been and will continue to be affected by changes in the overall conditions of the global economy and instability and volatility in global financial markets;</li></ul>
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- the following have affected and will continue to affect the Group's businesses:
    - changes in the level and/or volatility of interest rates, foreign exchange rates, credit spreads, debt, equity and commodity prices and other market factors; and
    - constraints on increasing capital and changes to capital targets and the calculation of capital;
  - liquidity risk, legal risk and insurance risk are inherent in the Group's businesses;
  - operation and financial crime risks are inherent in the Group's operations;
  - governmental policy and regulation may have an adverse effect on the Group's results and operations;
  - being potentially subject to the special resolution regime under The Banking Act 2009. Any share transfer order, asset and liability transfer or exercise of powers by the FSA, the Bank of England and/or HM Treasury under The Banking Act may have an adverse effect on the Group;
  - participation in the Financial Services Compensation Scheme may have a material impact on the Group's results and financial condition;
  - UK Government plans to restructure UK banks and increase the amount of loss-absorbing capital required to be issued by UK banks may, if implemented, have a material impact on the Group's results and financial condition;
  - earnings depend in part on the success of its strategic decisions regarding organic growth and potential acquisitions;
  - operating in highly competitive markets and if unable to perform effectively, its business and results will be adversely affected; and
  - exposure to the risk of changes in tax legislation and interpretation and to increases in corporate and other tax rates in the jurisdictions in which it operates.
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- the principal of these Securities is at risk. Upon redemption or early redemption, an Investor may not get back some or any of the amount originally invested;
  - Securities are unsecured obligations of the Issuer;
  - settlement disruptions may occur;
  - settlement is subject to satisfaction of all applicable conditions to settlement by the Securityholder within the relevant period;
  - return and value on Securities may be affected by exchange rate risks, exchange controls, interest rate fluctuations and other rate and price movements;
  - limitations on the redemption of Securities may apply;
  - adjustments to or early redemption of the Securities may adversely affect the market value of the Securities and the amount that

**Certain factors are material for the purpose of assessing the risks associated with investing in Securities and which may affect the return on, and value of Securities including:**

Investors will receive following such redemption;

- Securities may be redeemed early for less than the amount invested by the Securityholder;
- Certain variables used to calculate the Intraday Security Value will be determined by the Determination Agent without regard to any correction subsequently published by the Index Sponsor or Successor Index Sponsor;
- any time lag between valuation and settlement;
- inducements, commissions and fees (if any) paid by the Issuer to Distributors;
- Securities may not provide an effective hedge against the market risk associated with any asset;
- potential conflicts of interest may arise relating to the trading activities of the Issuer and its Affiliates and the interests of Securityholders and the Issuer and its Affiliates have no obligation to consider the interests of Securityholders;
- market disruptions or other events may occur in respect of the exchanges underlying the relevant Index;
- disruption events may result in adjustments to the terms of Securities or the redemption thereof;
- payments, deliveries and settlement under Securities may be subject to deduction of Taxes and Settlement Expenses;
- the Issuer may be substituted;
- the market value of Securities may be affected by the creditworthiness of the Issuer and/or the Group;
- Investors who hold Securities through CREST through the issuance of CDIs have only indirect interests in the Underlying Securities and will be subject to external provisions; and
- Securities issued in temporary global form exchangeable for a Permanent Global Security will not be eligible for CREST settlement as CDIs. As such, Investors investing in Securities through CDIs will only receive the CDIs after such Temporary Global Security is exchanged for a Permanent Global Security, which could take up to 40 days after the issue of Securities.
- the return on each Series of Securities is linked to the inverse performance of the relevant Index, which is a volatility index designed to provide Investors with the return from a rolling long position in the first and second month EUREX futures contracts on the VSTOXX® Index, daily resetting its exposure to the Index to minus 100 per cent. The VSTOXX® Index measures the forward volatility of the EURO STOXX 50® Index as calculated based on the prices of the EURO STOXX 50® Options. The level of the EURO STOXX 50® Index and the prices of the EURO STOXX 50® Options and the level of the VSTOXX® Index may change unpredictably, affecting the value of

**Certain factors are relevant in understanding the risks related to an investment in Securities that are linked to a volatility futures index:**

futures contracts on the VSTOXX® Index and, consequently, the level of the relevant Index and the value of Securities in unforeseeable ways;

- the Securities will generally depreciate as the Index Level increases and appreciate as the Index Level decreases;
- the operation of a Daily Fee means that even where the relevant Index Level upon redemption is lower than the initial Index Level on the Strike Date, Investors may receive less than the principal amount of Securities;
- Investors will not benefit from decreased value in the relevant Index if such decrease is not reflected in the value of the Index on the applicable Valuation Date
- future prices of the components of the relevant Index that are different relative to their current prices may result in a reduced amount payable upon redemption;
- historical values of the relevant Index or any components of the relevant Index or the VSTOXX® Index should not be taken as an indication of the future performance of the Index or the VSTOXX® Index during the term of Securities;
- changes in laws or regulations may affect the market value of Securities;
- Investors will not receive interest payments on Securities or have rights in the exchange traded futures contracts constituting the components of the relevant Index;
- trading and other transactions by the Issuer or its Affiliates in instruments linked to the Index or components of the relevant Index or the VSTOXX® Index may impair the market value of Securities;
- the Issuer and its Affiliates have no affiliation with STOXX Limited and are not responsible for its public disclosure of information, which may change over time;
- the policies of the sponsor of the Index and changes that affect the composition and valuation of the Index or the components of the relevant Index or the VSTOXX® Index could affect the amount payable on Securities and its market value;
- each Index may in the future include contracts that are not traded on regulated futures exchanges;
- an investment in Securities linked to the Index will not entitle the Investor to the regulatory protections of any regulated futures exchange;
- the Index or any of its underlying components may trade around-the-clock; however, Securities may trade only during regular trading hours in Europe;
- Investors have no recourse to the Index Sponsor or any of the underlying Components of the Index or the VSTOXX® Index; and

- any discontinuance or suspension of calculation or publication of the closing level or price of the Index or the VSTOXX® Index may adversely affect the market value of Securities and the amount that Investors will receive on redemption.

Prospective Investors should understand the risks associated with Securities and investments and transactions relating to any relevant Index. Prospective Investors must reach an investment decision only after careful consideration, with their advisers, of the suitability of such Securities in light of their particular financial circumstances, the information in the relevant Offering Documents and their own investigations into the Issuer, its Affiliates and the relevant Index.

PROSPECTIVE INVESTORS MUST REVIEW THE APPLICABLE FINAL TERMS BEFORE MAKING ANY DECISION TO PURCHASE ANY SECURITIES.

## RISK FACTORS

The Securities are unsecured promises of the Issuer and are not secured debt. The return on a Security is linked to the inverse performance of the index underlying that Security. Investing in a Security is not equivalent to investing directly in the components of any underlying index.

This section describes factors to which prospective Investors should have regard when considering an investment in the Securities in addition to those set out in the Principal Base Prospectus (as detailed below). Investors are urged to read the following information about these risks, together with the other information in the Principal Base Prospectus, as supplemented and amended from time to time, this iPath® Inverse VSTOXX® Base Prospectus, as supplemented and amended from time to time and the relevant Final Terms, before investing in the Securities.

The risks highlighted below represent the principal risks inherent in investing in the Securities. Each of the risks highlighted below could have a material adverse effect on the Issuer's business, operations, financial condition or prospects, which, in turn, could have a material adverse effect on the return which Investors will receive in respect of Securities. In addition, each of the risks highlighted below could adversely affect the trading price of Securities or the rights of Investors under the Securities and, as a result, Investors could lose some or all of their investment.

Prospective Investors should note that the risks described below are not the only risks that the Issuer faces or that may arise because of the nature of the Securities. The Issuer has described only those risks relating to its operations and to the Securities that may be issued that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware, and any of these risks could have the negative effects set forth above. Prospective Investors should seek independent financial advice where they do not fully understand the risks relating to the Securities.

The following risk factors shall be read in conjunction with (a) the risk factors set out on pages 265 to 268 inclusive of the Joint Annual Report incorporated herein by reference; and (b) the risk factors set out under the heading "Risks Relating to the Securities" on pages 29 to 48 inclusive and under the heading "Risk Factors Relating to Equity Linked Securities" on pages 81 to 84 inclusive of the Principal Base Prospectus incorporated herein by reference:

### **Risks related to the Bank and the Group**

#### **Business conditions and the general economy**

The Bank offers a very broad range of services to personal and institutional customers, including governments. The Group has significant activities in a large number of countries. Consequently, there are many ways in which changes in business conditions and the economy in a single country or region or globally can adversely impact profitability, whether at the level of the Group, the individual business units or specific countries of operation.

During 2011, the economic environment in the Bank's main markets was marked by generally weaker than expected growth and the ongoing sovereign debt crisis in the Eurozone. In the UK, the economy recovered slightly during 2011 although GDP declined slightly in the fourth quarter leading to uncertainty in the near term. The potential for persistent unemployment, higher interest rates and rising inflation may increase the pressure on disposable incomes, affecting an individual's debt service ability with the potential to impact adversely performance in the Group's retail sector. U.S. economic conditions were better than the UK in 2011. However, unemployment is still high, which increases uncertainty in the near term. Credit conditions in Europe remain weak and a depressed housing sector and high unemployment may, in the

near term, adversely affect the Group's business operations in this region. The global wholesale environment has been affected by the sovereign debt crisis and business confidence has generally declined. Performance in the near term, therefore, remains uncertain.

The business conditions facing the Group in 2012 globally and in many markets in which the Group operates are subject to significant uncertainties which may in some cases lead to material adverse impacts on the Group's operations, financial condition and prospects, including (for example) higher levels of impairment, lower revenues or higher costs, most notably:

- impact of potentially deteriorating sovereign credit quality, particularly debt servicing and refinancing capability;
- extent and sustainability of economic recovery, including impact of austerity measures on a number of the European economies;
- increase in unemployment due to weaker economies in a number of countries in which the Group operates, fiscal tightening and other austerity measures;
- impact of rising inflation and potential interest rate rises on consumer debt affordability and corporate profitability;
- possibility of further falls in residential property prices in the UK, South Africa and Western Europe;
- potential liquidity shortages increasing counterparty risks;
- potential for large single name losses and deterioration in specific sectors and geographies;
- possible deterioration in remaining credit market exposures;
- potential exit of one or more countries from the Euro as a result of the sovereign debt crisis;
- reduced client activity leading to lower revenues;
- decreases in market liquidity due to economic uncertainty;
- impact on income from uncertain interest and exchange rate environment;
- asset returns underperforming pension liabilities;
- impact of the guidelines from the Basel Committee on Banking Supervision for strengthening capital requirements (“Basel 3”) as regulatory rules are finalised;
- impacts on capital ratios from weak profit performance;
- availability and volatility in cost of funding due to economic uncertainty;
- reduction in available depositor and wholesale funding;
- implementation of strategic change and integration programmes across the Group;
- continued regulatory and political focus, driven by the global economic climate;
- impact of new, wide ranging, legislation in various countries coupled with changing regulatory landscape;
- increasingly litigious environment; and
- the crisis management agenda and breadth of regulatory change required in global financial institutions.

## Credit risk

Credit risk is the risk of the Group suffering financial loss if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to the Group. The granting of credit is one of the Group's major sources of income and, as the most significant risk, the Group dedicates considerable resources to its control. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with its clients. Other sources of credit risk arise from trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase loans. However, credit risk may also arise where the downgrading of an entity's credit rating causes a fall in the value of the Group's investment in that entity's financial instruments. Specific issues and scenarios where credit risk could lead to higher impairment charges in 2012 and subsequent years include:

### *Sovereign risk and the Eurozone crisis*

Credit conditions will deteriorate in a recessionary environment, such as that recently seen in the UK, U.S., the Eurozone and other economies. Deteriorating credit conditions will impact exposures to retail and wholesale counterparties, including a country's government or its agencies (via sovereign risk) thus impairing or reducing the value of the Group's credit assets. Fiscal deficits continue to remain high, leading to high levels of public debt in some countries at a time of modest GDP growth. This has led to a loss of market confidence in certain countries to which the Group is exposed causing deteriorating sovereign credit quality (particularly in relation to debt servicing and refinancing) which, if it were to continue, may have a material adverse effect on the Group's results of operations, financial condition and prospects.

In particular, concerns about the Eurozone crisis remain very high. The large sovereign debts and/or fiscal deficits of a number of European countries have raised concerns regarding the financial condition of financial institutions, insurers and other corporates (i) located in these countries; (ii) that have direct or indirect exposure to these countries (both to sovereign debt and private sector debt); and/or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a further decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Group operates and the businesses and economic condition and prospects of the Group's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which it is difficult to predict.

The impact of these conditions could adversely affect the Bank and the solvency of its counterparties, custodians, customers and service providers; its credit rating; its share price; the value and liquidity of its assets and liabilities; and the ability of the Bank or the Group to meet its obligations under the Notes and under its debt obligations more generally.

Prospective investors should ensure that they have sufficient knowledge and awareness of the Eurozone crisis, global financial crisis and the economic situation and outlook to enable them to make their own evaluation of the risks and merits of an investment in the securities issued by the Bank. In particular, prospective investors should take into account the considerable uncertainty as to how the Eurozone crisis, the global financial crisis and the wider economic situation will develop over time.

### *Economic weakness*

In a recessionary environment, such as that seen in past years in the UK, the U.S. and other economies, credit risk increases. In particular, the implementation of austerity measures to tackle high levels of public debt has negatively impacted economic growth and led to rising unemployment in some European

countries and the monetary, interest rate and other policies of central banks and regulatory authorities may also have a significant adverse effect on a number of countries in which the Group operates. The threat of weaker economies in a number of countries in which the Group operates could lead to even higher levels of unemployment, rising inflation, potentially higher interest rates and falling property prices. For example, the Spanish and Portuguese housing sectors continue to be depressed, impacting the Group's wholesale and retail credit risk exposures and the Group has experienced elevated impairment across its operations in these countries. Poor economic performance in one or more of the countries in which the Group operates may have a material adverse effect on the Group's results of operations, financial condition and prospects.

In addition, if funding capacity in either the wholesale markets or central bank operations were to change significantly, liquidity shortages could result which may lead to increased counterparty risk with other financial institutions. This could also have an impact on refinancing risks in the corporate and retail sectors. This could have a material adverse effect on the Group's results of operations, financial condition and prospects.

#### *Credit market exposures*

The Bank holds certain exposures to credit markets that became illiquid during 2007. These exposures primarily relate to commercial real estate and leveraged finance loans. Although the Group continues to actively manage down these exposures, there is no guarantee that this will be successful. Failure to manage down these exposures effectively could have a material adverse effect on the Group's results of operations, financial condition and prospects.

#### **Market risk**

Market risk is the risk of the Group suffering financial loss due to the Group being unable to hedge its balance sheet at prevailing market levels. The Group can be impacted by changes in both the level and volatility of prices (for example, interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates). Specific issues and scenarios where market risk could lead to lower revenues in 2012 and subsequent years include:

#### *Reduced client activity and decreased market liquidity*

The impact of ongoing economic uncertainty on client volumes, reduced market liquidity and higher volatility could lead to lower revenues and could result in a material adverse effect on the Group's results of operations, financial condition and prospects.

#### *Non-traded interest rate risk*

Interest rate volatility can impact the Bank's net interest margin. The potential for future volatility and margin changes remains and it is difficult to predict with any accuracy changes in absolute interest rate levels, yield curves and spreads. Such changes may have a material adverse effect on the Group's results of operations, financial condition and prospects.

#### *Pension fund risk*

Adverse movements between pension assets and liabilities for defined benefit could contribute to a pension deficit.

#### **Funding risk**

Funding risk is the risk that the Bank is unable to achieve its business plans due to liquidity risk, capital risk or the management of structural balance sheet risks.

### *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due as a result of a sudden, and potentially protracted, increase in net cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. These outflows could be principally through customer withdrawals, wholesale counterparties removing financing, collateral posting requirements or loan draw-downs. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events which can result in (i) an inability to support normal business activity; or (ii) a failure to meet liquidity regulatory requirements.

During periods of market dislocation, the Group's ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group.

In illiquid markets, the Group may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Group's ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

In addition, the introduction of capital controls or new currencies by countries to mitigate current stresses could have a consequential effect on performance of the balance sheets of certain Group companies based on the asset quality, types of collateral and mix of liabilities.

### *Capital risk*

Capital risk is the risk that the Group is unable to maintain appropriate capital ratios which could lead to (i) an inability to support business activity; (ii) a failure to meet regulatory requirements; or (iii) changes to credit ratings.

Regulators assess the Group's capital position and target levels of capital resources on an ongoing basis and there have been a number of recent developments in regulatory capital requirements, including increases, which are likely to have a significant impact on the Group (such as Basel 3 and its proposed implementation in the EU under the Capital Requirements Regulation and the Fourth Capital Requirements Directive ("CRD 4")). Increased capital requirements and changes to what is defined to constitute capital may constrain the Group's planned activities and could increase costs and contribute to adverse impacts on the Group's earnings. During periods of market dislocation, increasing the Group's capital resources in order to meet targets may prove more difficult or costly.

### *Structural balance sheet risk*

Structural balance sheet risk relates to the management of non-contractual risks and predominantly arises from the impact on the Bank's balance sheet of changes in primarily interest rates on income or foreign exchange rates on capital ratios. It is difficult to predict with any accuracy changes in interest rates or foreign exchange rates and such changes may have a material adverse effect on the Group's results of operations, financial condition and prospects.

### **Operational risk**

Operational risk is the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. Operational risks are inherent in the Group's business activities and are typical of any large enterprise. Major sources of operational risk include:

- inadequate selection and ongoing management of external suppliers;
- a reporting mis-statement or omission within external financial or regulatory reporting;

- dishonest behaviour with the intent to make a gain or cause a loss to others;
- inadequate protection of information in accordance with its value and sensitivity;
- inadequate design, assessment and testing of products and services;
- failure in operation of payments processes;
- insufficient people or capabilities and/or inappropriate behaviours and/or unsafe working environments;
- unavailability of premises to meet business requirements or inadequate protection of physical assets, employees and customers against criminal, terrorist and adverse political activities;
- failure to develop and deploy secure, stable and reliable technology solutions; and
- failure in the management of critical transaction processes.

These risks can result in financial and non-financial impacts, legal or regulatory breaches and reputational damage.

Notwithstanding anything contained in this risk factor, it should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List nor that it, or its relevant subsidiaries, will be unable to comply with its or their obligations as supervised firms regulated by the FSA.

In addition, other major areas of operational risk include (i) regulatory risk; (ii) legal and litigation risk; (iii) cybersecurity risk; and (iii) taxation risk.

#### *Regulatory risk*

Regulatory risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry which are currently subject to significant changes. Non-compliance could lead to fines, public reprimands, damage to reputation, increased prudential requirements, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate.

The Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the UK, EU, U.S. and elsewhere, which are all subject to change. The regulatory response to the financial crisis has led and will continue to lead to very substantial regulatory changes in the UK, EU and U.S. and in other countries in which the Group operates. It has also (amongst other things) led to (i) a more assertive approach being demonstrated by the authorities in many jurisdictions; and (ii) enhanced capital and liquidity requirements (for example pursuant to CRD 4). Any future regulatory changes may restrict the Group's operations, mandate certain lending activity and impose other, significant compliance costs.

Areas where changes could have significant adverse impacts include:

- general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;
- general changes in regulatory requirements, for example, prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;
- changes in competition and pricing environments;
- further developments in the financial reporting environment;

- differentiation amongst financial institutions by governments with respect to the extension of guarantees to customer deposits and the terms attaching to those guarantees;
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes; and
- the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, which contains far reaching regulatory reform (including restrictions on proprietary trading and fund-related activities (the so-called “Volcker rule”). The full impact on the Group’s businesses and markets will not be known until the principal implementing rules are adopted in final form by governmental authorities, a process which is underway and which will take effect over several years.

Three specific matters that directly impact the Group, and may have materially adverse consequences for the Group, are the Independent Commission on Banking (the “ICB”), the Banking Act 2009 (the “**Banking Act**”) and the Financial Services Compensation Scheme (the “FSCS”).

#### ICB

The ICB was charged by the UK Government with reviewing the UK banking system and its findings were published on 12 September 2011. The ICB recommended (amongst other things) that: (i) the UK and EEA retail banking activities of a UK bank or building society should be placed in a legally distinct, operationally separate and economically independent entity (so-called “ring-fencing”); and (ii) the loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks (such as the Bank) should be increased to levels higher than the Basel 3 proposals. The UK Government published its response to the ICB recommendations in December 2011 and indicated that primary and secondary legislation relating to the proposed ring-fence will be completed by May 2015, with UK banks and building societies expected to be compliant as soon as practicable thereafter, and the requirements relating to increased loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks will be applicable from 1 January 2019. Changes to the structure of UK banks and an increase in the amount of loss-absorbing capital issued by UK banks may have a material adverse impact on the Bank’s and the Group’s results and financial condition. It is also not possible to predict the detail of the implementation legislation or the ultimate consequences for the Group.

#### Banking Act

The Banking Act provides a regime to allow the FSA, the UK Treasury and the Bank of England to resolve failing banks in the UK. Under the Banking Act, these authorities are given powers, including (a) the power to issue share transfer orders pursuant to which all or some of the securities issued by a bank may be transferred to a commercial purchaser or Bank of England entity; and (b) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity. A share transfer order can extend to a wide range of securities including shares and bonds issued by a UK bank (including the Bank) or its holding company (Barclays PLC) and warrants for such shares and bonds. The Banking Act powers apply regardless of any contractual restrictions and compensation may be payable in the context of both share transfer orders and property appropriation.

The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank or its holding company and its former group undertakings for reasonable consideration, in order to enable any transferee or successor bank of the UK bank to operate effectively. There is also power for the Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective

effect. In addition, the Banking Act gives the Bank of England statutory responsibility for financial stability in the UK and for the oversight of payment systems.

#### FSCS

Banks, insurance companies and other financial institutions in the UK are subject to the FSCS which operates when an authorised firm is unable or is likely to be unable to meet claims made against it because of its financial circumstances. Most deposits made with branches of the Bank within the European Economic Area (the “EEA”) which are denominated in Sterling or other currencies are covered by the FSCS. Most claims made in respect of investment business will also be protected claims if the business was carried on from the UK or from a branch of the bank or investment firm in another EEA member state. The FSCS is funded by levies on authorised UK firms such as the Bank. As at 31 December 2011, the Group had accrued £58 million (2010: £63 million) for its share of the levies. The provision is based on estimates of the Group’s market participation in the relevant charging periods and the interest the FSCS will pay on the facilities provided by HM Treasury in support of its obligations to depositors of banks declared in default (such facilities were, as at 31 December 2011, estimated by the Group to amount to £18.5 billion). While it is anticipated that the substantial majority of these facilities will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on FSCS participants. As at the date of this iPath® Inverse VSTOXX® Base Prospectus, it was not possible to estimate the amount of any potential additional levies or the Group’s share. Consequently, in the event that the FSCS raises funds, raises those funds more frequently or significantly increases the levies to be paid by firms, the associated costs to the Group may have a material impact on the Group’s results and financial condition.

#### *Legal and litigation risk*

The Group is subject to a comprehensive range of legal obligations in all countries in which it operates. As a result, the Group is exposed to many forms of legal risk, which may arise in a number of ways:

- business may not be conducted in accordance with applicable laws around the world;
- contractual obligations may either not be enforceable as intended or may be enforced in an adverse way;
- intellectual property (such as trade names of the Group) may not be adequately protected; and
- liability for damages may be incurred to third parties harmed by the conduct of the Group’s business.

The Group also faces risk where legal proceedings are brought against it. The Group is, and may in the future be, involved in various disputes, legal proceedings and regulatory investigations in various jurisdictions, including in the U.S. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in significant financial loss. Furthermore, the Group, like many other financial institutions, has come under greater regulatory scrutiny in recent years and expects that environment to continue particularly as it relates to compliance with new and existing corporate governance, employee compensation, conduct of business, anti-money laundering and anti-terrorism laws and regulations, as well as applicable international sanctions regimes. Defending legal proceedings and regulatory investigations is often expensive and time-consuming and there is no guarantee that all costs incurred will be recovered even if the Group is successful.

Adverse regulatory action or adverse judgments in legal proceedings could result in significant financial penalties and losses, restrictions or limitations on the Group’s operations or have a significant adverse

effect on the Group's reputation or results of operations, financial condition or prospects or result in a loss of value in securities issued by the Group.

#### *Payment Protection Insurance risk*

During 2011, the Bank agreed with the FSA that it would process all on-hold and any new complaints from customers about payment protection insurance ("PPI") policies. The Bank also announced that, as a goodwill gesture, it would pay out compensation to customers who had PPI complaints put on hold during the judicial review. A provision of £1 billion was recognised in the second quarter of 2011 to cover the cost of future redress and administration. On 26 April 2012, following an increase in PPI complaint volumes, the Bank announced that it had increased the provision by a further £300 million.

There are a number of assumptions which underpin the provision, including assumptions as to (i) the volume and number of claims; (ii) the percentage of claims that are upheld as being valid upon review; and (iii) the expected average payment to customers for upheld claims, which are subjective and liable to change. Consequently, there could be a change in the provision in the event that there is a significant change in the volume and number of customer claims, uphold rates or average payment. Any increase in the level of the provision may have a material adverse effect on the Group's results of operations, financial condition and prospects.

#### *Cybersecurity risk*

The Bank recognises the growing threats from cyberspace to our systems, including in respect of customer and our own information held on them and transactions processed through these systems. As at the date of this iPath® Inverse VSTOXX® Base Prospectus, the Bank was not aware of any significant breaches of its systems from cyberspace. However, given the increasing sophistication and scope of potential attacks from cyberspace, it is possible that in the future such attacks may lead to significant breaches. Failure to manage cybersecurity risk adequately could impact the Group materially and adversely and could have a negative impact on the Group's performance or reputation.

#### *Taxation risk*

Taxation risk is the risk that the Group suffer losses arising from additional tax charges, financial penalties or reputational damage associated with failure to comply with procedures required by tax authorities, changes in tax law and the interpretation of tax law. The Group is subject to the tax laws in all countries in which it operates, including tax laws adopted at an EU level, and is impacted by a number of double taxation agreements between countries. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

### **Risks related to the Securities**

#### **The Securities are linked to the inverse performance of the Index**

The investment in the Securities is linked to the inverse, or 'short' performance of the Index on any given day. Therefore, notwithstanding the gains resulting from the accrued interest and the negative effect of the accrued fees, the Securities will generally appreciate as the level of the Index decreases and depreciate as the level of the Index increases. Investors may lose some or all of their investment if the level of the Index increases over the term of the Securities.

**Even if the level of the underlying Index at maturity or upon redemption is less than it was on the inception date, Investors may receive less than the principal amount of the Securities**

Since the Daily Fee reduces the amount of Investors' return at maturity or upon redemption, and the Daily Fee and the redemption charge reduce the amount of Investors' return upon early redemption, the Index underlying the Securities will need to decrease significantly in order for Investors to receive at least the principal amount of their investment at maturity or upon redemption. Because, in the determination of the Redemption Value, the Daily Fee is calculated and subtracted on a daily basis, the net effect of the fee accumulates over time and is subtracted at the relevant rate per year as is specified in the Final Terms. Therefore, if the level of the Index does not decrease or the decrease in the level of the Index underlying the Securities is insufficient to offset the negative effect of the Daily Fee (and, in the case of early redemption, the redemption charge), or the level of the Index underlying the Securities increases, Investors will receive less than the principal amount of their investment at maturity or upon redemption and may receive zero. The Securities are not principal protected. They may return less than the original investment, or even zero.

#### **Early redemption or cancellation of Securities**

The Issuer may elect to redeem the Securities early at their Optional Cash Settlement Amount or upon the occurrence of an Additional Disruption Event at their Early Cash Settlement Amount. If the Securities are redeemed or cancelled prior to their Redemption Date, the Issuer will take this into account when determining the relevant Settlement Amount, and deduct therefrom an amount in respect of all costs, losses and expenses (if any) incurred (or expected to be incurred) by or on behalf of the Issuer in connection with the redemption or cancellation of the Securities, including without duplication or limitation, hedging unwind and funding breakage costs. Such costs, losses and expenses will reduce the amount received by Securityholders on redemption or cancellation and may reduce the Settlement Amount to zero. The Issuers are not under any duty to hedge themselves at all or in any particular manner, and are not required to hedge themselves in a manner that would (or may be expected to) result in the lowest costs, losses and expenses.

Upon the occurrence of a Specified Early Redemption Event the Issuer will redeem all of the Securities early upon the giving of not less than 5 Business Days' notice to the Securityholders. The Specified Early Redemption Settlement Amount of the Securities will be based on the Redemption Value of the Securities for the Specified Early Redemption Valuation Date.

The determination of any level of the Index used to calculate Intraday Index Performance Percentage or Disrupted Intraday Index Performance Percentage is determined by the Determination Agent without regard to any correction subsequently published by the Index Sponsor or Successor Index Sponsor. Consequently a Specified Early Redemption Event may occur on the basis of an Intraday Security Value as determined without regard to any subsequent correction, while the Specified Early Redemption Settlement Amount may be based on the Redemption Value of the Securities for the Specified Early Redemption Valuation Date, which may be adjusted in accordance with any correction published by the Index Sponsor or Successor Index Sponsor.

Furthermore, if the Determination Agent determines that the level of the Index published by the Index Sponsor is manifestly erroneous (as manifested in the level of the Index published by the Index Sponsor), the Determination Agent may calculate the level of the Index in accordance with the methodology and formula for calculating the Index used by the Index Sponsor, instead of using the level published by the Index Sponsor. If the Index Sponsor continues to calculate the Index with manifest error for more than

three Scheduled Trading Days, then the Determination Agent may make such adjustments to the terms of the Security as it may determine in its sole discretion.

An issuer call feature of Securities can limit their value. In all circumstances where the Securities are redeemed early, an Investor should consider their potential reinvestment risk in these circumstances prior to investing in the Securities and should be aware that the amount payable in respect of the Securities may be less than their original investment.

**If a Specified Early Redemption Event occurs, your payment on the Specified Early Redemption Date may be less than the Intraday Security Value at the time of the Specified Early Redemption Event**

The Issuer will automatically redeem the Securityholders' Securities (in whole but not in part) if the Intraday Security Value becomes less than or equal to the Specified Early Redemption Trigger Value. The Intraday Security Value is based on the latest published level of the Index. It is possible that the market prices of the relevant futures underlying the Index may vary significantly between the time of the Specified Early Redemption Event and the time the Specified Early Redemption Settlement Amount is calculated after the close of business on the Specified Early Redemption Valuation Date, including potentially as a result in part of our trading activities during this period, as described further in the risk factor "Trading and other transactions by Barclays Bank PLC or its affiliates in instruments linked to the equity securities underlying the EURO STOXX 50® Index or Instruments linked to the Index, the VSTOXX® Index, the EURO STOXX 50® Index, or the equity securities underlying the EURO STOXX 50® Index may impair the market value of the Securities and could trigger a Specified Early Redemption Event". As a result following a Specified Early Redemption Event, an Investor may receive a payment that is significantly less than 25.0 per cent. of the Redemption Value on the previous day. An Investor can lose up to the entire principal amount following the occurrence of a Specified Early Redemption Event.

**The occurrence of a Specified Early Redemption Event may adversely affect the value of, and the ability to sell or redeem, the Securities**

The Issuer will automatically redeem the Securities (in whole but not in part) upon the occurrence of a Specified Early Redemption Event. The payment the Securityholder receives following the redemption of the Securities in this situation will most likely be significantly less than the Calculation Amount of the Securities and, if the level of the Index continues to increase steeply from the occurrence of the Specified Early Redemption Event to the close of business on the Specified Early Redemption Valuation Date, may equal EURO. The automatic redemption of the Securities upon the occurrence of a Specified Early Redemption Event may adversely impact the Securityholder's ability, and/or the price at which they may be able to sell their Securities, following the occurrence of a Specified Early Redemption Event.

**Where the Issuer exercises its option to redeem the Securities, Investors should note that the redemption amount may be based on the Redemption Value of the Securities on a number of dates**

The Issuer has a right to redeem at its sole discretion some or all of the Securities early at their Optional Cash Settlement Amount upon the giving of at least 20 Business Days' notice to the Securityholders. Where such an option is exercised by the Issuer, the redemption amount of the relevant Securities may not be based on the Redemption Value of the Securities as of a single date. Instead, the redemption amount of the relevant Securities may be based on the Redemption Value of the Securities as of a number of dates during the relevant Issuer Notice Period and the Issuer will determine at its sole discretion (a) such dates and (b) the number of securities to be redeemed on such dates.

**Currency Risks**

While the relevant Market Maker for the Securities may provide quotes in currencies different from the Settlement Currency (including the Investor's home currency), Investors should note that when the Issuer redeems the Securities upon a Redemption on the Redemption Date, Early Redemption at the option of the Issuer, Early Redemption following the occurrence of an Additional Disruption Event, Early Redemption following the occurrence of a Specified Early Redemption Event and Early Redemption at the Option of the Securityholder, they would receive the settlement amounts in the Settlement Currency only. Investors in such Securities may, hence, be exposed not only to the performance of the relevant Index but also to the performance of such Settlement Currency as well as the relative performance of such Settlement Currency against their home currency, both of which cannot be predicted.

Prospective Investors should be aware that foreign exchange rates are, and have been, highly volatile and determined by supply and demand for currencies in the international foreign exchange markets, which are subject to economic factors, including inflation rates in the countries concerned, interest rate differences between the respective countries, economic forecasts, international political factors, currency convertibility and safety of making financial investments in the currency concerned, speculation and measures taken by governments and central banks (e.g. imposition of regulatory controls or taxes, issuance of a new currency to replace an existing currency, alteration of the exchange rate or exchange characteristics by devaluation or revaluation of a currency or imposition of exchange controls with respect to the exchange or transfer of a specified currency that would affect exchange rates as well as the availability of a specified currency).

Foreign exchange fluctuations between an Investor's home currency and the Settlement Currency may affect Investors who intend to convert gains or losses from the redemption of Securities into their home currency.

**Each Series of Exchange Traded Notes Is Linked to the Inverse Performance of the Index, daily resetting its exposure to the index to minus 100 per cent.**

An investment in each series of "Exchange Traded Notes" is linked to the inverse or "short" performance of the Index on any given day. Therefore, notwithstanding the gains resulting from the applicable accrued interest and the negative effect of the applicable accrued Daily Fees, Exchange Traded Notes will generally appreciate as the level of the Index decreases and will decrease in value as the level of the Index increases. Investors may lose some or all of their investment if the level of the Index increases over the term of the Exchange Traded Notes.

**Exchange Traded Notes have a daily "reset" mechanism that seeks to provide Investors in the Exchange Traded Notes with a return based on a fixed multiple of the inverse performance of the Index on a given day.**

The "reset" mechanism is applied so that the return on investments in the Exchange Traded Notes will correspond to a fixed multiple (e.g. negative one times) of the daily return on the Index on any given day, before fees and interest. This reset mechanism has the impact of compounding the performance of the Index on a daily basis. This compounding effect can be positive for the Investor, particularly if there are consistently negative returns each day for the Index. This compounding effect can be negative for the Investor, particularly if there are consecutive daily moves of the Index in the opposite direction, i.e. if the Index shows mean reversion.

**A Specified Early Redemption Event may occur as a result of a steep increase in volatility in the European equity markets and is highly likely to occur if the historical frequency of steep increases in volatility in the European equity markets persists**

Historically, volatility levels of the European equity markets have tended to react to rapid market downturns and stress events by spiking up steeply. In these circumstances, it is expected that the level of the Index would react to such volatility by similarly increasing at a steep rate. Moreover, a Specified Early Redemption Event can be triggered during this period. Therefore, if periods of high market volatility occur during the term of the Securities, in particular in connection with rapid market downturns and stress events, the level of the Index may increase at a steep rate, which may result in triggering a Specified Early Redemption Event. If the historical frequency of steep increases in market volatility persists, it is highly likely that a Specified Early Redemption Event will occur.

Barclays or one or more of their affiliates may hedge their obligations under the Securities by taking positions in the VSTOXX futures (which are used to calculate the Index) or related instruments. On the occurrence of a Specified Early Redemption Event, Barclays or one or more of their affiliates may unwind such hedges. Any of these hedging or unwinding activities may adversely affect the market price of those instruments and therefore the level of the Index, the market value of the Securities and/or the Specified Early Redemption Settlement Amount. With respect to any of the securities described above, neither Barclays Bank PLC nor any of its affiliates has any obligation to take the needs of any buyer, seller or holder of the Securities into consideration at any time.

**Investors with a horizon longer than one Index Business Day should carefully consider whether Exchange Traded Notes are appropriate for their investment portfolio.**

As discussed above, because Exchange Traded Notes are meant to provide daily exposure to the underlying indices, their performance over any period of time—over days, weeks, months or years—can differ significantly from the inverse performance of the underlying Index during the same period of time. Therefore, it is likely that Investors will suffer significant losses even if the long-term performance of the Index was in the desired direction. For instance, it is possible for the level of the Index to decrease while the market value of the Exchange Traded Notes declines.

**Payment at Maturity or Upon Redemption Will Be Significantly Reduced by the Accrued Daily Fees, Regardless of the Performance of the Index**

An Investor's payment at maturity or upon redemption will be significantly reduced by the applicable accrued Daily Fees (and, in the case of optional redemption, a one-time redemption charge). The accrued Daily Fees for each series of Exchange Traded Notes are compounded daily and will increase at a fixed percentage per annum as set out in the applicable Final Terms throughout the term of the Exchange Traded Notes. As such, the level of the Index must decrease significantly in order to offset the substantial accrued Daily Fees (and, in the case of optional redemption, the one-time redemption charge). If the level of the Index does not decrease sufficiently, an Investor's return at maturity or upon redemption may be less than that of a comparable investment in Exchange Traded Notes with lower fees and may also be less than the principal amount of an Investor's investment in the Exchange Traded Notes.

**Investors will not benefit from any decrease in the Index Level if such decrease is not reflected in the Index on the applicable Valuation Date**

If the positive effect of any decrease in the level of the Index underlying the Securities is insufficient to offset the negative effect of the Daily Fee (and in the case of optional redemption, the redemption charge) between the inception date and the applicable Valuation Date (including the Final Valuation Date), the Issuer will pay Investors less than the principal amount of the Securities at maturity or upon redemption. This will be true even if the level of the Index underlying the Securities as of some date or dates prior to the applicable Valuation Date would have been sufficiently low to offset the negative effect of the Daily Fee and redemption charge.

**Investors will not receive interest payments on the Securities or have rights in respect of any of the futures contracts included in the Index**

Investors will not receive any periodic interest payments on the Securities. Investors will not have rights that investors in the index components included in the Index underlying the Securities may have. The Securities will be paid in cash, and Investors will have no right to receive delivery of any equity securities comprising the EURO STOXX 50® Index, of any dividends or distributions relating to such securities, of payment or delivery of amounts in respect of the options used to calculate the level of the VSTOXX® Index or of payment or delivery of amounts in respect of the futures contracts included in the Index underlying the Securities.

**The VSTOXX® Index is a theoretical calculation and is not a tradable index**

The VSTOXX® Index is a theoretical calculation and cannot be traded on a spot price basis. The settlement price at maturity of the VSTOXX® Index futures contained in the Index is based on this theoretically derived calculation. As a result the behaviour of the futures contracts may be different from futures contracts whose settlement price is based on a tradable asset.

**There are restrictions on when a Securityholder can exercise a Securityholder Put Option and the minimum number of Securities or the minimum aggregate nominal amount of Securities, as applicable, that must be the subject of such Securityholder Put Option**

In exercising a Securityholder Put Option, an Investor must exercise such option in respect of a number of Securities equal to or greater than the minimum aggregate nominal amount or minimum number of such Securities specified in the applicable Final Terms. Investors should note that a redemption charge will be applied in respect of any amounts payable in relation to such early redemption. Investors may exercise such Securityholder Put Option by delivering a notice in accordance with the Base Conditions that is effective during the Securityholder Option Exercise Period.

**The market value of the Securities may be influenced by many unpredictable factors**

The market value of the Securities may fluctuate between the date of purchase and the applicable Valuation Date. Investors may also sustain a significant loss if the Securities are sold in the secondary market. The Issuer expects that generally the value of the index components and Index will affect the market value of the Securities more than any other factor. However, several other factors, many of which are beyond the Issuer's control, will influence the market value of the Securities. Factors that may influence the market value of the Securities include (but are not limited to):

- the level of the underlying Index;
- prevailing market prices and forward volatility levels of the European stock markets, the equity securities included in the EURO STOXX 50® Index and the VSTOXX® Index, and prevailing market prices of options on the EURO STOXX 50® Index, the VSTOXX® Index, options on the VSTOXX® Index, relevant futures contracts on the VSTOXX® Index, or any other financial instruments related to the EURO STOXX 50® Index and the VSTOXX® Index;
- supply and demand for the Securities, including inventory positions with any market maker;
- the time remaining to the maturity of the Securities;
- interest rates;
- economic, financial, political, regulatory, geographical, biological or judicial events that affect the level of the underlying Index or the market price or forward volatility of the European stock markets,

the equity securities included in the EURO STOXX 50® Index, the VSTOXX® Index or the relevant futures contracts on the VSTOXX® Index;

- the perceived creditworthiness of Barclays Bank PLC;
- supply and demand in the listed and over-the-counter equity derivative markets; and
- supply and demand as well as hedging activities in the equity-linked structured product markets.

These factors interrelate in complex ways, and the effect of one factor on the market value of the Securities may offset or enhance the effect of another factor.

**A Security is inversely linked to the Index and not linked to the VSTOXX® Index and the value of the Security may be less than it would have been had the Security been inversely linked to the VSTOXX® Index**

The value of the Securities will be linked to the inverse performance of the underlying Index, and the ability to benefit from any rise or fall in the level of the VSTOXX® Index is limited. The Index underlying the Securities is based upon holding a rolling long position in futures on the VSTOXX® Index. These futures will not necessarily track the performance of the VSTOXX® Index. The Securities may not benefit from decreases in the level of the VSTOXX® Index because such decreases will not necessarily cause the level of the Index to fall. Accordingly, a hypothetical investment that was linked directly to inverse performance of the VSTOXX® Index (if it was investable) could generate a higher return than the Securities.

**The VSTOXX® Index is a measure of forward volatility of the EURO STOXX 50® Index and a Security is not linked to the options used to calculate the VSTOXX® Index, to the actual volatility of the EURO STOXX 50® Index or the equity securities included in the EURO STOXX 50® Index, nor will the return on the Security be a participation in the actual volatility of the EURO STOXX 50® Index**

The VSTOXX® Index measures the 30-day forward volatility of the EURO STOXX 50® Index as calculated based on the prices of certain put and call options on the EURO STOXX 50® Index. The actual volatility of the EURO STOXX 50® Index may not conform to a level predicted by the VSTOXX® Index or to the prices of the put and call options included in the calculation of the VSTOXX® Index. The value of the Securities is based on the value of the Index and the relevant futures on the VSTOXX® Index included in the Index underlying the Securities. The Securities are not linked to the realised volatility of the EURO STOXX 50® Index and will not reflect the return that would be realised if Investors owned, or held a short position in, the equity securities underlying the EURO STOXX 50® Index or if Investors traded the put and call options used to calculate the level of the VSTOXX® Index.

**Changing prices of the futures contracts included in the Index may result in a reduced amount payable at maturity or upon redemption**

The Index is composed of futures contracts on the VSTOXX® Index. Unlike equities, which typically entitle the holder to a continuing stake in a corporation, futures contracts normally specify a certain date for delivery of the underlying asset or for settlement in cash based on the level of the underlying asset. As the futures contracts that comprise the Index approach expiration, they are replaced by similar contracts that have a later expiration. Thus, for example, a futures contract purchased and held in August may specify a September expiration. As time passes, the contract expiring in September may be replaced by a contract for delivery in October. This process is referred to as “rolling”. If the market for these contracts is (putting aside other considerations) in “backwardation”, which means that the prices are lower in the distant delivery months than in the nearer delivery months, the sale of the September contract would take place at a price that is higher than the price of the October contract, thereby creating a “roll yield”. The actual

realisation of a potential roll yield will be dependent upon the level of the related VSTOXX® Index price relative to the unwind price of the relevant VSTOXX® Index futures contract at the time of hypothetical sale of the contract. Many of the contracts included in the Index have historically traded in “contango” markets. Contango markets are those in which the prices of contracts are higher in the distant delivery months than in the nearer delivery months. VSTOXX® Index futures have exhibited high contango in the past, resulting in a significant cost to “roll” the futures. However, there is no certainty that this past performance of the VSTOXX® Index futures will continue in the future. Investors should not take the past performance of the VSTOXX® Index futures as an indication of the future performance of the VSTOXX® Index futures. It is possible that contracts included in the index will exhibit consistent periods of backwardation, which may lead to a negative performance of the Securities.

**The level of the VSTOXX® Index has historically reverted to a long-term mean level and any decrease in the spot level of the VSTOXX® Index will likely continue to be constrained**

In the past, the level of the VSTOXX® Index has typically reverted over the longer term to a historical mean, and its absolute level has been constrained within a band. If the spot level of the VSTOXX® Index behaves consistently with past trends, the potential upside of an investment in Exchange Traded Notes would correspondingly be limited as a result.

**The policies of the Index Sponsor and EUREX and changes that affect the composition and valuation of the EURO STOXX 50® Index, the VSTOXX® Index or the underlying Index could affect the amount payable on the Securities and their market value**

The policies of the Index Sponsor and EUREX concerning the calculation of the level of the EURO STOXX 50® Index, the VSTOXX® Index and the underlying Index, respectively, and any additions, deletions or substitutions of equity securities or options contracts and the manner in which changes affecting the equity securities, options contracts or futures contracts are reflected in the EURO STOXX 50® Index, the VSTOXX® Index or the underlying Index, respectively, could affect the value of the underlying Index and, therefore, the amount payable on the Securities at maturity or upon redemption and the market value of the Securities prior to maturity.

STOXX Limited can add, delete or substitute the equity securities underlying the EURO STOXX 50® Index or make other methodological changes that could change the level of the EURO STOXX 50® Index. STOXX Limited can also add, delete or substitute the futures contracts underlying the Index or make other methodological changes that could change the level of the Index. The changing of equity securities included in the EURO STOXX 50® Index may affect the EURO STOXX 50® Index, as a newly added equity security may perform significantly better or worse than the equity security or securities it replaces. Such a change may also affect the value of the put and call options used to calculate the level of the VSTOXX® Index. The changing of the futures contracts underlying the Index may affect the performance of the Index in similar ways. Additionally, STOXX Limited may alter, discontinue or suspend calculation or dissemination of the EURO STOXX 50® Index or the Index. Any of these actions could adversely affect the value of the Securities. STOXX Limited has no obligation to consider Investors' interests in calculating or revising the EURO STOXX 50® Index or the Index.

STOXX Limited can make methodological changes to the calculation of the VSTOXX® Index that could affect the value of futures contracts on the VSTOXX® Index and, consequently, the value of the Securities. There can be no assurance that STOXX Limited will not change the VSTOXX® Index calculation methodology in a way which may affect the value of the Securities. Additionally, STOXX Limited may alter, discontinue or suspend calculation or dissemination of the VSTOXX® Index and/or the exercise settlement value. Any of these actions could adversely affect the value of the Securities. STOXX Limited has no

obligation to consider Investor interests in calculating or revising the VSTOXX® Index or in calculating the exercise settlement value.

If events such as these occur or, on any Determination Date, the Index Sponsor fails to calculate and announce the Index, or the Index is permanently cancelled or ceases to exist, the Determination Agent shall determine if such events have a material effect on the Securities and, if so, shall calculate the level of the Index in accordance with the formula for and method of calculating the Index last in effect prior to the relevant event, as further provided in the Conditions. Any such adjustment may have an adverse effect on the value of the Securities and, if the Determination Agent determines that it can no longer continue to calculate the Index, then it may adjust, redeem or cancel the Securities.

**If a Market Disruption Event has occurred or exists on a Valuation Date, the Determination Agent can postpone the determination of the Redemption Value or a Redemption Date**

The determination of the value of a Security on a Valuation Date, including the Final Valuation Date, may be postponed if the Determination Agent determines that a market disruption has occurred or is continuing on such Valuation Date. In no event, however, will a Valuation Date for any series of Securities be postponed by more than eight trading days. As a result, the redemption date for a series of Securities could also be postponed, although not by more than eight trading days. If a Valuation Date is postponed until the eighth trading day following the scheduled Valuation Date but a Market Disruption Event occurs or is continuing on such day, that day will nevertheless be the Valuation Date and the Determination Agent shall determine the Index Level as of the Valuation Time on such day in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day as further provided in the Conditions. Any such adjustment may have an adverse effect on the value of the Securities.

**Postponement of a Valuation Date may result in a reduced amount payable at maturity or upon redemption**

As the payment at maturity or upon redemption is a function of, among other things, the applicable Index Performance Percentage on the Final Valuation Date or applicable Valuation Date, as the case may be, the postponement of any Valuation Date may result in the application of a different applicable Index Performance Percentage and, accordingly, decrease the payment Investors receive at maturity or upon redemption.

**The Index may in the future include contracts that are not traded on regulated futures exchanges**

The Index is currently based solely on futures contracts traded on regulated futures exchanges. If these exchange traded futures cease to exist, the Index may also cease to exist or may in the future include over-the-counter contracts (such as swaps and forward contracts) traded on trading facilities that are subject to lesser degrees of regulation or, in some cases, no substantive regulation. As a result, trading in such contracts, and the manner in which prices and volumes are reported by the relevant trading facilities, may not be subject to the provisions of, and the protections afforded by applicable statutes and related regulations, that govern trading on regulated European futures exchanges, or similar statutes and regulations that govern trading on regulated UK futures exchanges. In addition, many electronic trading facilities have only recently initiated trading and do not have significant trading histories. As a result, the trading of contracts on such facilities, and the inclusion of such contracts in the Index, may be subject to certain risks not presented by European or UK exchange traded futures contracts, including risks related to the liquidity and price histories of the relevant contracts.

### **The Index and the VSTOXX® Index futures have limited historical information**

The Index underlying the Securities was created in October 2010 and the Index Sponsor has published limited information about how the Index would have performed had it been calculated in the past. In addition, futures on the VSTOXX® Index have only traded freely since 19 September 2005, and not all futures of all relevant maturities have traded at all times since that date.

Because the Index and the VSTOXX® Index futures that underlie it are of recent origin and limited or no historical performance data exists with respect to them, investment in the Securities may involve a greater risk than investing in alternate securities linked to one or more indices with an established record of performance. A longer history of actual performance may have been helpful in providing more reliable information on which to assess the validity of the proprietary methodology that the Index makes use of as the basis for an investment decision.

### **Historical levels of comparable indices should not be taken as an indication of the future performance of the Index during the term of the Securities**

It is impossible to predict whether the Index underlying the Securities will rise or fall. The actual performance of the Index over the term of their respective series of Securities, as well as the amount payable at maturity or upon redemption, may bear little relation to the historical levels of comparable indices, which in most cases have been highly volatile.

### **Exchange Traded Notes are linked to an Excess Return Index and not a Total Return Index**

Exchange Traded Notes are linked to an excess return index and not a total return index. The Index is intended to reflect the returns that are potentially available through an unleveraged investment in certain futures contracts on the VSTOXX® Index. The Index is calculated on an excess return basis because the Index level on any given Index Business Day does not reflect the rate of interest that could be earned on reinvestment into the Index of the return on the notional value of the Index. By contrast, the total return version of the Index (i.e., The VSTOXX® Short-Term Futures Total Return Index) is intended to reflect the returns that are potentially available through such an unleveraged investment plus the specified EONIA rate of interest that could be earned on the notional value of the Index, which would then be re-invested at that rate. Investing in Exchange Traded Notes may, therefore, not generate the same return as one would obtain from investing in the inverse performance of the total return version of the Index.

### **Changes in the EONIA rate of interest may affect the value of the Securities**

Because the value of a Series of Exchange Traded Notes is linked, in part, to the rate of interest that could be earned on an investment of the value of that series of Exchange Traded Notes based on the Euro Overnight Index Average (“EONIA”) rate, changes in the EONIA rate of interest may affect the amount payable on the Securities at maturity or upon redemption and, therefore, the market value of the Securities. Any decrease in the EONIA rate of interest will decrease the rate at which the accrued interest increases for the series of Exchange Traded Notes and will, therefore, adversely impact the value of the Securities.

### **There may not be an active trading market in the Securities; sales in the secondary market may result in significant losses**

At any time, the price at which Securities trade in the secondary market on the trading platform relating to the Relevant Stock Exchange (if any) may not accurately reflect the Redemption Value of the relevant Securities. The role of the Market Makers is intended to minimise such potential difference or “tracking error”. However, no assurance can be given that this will be effective in minimising such potential

difference and the market price of Securities will be a function of supply and demand among Investors wishing to buy and sell Securities and the bid/offer spread that Market Makers are willing to quote for the Securities.

While the Market Makers intend to make a market for the Securities, such market may not be liquid. Therefore, Investors may not be able to sell their Securities 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 Securities 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 Securities would generally have a more limited secondary market and greater price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Securities.

The Securities are new securities, being issued for the first time pursuant to this iPath® VSTOXX® Base Prospectus and therefore have no trading record. There can be no assurance as to the depth of the secondary market (if any) in the Securities, a factor which will affect their liquidity and market price.

#### **The liquidity of the market for the Securities may vary materially over time**

The number or aggregate nominal amount, as applicable of Securities of any series outstanding or held by persons other than the Issuer's affiliates could be reduced at any time due to early redemptions of the Securities. Accordingly, the liquidity of the market for any series of Securities could vary materially over the term of the Securities. Investors may elect to redeem the Securities prior to maturity. Early redemption is subject to the conditions and procedures described elsewhere in this iPath® Inverse VSTOXX® Base Prospectus, including the conditions that Investors must pay a redemption charge and redeem at least the requisite minimum number of Securities or minimum aggregate nominal amount of Securities, as applicable, of the same series at one time in order to exercise the right to redeem the Securities on any redemption date.

#### **The policies of the Index Sponsor and changes that affect the Index methodology or the futures contracts underlying an Index could affect the amount payable on the Securities and their market value**

The policies of the Index Sponsor concerning the calculation of the level of the Index could affect the value of the Index and, therefore, the amount payable on the Securities at maturity or upon redemption and the market value of the Securities prior to maturity.

The Index Sponsor may modify the methodology for calculating the value of the Index or make certain other changes to the way in which the Index is calculated. The Index Sponsor may also discontinue or suspend calculation or publication of the Index, in which case it may become difficult to determine the market value of the Index. Any such changes could adversely affect the value of the Securities.

If events such as these occur, or if the value of the Index is not available or cannot be calculated because of a Market Disruption Event or for any other reason, the Determination Agent may be required to make a good faith estimate in its sole discretion of the value of the Index.

#### **Trading and other transactions by Barclays Bank PLC or its affiliates in instruments linked to the equity securities underlying the EURO STOXX 50® Index or instruments linked to the Index, the VSTOXX® Index, the EURO STOXX 50® Index, or the equity securities underlying the EURO STOXX 50® Index may impair the market value of the Securities or trigger a Specified Early Redemption Event**

The Issuer or one or more of its affiliates may hedge the Issuer's obligations under any series of Securities by purchasing or selling equity securities underlying the EURO STOXX 50® Index or listed or over-the-

counter options, futures, swaps or other derivative financial instruments linked to the Index, the VSTOXX® Index (including the VSTOXX® Index futures which are used to calculate the Index), the EURO STOXX 50® Index (including the put and call options used to calculate the level of the VSTOXX® Index) and the equity securities underlying the EURO STOXX 50® Index, and the Issuer may adjust these hedges by, among other things, purchasing or selling any of the foregoing. Although not expected to, any of these hedging activities may adversely affect the market price of those items and, therefore, the market value of the Securities. It is possible that the Issuer or one or more of its affiliates could receive substantial returns from these hedging activities while the market value of the Securities declines.

It is also possible that the hedging activities by the Issuer or one or more of its affiliates could cause the Intraday Security Value to become less than or equal to the Specified Early Redemption Trigger Value, thereby triggering a Specified Early Redemption Event.

The Issuer or one or more of its affiliates may also engage in trading in equity securities underlying the EURO STOXX 50® Index or listed or over-the-counter options, futures, swaps or other derivative financial instruments linked to the Index, the VSTOXX® Index (including the VSTOXX® Index futures which are used to calculate the Index), the EURO STOXX 50® Index (including the put and call options used to calculate the level of the VSTOXX® Index) and the equity securities underlying the EURO STOXX 50® Index on a regular basis as part of its general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for customers. Any of these activities could adversely affect the market price of those items and, therefore, the market value of the Securities and/or the Intraday Security Value, which could trigger the occurrence of a Specified Early Redemption Event. In addition we would expect to continue to engage in the activities from the occurrence of a Specified Early Redemption Event to the close of business on the Specified Early Redemption Valuation Date when the Specified Early Redemption Settlement Amount is calculated, and accordingly such activities could have an adverse effect on the Specified Early Redemption Settlement Amount of the Securities. The Issuer or one or more of its affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to changes in the performance of any of the foregoing. By introducing competing products into the marketplace in this manner, the Issuer or one or more of its affiliates could adversely affect the market value of the Securities and/or the Intraday Security Value, which could trigger a Specified Early Redemption Event. With respect to any of the activities described above, neither Barclays Bank PLC nor its affiliates has any obligation to take the needs of any buyer, seller or holder of the Securities into consideration at any time.

#### **Our business activities may create conflicts of interest**

The Issuer and its affiliates expect to play a variety of roles in connection with the issuance of the Securities.

As noted above, the Issuer and its affiliates expect to engage in trading activities related to equity securities underlying the EURO STOXX 50® Index or listed or over-the-counter options, futures, swaps or other derivative financial instruments linked to the Index, the VSTOXX® Index (including the VSTOXX® Index futures which are used to calculate the Index), the EURO STOXX 50® Index (including the put and call options used to calculate the level of the VSTOXX® Index) and the equity securities underlying the EURO STOXX 50® Index that are not for the account of holders of the Securities or on their behalf. These trading activities may present a conflict between the holders' interest in the Securities and the interests that the Issuer and its affiliates will have in its and its affiliates' proprietary accounts, in facilitating transactions, including options and other derivatives transactions, for its and its affiliates' customers and in accounts under its and its affiliates' management. These trading activities, if they influence the level of the

Index, the VSTOXX® Index, the EURO STOXX 50® Index or any financial instrument linked thereto, could be adverse to the interests of the holders of the Securities and could trigger the occurrence of a Specified Early Redemption Event.

Moreover, the Issuer and its affiliates may have published and in the future may publish research reports with respect to equity securities underlying the EURO STOXX 50® Index or listed or over-the-counter options, futures, swaps or other derivative financial instruments linked to the Index, the VSTOXX® Index (including the VSTOXX® Index futures which are used to calculate the Index), the EURO STOXX 50® Index (including the put and call options used to calculate the level of the VSTOXX® Index) and the equity securities underlying the EURO STOXX 50® Index. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Securities. The research should not be viewed as a recommendation or endorsement of the Securities in any way and Investors must make their own independent investigation of the merits of this investment.

Any of these activities by the Issuer or its affiliates may affect the market price of equity securities underlying the EURO STOXX 50® Index or listed or over-the-counter options, futures, swaps or other derivative financial instruments linked to the Index, the VSTOXX® Index (including the VSTOXX® Index futures which are used to calculate the Index), the EURO STOXX 50® Index (including the put and call options used to calculate the level of the VSTOXX® Index) and the equity securities underlying the EURO STOXX 50® Index and, therefore, the market value of the Securities. With respect to any of the activities described above, neither Barclays Bank PLC nor its affiliates has any obligation to take the needs of any buyer, seller or holder of the Securities into consideration at any time.

#### **There are potential conflicts of interest between the Investors and the Determination Agent**

Currently, Barclays Bank PLC serves as the Determination Agent. The Determination Agent will, among other things, decide the amount of the return paid out to the Investors on the Securities of any series at maturity or upon redemption of that series.

If the Index Sponsor were to discontinue or suspend calculation or publication of the Index, it may become difficult to determine the market value of the Securities of the relevant series. If events such as these occur, or if the value of the Index is not available or cannot be calculated because of a Market Disruption Event or for any other reason, the Determination Agent may be required to make a good faith estimate in its sole discretion of the value of the Index.

The Determination Agent will exercise its judgement when performing its functions. For example, the Determination Agent may have to determine whether a Market Disruption Event affecting the Index has occurred or is continuing on a Valuation Date, including the Final Valuation Date. This determination may, in turn, depend on the Determination Agent's judgements as to whether the event has materially interfered with its ability to unwind its or the Issuer's affiliates' hedge positions. Since these determinations by the Determination Agent may affect the market value of the Securities of any series, the Determination Agent may have a conflict of interest if it needs to make any such decision.

**Investors who hold Securities through CREST through the issuance of CDIs will not be the legal owners of the Securities underlying the CDIs; such CDIs will be issued to Investors pursuant to the CREST Deed Poll that will bind such Investors; fees, charges, costs and expenses may be incurred in connection with the use of the CREST International Settlement Links Service; and neither the Issuer nor any Paying Agent will have any responsibility for the performance by any intermediaries of their respective obligations under the rules and procedures governing their operations**

None of the Issuer, any Manager or any Agent makes any representation or warranty as to the tax consequences of an investment in CDIs and/or the tax consequences of the acquisition, holding, transfer or disposal of CDIs by any investor (including, without limitation, whether any stamp duty, stamp duty reserve tax, excise, severance, sales, use, transfer, documentary or any other similar tax, duty or charge may be imposed, levied, collected, withheld or assessed by any government, applicable tax authority or jurisdiction on the acquisition, holding, transfer or disposal of CDIs by any Investor).

Whilst the attention of prospective Investors is drawn to the section entitled “Taxation”, the tax consequences for each Investor in CDIs can be different and therefore Investors and counterparties should consult with their tax advisers as to their specific consequences, including, in particular, whether United Kingdom stamp duty reserve tax will be payable on transfers of CDIs in uncertificated form within CREST.

### **Risks in respect of CDIs**

If issued, CDIs will be delivered, held and settled in CREST by means of the CREST International Settlement Links Service. Prospective Investors in CDIs should consider the following risks:

- (i) Investors in CDIs will not be the legal owners of the Underlying Securities to which such CDIs relate. CDIs are separate legal instruments from the Underlying Securities and represent indirect interests in the interests of CREST International Nominees Limited in such Underlying Securities. CDIs will be issued by the CREST Depository to Investors and will be governed by English law.
- (ii) The Underlying Securities (as distinct from the CDIs representing indirect interests in such Underlying Securities) will be held in an account with a custodian. The custodian will hold the Underlying Securities through a clearing system (Euroclear or another clearing system having bridge arrangements with Euroclear). Rights in the Underlying Securities will be held through custodial and depositary links through the appropriate clearing systems. The legal title to the Underlying Securities or to interests in the Underlying Securities will depend on the rules of the clearing system in or through which the Underlying Securities are held.
- (iii) Rights in respect of the Underlying Securities cannot be enforced by holders of CDIs except indirectly through the intermediary depositaries and custodians described above. The enforcement of rights in respect of the Underlying Securities will therefore be subject to the local law of the relevant intermediary. This will include English law. The rights of holders of CDIs with respect to the Underlying Securities are represented by the entitlements of such holders against the CREST Depository which (through the CREST Nominee) holds interests in the Underlying Securities. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Underlying Securities in the event of any insolvency or liquidation of the relevant intermediary, in particular where the Underlying Securities held in clearing systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of the relevant intermediaries.
- (iv) Holders of CDIs will be bound by all provisions of the CREST Deed Poll and by all provisions of or prescribed pursuant to the CREST Manual dated 7 September 2009 as amended, modified, varied or supplemented from time to time (the “CREST Manual”) and the CREST Rules (contained in the CREST Manual) applicable to the CREST International Settlement Links Service. Holders of CDIs must comply in full with all obligations imposed on them by such provisions.

- (v) Prospective Investors in CDIs should note that the provisions of the CREST Deed Poll, the CREST Manual and the CREST Rules contain indemnities, warranties, representations and undertakings to be given by holders of CDIs and limitations on the liability of the CREST Depository as issuer of the CDIs.
- (vi) Holders of CDIs may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the money invested by them.
- (vii) Prospective Investors in CDIs should note that holders of CDIs may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service. These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the Underlying Securities through the CREST International Settlement Links Service.
- (viii) Prospective Investors in CDIs should note that none of the Issuer, any Manager or any Agent will have any responsibility for the performance by any intermediaries or their respective direct or indirect participants or accountholders acting in connection with CDIs or for the respective obligations of such intermediaries, participants or accountholders under the rules and procedures governing their operations.
- (ix) Prospective Investors in CDIs should note that Securities issued as a Temporary Global Security exchangeable for a Permanent Global Security will not be eligible for CREST settlement through CDIs. As such, Investors investing in Underlying Securities through CDIs will only receive the CDIs after such Temporary Global Security is exchanged for a Permanent Global Security, which could take up to 40 days after the issue of the Underlying Securities.

## INFORMATION INCORPORATED BY REFERENCE

Any documents themselves incorporated by reference in the documents incorporated by reference in this iPath® Inverse VSTOXX® Base Prospectus shall not form part of this Base Prospectus. The following information (unless otherwise expressly stated below) has been filed with the FSA and shall be deemed to be incorporated in, and to form part of this iPath® Inverse VSTOXX® Base Prospectus:

- the base prospectus dated 14 June 2012 (the “**Principal Base Prospectus**”) that has been approved by the UK Listing Authority except for (a) the documents incorporated therein by reference, (b) the Summary (pages 9 to 17 inclusive), (c) Information Relating to the Issuers (pages 124 to 133), (d) the Pro Forma Final Terms (pages 134 to 234 inclusive), (e) the Terms and Conditions of the Securities (pages 235 to 322 inclusive), (f) the Relevant Annexes (pages 323 to 1125 inclusive) save for the Equity Linked Annex (pages 550 to 663 inclusive) which is incorporated herein by reference, (g) Book-Entry Procedures for Rule 144A Global Securities deposited with DTC (pages 1126 to 1128 inclusive), (h) Clearance, Settlement and Transfer Restrictions (pages 1129 to 1136 inclusive), (i) Taxation (pages 1139 to 1166 inclusive) and (j) General Information (pages 1192 to 1194 inclusive), and provided that (X) capitalised terms in the Principal Base Prospectus shall have the meanings given herein (to the extent defined herein) and (Y) references to “Put Option” in the Principal Base Prospectus shall be deemed to be references to “Securityholder Put Option” (as defined herein);
- the Annual Reports of the Bank containing the audited consolidated financial statements of the Bank in respect of the years ended 31 December 2010 (the “**2010 Bank Annual Report**”) and 31 December 2011 (the “**2011 Bank Annual Report**”), respectively;
- the joint Annual Report of the Bank and Barclays PLC, as filed with the U.S. Securities and Exchange Commission on Form 20-F in respect of the years ended 31 December 2010 and 31 December 2011 (the “**Joint Annual Report**”), with the exception of the information incorporated by reference in the Joint Annual Report referred to in the Exhibit Index of the Joint Annual Report, which shall not be deemed to be incorporated in this iPath® Inverse VSTOXX® Base Prospectus; and
- the unaudited Interim Management Statement of Barclays PLC as filed with the SEC on Form 6-K on Film Number 12784750 on 26 April 2012 in respect of the three months ended 31 March 2012.

The above documents may be inspected at the registered office of each Issuer and at the specified office of the Issue and Paying Agent as described in the section entitled “GENERAL INFORMATION” of this iPath® Inverse VSTOXX® Base Prospectus.

Any information contained in any of the documents specified above which is not incorporated by reference in this iPath® Inverse VSTOXX® Base Prospectus is either not relevant for the Investor or is covered elsewhere in this iPath® Inverse VSTOXX® Base Prospectus.

The table below sets out the relevant page references for all of the information contained within the Joint Annual Report as filed on Form 20 F:

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Each of the Bank and Barclays PLC has applied International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and as adopted by the European Union (the “EU”) in the financial statements incorporated by reference above. A summary of the significant accounting policies for each of the Bank and Barclays PLC is included in each of the Joint Annual Report, the 2010 Bank Annual Report and the 2011 Bank Annual Report.

## THE BANK AND THE GROUP

The Bank is a public limited company registered in England and Wales under number 1026167. The liability of the members of the Bank is limited. It has its registered and head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). The Bank was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, the Bank was re-registered as a public limited company and its name was changed from “Barclays Bank International Limited” to “Barclays Bank PLC”.

The Bank and its subsidiary undertakings (taken together, the “Group”) is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services with an extensive international presence in Europe, United States, Africa and Asia. The whole of the issued ordinary share capital of the Bank is beneficially owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured obligations of the Bank are rated A-1 by Standard & Poor's Credit Market Services Europe Limited, P-1 by Moody's Investors Service Ltd. and F-1 by Fitch Ratings Limited and the long-term obligations of the Bank are rated A+ by Standard & Poor's Credit Market Services Europe Limited, Aa3 by Moody's Investors Service Ltd. and A by Fitch Ratings Limited.

Based on the Group's audited financial information for the year ended 31 December 2011, the Group had total assets of £1,563,402 million (2010: £1,490,038 million), total net loans and advances<sup>1</sup> of £478,726 million (2010: £465,741 million), total deposits<sup>2</sup> of £457,161 million (2010: £423,777 million), and total shareholders' equity of £65,170 million (2010: £62,641 million) (including non-controlling interests of £3,092 million (2010: £3,467 million)). The profit before tax from continuing operations of the Group for the year ended 31 December 2011 was £5,974 million (2010: £6,079 million) after credit impairment charges and other provisions of £3,802 million (2010: £5,672 million). The financial information in this paragraph is extracted from the audited consolidated financial statements of Barclays Bank PLC for the year ended 31 December 2011.

<sup>1</sup> Total net loans and advances include balances relating to both bank and customer accounts.

<sup>2</sup> Total deposits include deposits from bank and customer accounts.

### Acquisitions, Disposals and Recent Developments

#### *Disposal of stake in BlackRock, Inc.*

On 22 May 2012, the Bank announced that it had agreed to dispose of the Bank's entire holding in BlackRock, Inc. (“**BlackRock**”) pursuant to an underwritten public offer and a partial buy-back by BlackRock. On disposal, the Bank expects to receive net proceeds of U.S.\$5.5 billion (£3.5 billion).

#### *Disposal of private equity fund interests to AXA Private Equity*

On 30 June 2011, the Bank announced that it had signed a definitive agreement to dispose of a €520 million portfolio of U.S. and European private equity interests held and managed by the Bank to AXA Private Equity. The portfolio includes investments in private equity funds as well as several direct private equity interests held by the Bank but does not include any investments managed by Barclays Private Equity. The disposal was completed on 30 September 2011.

### *Acquisition of Egg's UK credit card assets*

On 1 March 2011, the Bank announced that it agreed to acquire Egg's UK credit card assets. Under the terms of the transaction, the Bank purchased Egg's UK credit card accounts, consisting of approximately 1.15 million credit card accounts with approximately £2.3 billion of gross receivables (each estimated as at 31 January 2011 with gross receivables estimated under IFRS). The acquisition was completed on 28 April 2011.

## **Competition and Regulatory Matters**

### *Regulatory change*

The scale of regulatory change remains challenging with a significant tightening of regulation and changes to regulatory structures globally, especially for banks that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries which, in some cases, is leading to increased or changing regulation which is likely to have a significant effect on the industry. Examples include Basel 3, the emerging proposals on bank resolution regimes and proposals relating to over-the-counter derivatives clearing and global systemically important banks.

In the UK, the FSA's current responsibilities are to be reallocated between the Prudential Regulatory Authority (a subsidiary of the Bank of England) and a new Financial Conduct Authority. In addition, the ICB completed its review of the UK banking system and published its final report on 12 September 2011. The ICB recommended (amongst other things) that: (i) the UK and EEA retail banking activities of a UK bank or building society should be placed in a legally distinct, operationally separate and economically independent entity (so-called "ring-fencing"); and (ii) the loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks (such as the Bank) should be increased to levels higher than the Basel 3 proposals. The UK Government published its response to the ICB recommendations in December 2011 and indicated that primary and secondary legislation relating to the proposed ring-fence will be completed by May 2015, with UK banks and building societies expected to be compliant as soon as practicable thereafter, and the requirements relating to increased loss-absorbing capacity of ring-fenced banks and UK-headquartered global systemically important banks will be applicable from 1 January 2019.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act contains far reaching regulatory reform. The full impact on the Bank's businesses and markets will not be known until the principal implementing rules are adopted in final form by governmental authorities, a process which is underway and which will take effect over several years.

### *PPI*

On 20 April 2011, the judicial review proceedings brought by the British Bankers' Association in October 2010 against the FSA and the Financial Ombudsman Service regarding the assessment and redress of PPI complaints were dismissed. On 9 May 2011, the Bank announced that it would not be participating in any application for permission to appeal against the High Court judgment and that the Bank had agreed with the FSA that it would process all on-hold and any new complaints from customers about PPI policies that they hold. The Bank also announced that, as a goodwill gesture, it would pay out compensation to customers who had PPI complaints put on hold during the judicial review. The Bank took a provision of £1 billion in the second quarter of 2011 to cover the cost of future redress and administration. On 26 April

2012, following an increase in PPI complaint volumes, the Bank announced that it had increased the provision by a further £300 million.

### *Interchange*

The Office of Fair Trading, as well as other competition authorities elsewhere in Europe, continues to investigate Visa and MasterCard credit and debit interchange rates. These investigations may have an impact on the consumer credit industry as well as having the potential for the imposition of fines. Timing is uncertain but outcomes may be known within the next 2-4 years.

### *London Interbank Offered Rate*

The FSA, the U.S. Commodity Futures Trading Commission, the SEC, the U.S. Department of Justice Fraud Section of the Criminal Division and Antitrust Division and the European Commission are amongst various authorities conducting investigations into submissions made by the Bank and other panel members to the bodies that set various interbank offered rates. The Bank is co-operating in the relevant investigations and is keeping regulators informed. In addition, the Bank has been named as a defendant in a number of class action lawsuits filed in U.S. federal courts involving claims by purported classes of purchasers and sellers of London Interbank Offered Rate (“LIBOR”)-based derivative products or Eurodollar futures or options contracts between 2006 and 2009. The complaints are substantially similar and allege, amongst other things, that the Bank and other banks individually and collectively violated U.S. antitrust and commodities laws and state common law by suppressing LIBOR rates during the relevant period. The Bank has been informed by certain of the authorities investigating these matters that proceedings against the Bank may be recommended with respect to some aspects of the matters under investigation, and the Bank is engaged in discussions with those authorities about potential resolution of those aspects. As at the date of this iPath® Inverse VSTOXX® Base Prospectus, it was not possible to predict the ultimate resolution of the issues covered by the various investigations and lawsuits, including the timing and the scale of the potential impact on the Group of any resolution.

### **Directors**

The Directors of the Bank, each of whose business address is 1 Churchill Place, London E14 5HP, United Kingdom, their functions in relation to the Group and their principal outside activities (if any) of significance to the Group are as follows:

<i>Name</i>	<i>Function(s) within the Group</i>	<i>Principal outside activities</i>
Marcus Agius	Group Chairman	Non-Executive Director, British Broadcasting Corporation; Chairman, British Bankers’ Association
Bob Diamond	Chief Executive	Chairman, Old Vic Productions PLC
Chris Lucas	Group Finance Director	—
David Booth	Non-Executive Director	—
Alison Carnwath	Non-Executive Director	Non-Executive Chairman, Land Securities Group plc; Non-Executive Director, Man Group plc; Independent Director, Paccar

<i>Name</i>	<i>Function(s) within the Group</i>	<i>Principal outside activities</i>
Fulvio Conti	Non-Executive Director	Inc; Non-Executive Chairman, ISIS EP LLP; Non-Executive Director, Zurich Financial Services Limited Chief Executive Officer, Enel SpA; Director, AON Corporation; Independent Director, RCS MediaGroup S.p.A
Simon Fraser	Non-Executive Director	Non-Executive Director, Fidelity Japanese Values Plc and Fidelity European Values Plc; Chairman, Foreign & Colonial Investment Trust PLC; Chairman, Merchants Trust PLC; Non-Executive Director, Ashmore Group PLC
Reuben Jeffery III	Non-Executive Director	Senior Adviser, Center for Strategic & International Studies; Chief Executive Officer, Rockefeller & Co., Inc.
Sir Andrew Likierman	Non-Executive Director	Dean of London Business School; Chairman, National Audit Office
Dambisa Moyo	Non-Executive Director	Non-Executive Director, SABMiller plc; Non-Executive Director, Barrick Gold Corporation
Sir Michael Rake	Senior Independent Director and Non-Executive Director	Chairman, BT Group PLC; Director, McGraw-Hill Companies; Chairman, EasyJet PLC
Sir John Sunderland	Non-Executive Director	Chairman, Merlin Entertainments Group; Non-Executive Director, AFC Energy plc

No potential conflicts of interest exist between any duties to the Bank of the Directors listed above and their private interests or other duties.

### **Employees**

As at 31 December 2011, the total number of persons employed by the Group (full time equivalents) was 141,100 (2010: 147,500).

### **Litigation**

*Lehman Brothers Holdings Inc.*

On 15 September 2009, motions were filed in the United States Bankruptcy Court for the Southern District of New York (the “**Court**”) by Lehman Brothers Holdings Inc. (“**LBHI**”), the SIPA Trustee for Lehman Brothers Inc. (the “**Trustee**”) and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (the “**Committee**”). All three motions challenged certain aspects of the transaction pursuant to which Barclays Capital Inc. (“**BCI**”) and other companies in the Group acquired most of the assets of Lehman Brothers Inc. (“**LBI**”) in September 2008 and the court order approving such sale. The claimants were seeking an order voiding the transfer of certain assets to BCI; requiring BCI to return to the LBI estate alleged excess value BCI received; and declaring that BCI is not entitled to certain assets that it claims pursuant to the sale documents and order approving the sale (the “**Rule 60 Claims**”). On 16 November 2009, LBHI, the Trustee and the Committee filed separate complaints in the Court asserting claims against BCI based on the same underlying allegations as the pending motions and seeking relief similar to that which is requested in the motions. On 29 January 2010, BCI filed its response to the motions and also filed a motion seeking delivery of certain assets that LBHI and LBI have failed to deliver as required by the sale documents and the court order approving the sale (together with the Trustee’s competing claims to those assets, the “**Contract Claims**”). Approximately U.S.\$4.2 billion (£2.7 billion) of the assets acquired as part of the acquisition had not been received by 31 December 2011, approximately U.S.\$3.0 billion (£2.0 billion) of which were recognised as part of the accounting for the acquisition and are included in the balance sheet as at 31 December 2011. This results in an effective provision of U.S.\$1.2 billion (£0.8 billion) against the uncertainty inherent in the litigation.

On 22 February 2011, the Court issued its Opinion in relation to these matters, rejecting the Rule 60 Claims and deciding some of the Contract Claims in the Trustee’s favour and some in favour of BCI. On 15 July 2011, the Court entered final Orders implementing its Opinion. BCI and the Trustee have each filed a notice of appeal from the Court’s adverse rulings on the Contract Claims. LBHI and the Committee have withdrawn their notices of appeal from the Court’s ruling on the Rule 60 Claims, rendering the Court’s Order on the Rule 60 Claims final.

If the final Orders relating to the Contract Claims were to be unaffected by future proceedings, the Bank estimates that after taking into account the effective provision of U.S.\$1.2 billion (£0.8 billion), its loss would be approximately U.S.\$4.3 billion (£2.8 billion). Any such loss, however, was not (as at the date of this iPath® Inverse VSTOXX® Base Prospectus) considered probable and the Bank is satisfied with the current level of provision.

In addition, LBHI had been pursuing a claim for approximately U.S.\$500 million relating to bonuses that BCI was allegedly obligated to pay to former Lehman employees. On 14 September 2011, the Court issued a decision dismissing that claim and entered a final Order to that effect on 21 September 2011. LBHI has stated that it will not appeal that decision, rendering the Order dismissing that claim final.

### *American Depositary Shares*

The Bank, Barclays PLC and various current and former members of Barclays PLC’s Board of Directors have been named as defendants in five proposed securities class actions (which have been consolidated) pending in the United States District Court for the Southern District of New York (the “**Court**”). The consolidated amended complaint, dated 12 February 2010, alleges that the registration statements relating to American Depositary Shares representing Preferred Stock, Series 2, 3, 4 and 5 (the “**ADS**”) offered by the Bank at various times between 2006 and 2008 contained misstatements and omissions concerning (amongst other things) the Bank’s portfolio of mortgage-related (including U.S. subprime-related) securities, the Bank’s exposure to mortgage and credit market risk and the Bank’s financial condition. The

consolidated amended complaint asserts claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. On 5 January 2011, the Court issued an order and, on 7 January 2011, judgment was entered, granting the defendants' motion to dismiss the complaint in its entirety and closing the case. On 4 February 2011, the plaintiffs filed a motion asking the Court to reconsider in part its dismissal order. On 31 May 2011, the Court denied in full the plaintiffs' motion for reconsideration. The plaintiffs have appealed both decisions (the grant of the defendants' motion to dismiss and the denial of the plaintiffs' motion for reconsideration) to the United States Court of Appeals for the Second Circuit.

The Bank considers that these ADS-related claims against it are without merit and is defending them vigorously. As at the date of this iPath® Inverse VSTOXX® Base Prospectus, it was not practicable to estimate the Bank's possible loss in relation to these claims or any effect that they might have upon operating results in any particular financial period.

#### *U.S. Federal Housing Finance Agency and other residential mortgage-backed securities litigation*

The U.S. Federal Housing Finance Agency (“FHFA”), acting for two U.S. government sponsored enterprises, Fannie Mae and Freddie Mac (collectively, the “GSEs”), filed lawsuits against 17 financial institutions in connection with the GSEs' purchases of residential mortgage-backed securities (“RMBS”). The lawsuits allege, among other things, that the RMBS offering materials contained materially false and misleading statements and/or omissions. The Bank and/or certain of its affiliates or former employees are named in two of these lawsuits, relating to sales between 2005 and 2007 of RMBS, in which BCI was lead or co-lead underwriter.

Both complaints demand, among other things: rescission and recovery of the consideration paid for the RMBS; and recovery for the GSEs' alleged monetary losses arising out of their ownership of the RMBS. The complaints are similar to other civil actions filed against the Bank and/or certain of its affiliates by other plaintiffs, including the Federal Home Loan Bank of Seattle, Federal Home Loan Bank of Boston, Federal Home Loan Bank of Chicago, Cambridge Place Investment Management, Inc., HSH Nordbank AG (and affiliates) and Stichting Pensioenfonds ABP, relating to their purchases of RMBS. The Bank considers that the claims against it are without merit and intends to defend them vigorously.

The original amount of RMBS related to the claims against the Bank in these cases totalled approximately U.S.\$6.8 billion, of which approximately U.S.\$2.0 billion was outstanding as at 31 December 2011. Cumulative losses reported on these RMBS as at 31 December 2011 were approximately U.S.\$0.1 billion. If the Bank were to lose these cases it could incur a loss of up to the outstanding amount of the RMBS as at the time of judgment (taking into account further principal payments after 31 December 2011), plus any cumulative losses on the RMBS at such time and any interest, fees and costs, less the market value of the RMBS at such time. The Bank has estimated the total market value of the RMBS as at 31 December 2011 to be approximately U.S.\$1.1 billion. The Bank may be entitled to indemnification for a portion of any losses.

#### *Devonshire Trust*

On 13 January 2009, the Bank commenced an action in the Ontario Superior Court (the “Court”) seeking an order that its early terminations earlier that day of two credit default swaps under an ISDA Master Agreement with the Devonshire Trust (“Devonshire”), an asset-backed commercial paper conduit trust, were valid. On the same day, Devonshire purported to terminate the swaps on the ground that the Bank had failed to provide liquidity support to Devonshire's commercial paper when required to do so. On 7 September 2011, the Court ruled that the Bank's early terminations were invalid, Devonshire's early

terminations were valid and, consequently, Devonshire was entitled to receive back from the Bank cash collateral of approximately C\$533 million together with accrued interest thereon. The Bank is appealing the court's decision. If the court's decision were to be unaffected by future proceedings, the Bank estimates that its loss would be approximately C\$500 million, less any impairment provisions taken by the Bank for this matter.

#### *Other*

Barclays PLC, the Bank and the Group are engaged in various other legal proceedings both in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against it which arise in the ordinary course of business, including debt collection, consumer claims and contractual disputes. The Bank does not expect the ultimate resolution of any of these proceedings to which the Group is party to have a material adverse effect on its results of operations, cash flows or the financial position of the Group and the Bank has not disclosed the contingent liabilities associated with these claims either because they cannot reliably be estimated or because such disclosure could be prejudicial to the conduct of the claims. Provisions have been recognised for those cases where the Bank is able reliably to estimate the probable loss where the probable loss is not de minimis.

In addition, the Bank has been named as a defendant in a number of lawsuits, including class actions, filed in U.S. federal courts involving claims by purported classes of purchasers and sellers of LIBOR-based derivative products or Eurodollar futures or option contracts between 2006 and 2009. Please see "Competition and Regulatory Matters — London Interbank Offered Rate" for further information.

Save as disclosed under "— Lehman Brothers Holdings Inc.", "— American Depositary Shares", "— U.S. Federal Housing Finance Agency and other residential mortgage-backed securities litigation", "— Devonshire Trust" and the second paragraph of "— Other" above, no member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), which may have or have had during the 12 months preceding the date of this iPath® Inverse VSTOXX® Base Prospectus, a significant effect on the financial position or profitability of the Bank and/or the Group.

#### **Significant Change Statement**

There has been no significant change in the financial or trading position of the Bank or the Group since 31 December 2011.

#### **Material Adverse Change Statement**

There has been no material adverse change in the prospects of the Bank or the Group since 31 December 2011.

#### **Auditors**

The annual consolidated and unconsolidated financial statements of the Bank for the two years ended 31 December 2010 and 31 December 2011 have been audited without qualification by PricewaterhouseCoopers of Southwark Towers, 32 London Bridge Street, London SE1 9SY, chartered accountants and registered auditors (authorised and regulated by the Financial Services Authority for designated investment business).

## TERMS AND CONDITIONS OF THE SECURITIES

### BASE CONDITIONS

*The following are the terms and conditions (the “Base Conditions”) that will apply to the Securities, subject to amendment and as supplemented or varied in accordance with the provisions of the applicable Final Terms. These Base Conditions shall be subject to the applicable Final Terms for any Securities, and will not apply to the extent they are inconsistent with the provisions of such Final Terms. Words and expressions defined or used in the applicable Final Terms shall have the same meanings where used in these Base Conditions unless the context otherwise requires or unless otherwise stated. All capitalised terms that are not defined in Base Condition 23 or elsewhere in these Base Conditions will have the meanings given to them in the applicable Final Terms. References in these Base Conditions to “Securities” are to the Securities of one Series only, not to all Securities that may be issued under this iPath® Inverse VSTOXX® Base Prospectus.*

The Securities are issued as notes (“Notes”) or certificates (“Certificates”) and are senior, unsecured, unsubordinated, zero-coupon, EURO STOXX 50® Volatility Short-Term Futures Excess Return Index inversely linked, exchange traded notes (the “Securities” and each a “Security”) issued by Barclays Bank PLC (in its capacity as the issuer of the Securities, the “Issuer” and otherwise, the “Bank”), returns (including repayment of principal and payment of any additional amounts) on which are calculated by reference to the price of an Index, as specified in the Final Terms. The Securities are issued pursuant to an English law governed Agency Agreement dated 5 August 2011 between among others, the Issuer and certain agents or such other agency agreement as may be specified in the applicable Final Terms in respect of the particular Securities (the “Agency Agreement”) (in each case as amended and/or supplemented and/or restated as at the Issue Date).

These Base Conditions include summaries of, and are subject to, the provisions of the Agency Agreement. Copies of the Agency Agreement are available for inspection at the registered office of the Issuer and the specified offices of the Paying Agents. The determination agent, the issue and paying agent, and the paying agents for the time being (including the Issue and Paying Agent) are referred to below respectively as the “Determination Agent”, the “Issue and Paying Agent”, and the “Paying Agents”. In respect of any issue of Securities, “Agents” means the Determination Agent and the Issue and Paying Agent together with the other Paying Agents, and any other agent or agents appointed from time to time in respect of such Securities.

Unless otherwise specified in the applicable Final Terms, the initial Agents shall be as follows:

- (i) the initial Determination Agent shall be the Bank;
- (ii) the initial Issue and Paying Agent shall be The Bank of New York Mellon (acting through its London branch); and
- (iii) the initial Paying Agents shall be the initial Issue and Paying Agent together with The Bank of New York (Luxembourg) S.A. (the “Luxembourg Agent”) and The Bank of New York Mellon, (acting through its Frankfurt Branch) (the “Frankfurt Agent”).

In connection with any issue of Securities, the Issuer may appoint agents other than, or additional to, the Agents specified above. Such other or additional Agents shall be specified in the applicable Final Terms. References in these Base Conditions or in the applicable Final Terms to Agents shall be to the initial Agents specified above, as applicable, or as specified in the applicable Final Terms, or the then current Successor

(whether direct or indirect) of such Agent appointed in accordance with these Base Conditions and the Agency Agreement with respect to such Securities.

The Securities of any Series are subject to these Base Conditions, as modified and/or supplemented by the terms of the applicable Final Terms. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (that will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the Issue Date, Issue Price and, in respect of Notes, the Aggregate Nominal Amount of the Tranche and in respect of Certificates, the number of Certificates, will be identical to the terms of other Tranches of the same Series) will be set out in the applicable Final Terms.

## 1 Form, Title and Transfer

### 1.1 Form

#### (a) *Form of Securities*

Securities will be issued in bearer form. Securities will initially be represented by global bearer securities (“**Global Bearer Securities**”), and may only be exchanged for Securities in definitive form (“**Definitive Bearer Securities**”) if an Exchange Event occurs and Global Bearer Securities are to be exchanged for Definitive Bearer Securities in accordance with the terms of the relevant Global Bearer Security. The Issuer will promptly give notice to Securityholders in accordance with Base Condition 15 if an Exchange Event occurs.

#### (b) *Initial Issue of Global Bearer Securities*

#### (c) *Global Bearer Securities will be issued in classic global note form (“CGN form”) and will be delivered on or prior to the original issue date of the Tranche to Clearstream, Frankfurt as depositary (in such capacity the “Depositary”) for itself. The Bank may issue Securities in CGN Form in respect of which the Relevant Clearing System shall be Clearstream Frankfurt (“CBF Securities”). Exchange of Global Bearer Securities*

Securities issued in compliance with the D Rules will be initially issued in the form of a temporary global security in bearer form (a “**Temporary Global Security**”) and will be exchangeable, free of charge to the holder, on and after its Exchange Date, in whole or in part, upon certification as to non-US beneficial ownership in the form set out in the Agency Agreement for interests in a permanent bearer global security (a “**Permanent Global Security**”).

Securities issued in compliance with the C Rules or in respect of which TEFRA does not apply will be initially issued in the form of a Permanent Global Security. Usually and unless specifically agreed between the parties, Securities will be issued in respect of which TEFRA does not apply.

*Each Permanent Global Security will be exchangeable, free of charge to the holder, in whole but not in part for Definitive Bearer Securities only upon the occurrence of an Exchange Event.*

*On or after any due date for exchange, the holder of a Global Bearer Security may surrender such Global Bearer Security. In exchange for any such Global Bearer Security, the Issuer will, in the case of a Global Bearer Security exchangeable for Definitive Bearer Securities, deliver, or procure the delivery of, an equal Aggregate Nominal Amount or aggregate number, as applicable, of duly executed and authenticated Definitive Bearer Securities. On exchange in full of each Permanent Global Security, the Issuer will, if the holder so requests, procure that it is*

*cancelled and returned to the holder together with the relevant Definitive Bearer Securities.*

## 1.2 Denomination

The applicable Final Terms in respect of the Securities that are Notes will specify among other things, the denomination or denominations (each a “**Specified Denomination**”) in which such Securities are issued, together with the Aggregate Nominal Amount, the Issue Price and Settlement Currency of such Securities. In respect of Notes that are issued with a single Specified Denomination, the Calculation Amount per Security will be such Specified Denomination, unless a different Calculation Amount per Security is specified in the applicable Final Terms. In respect of Notes that are issued having multiple Specified Denominations, the applicable Final Terms will specify the Calculation Amount per Security in relation to each Note.

The applicable Final Terms in respect of Securities that are Certificates will specify the Settlement Currency of such Securities, the Issue Price, the number of Securities being issued and the Calculation Amount per Security.

## 1.3 Title

### (a) *General*

Title to Securities passes by delivery. Subject to Base Condition 1.4(a), the Issuer and the relevant Agents shall (except as otherwise required by law or ordered by a court of competent jurisdiction) deem and treat the holder (as defined below) of any Security as its absolute owner for all purposes (whether or not such Security is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it (or on the Global Bearer Security representing it) or its theft or loss) and no person shall be liable for so treating the holder.

In these Base Conditions, “**Securityholder**” and “**Holder**” means the bearer of any Security.

### (b) *Cleared Securities*

Notwithstanding Base Condition 1.4(a), for so long as any Securities are Global Bearer Securities held by a depository or custodian for, or registered in the name of a nominee of, the Depository (“**Cleared Securities**”, which term shall include CDIs where appropriate), the records of each Relevant Clearing System in respect of such Cleared Securities shall be conclusive evidence of the nominal amount or aggregate number, as applicable, of Cleared Securities represented by the relevant Global Bearer Security in accordance with the relevant laws and regulations of the Relevant Clearing Systems.

### (c) *CREST Depository Interests*

Securityholders may hold CDIs constituted and issued by CREST Depository Limited and representing indirect interests in the Securities. The CDIs will be issued and settled through CREST.

Neither the Securities nor any rights thereto will be issued, held, transferred or settled within the CREST system otherwise than through the issue, holding, transfer and settlement of CDIs.

Holders of CDIs will not be entitled to deal directly in Securities and accordingly all dealings in the Securities will be effected through CREST in relation to holding of CDIs.

The CDIs will be created pursuant to and issued on the terms of the CREST Deed Poll. Prospective holders of CDIs should note that they will have no rights against CREST or its subsidiaries in respect of the Underlying Securities, interests therein, or the CDIs representing them.

## 1.4 Transfers

### (a) *Transfer of Securities*

Subject to Base Condition 1.4(b), Securities will be transferred by delivery.

### (b) *Transfer of Cleared Securities*

Notwithstanding Base Condition 1.4(a), transfers of beneficial interests in Cleared Securities may only be effected in accordance with the Relevant Rules.

*Investors in the Securities are referred to the Section in the Principal Base Prospectus headed "Purchase and Sale" and the section headed "Clearance, Settlement and Transfer Systems" herein.*

## 2 Status

The Securities constitute unsecured and unsubordinated obligations of the Issuer and rank equally among themselves. The payment obligations of the Issuer under the Securities will rank equally with all other present and future unsecured and unsubordinated obligations of the Issuer (except for such obligations as may be preferred by provisions of law that are both mandatory and of general application). The Securities do not evidence deposits of the Issuer and are not insured by any government agency.

## 3 Interest

The Securities will not bear interest.

## 4 Redemption of Securities

Any Securities being redeemed pursuant to this Base Condition 4 shall be settled in accordance with Base Condition 6.

### 4.1 Redemption

Unless previously redeemed in accordance with this Base Condition 4 or purchased and cancelled in accordance with Base Condition 21, each Security will be redeemed in whole, subject to Base Conditions 5.4 and 8.3, at the Final Cash Settlement Amount on the Redemption Date.

### 4.2 Early Redemption at the Option of the Issuer

The Issuer may, on giving not less than 20 Business Days' irrevocable notice to Securityholders (such notice an "**Optional Early Redemption Notice**") (or such other notice period as may be specified in the applicable Final Terms) (such period, the "**Issuer Notice Period**"), provided that such notice is delivered within the Issuer Option Exercise Period and in accordance with Base Conditions 6, 7, 8 and 15 and subject to Base Condition 5.4 redeem some or all of the Securities of the relevant Series in whole (but not in part) at the Optional Cash Settlement Amount on

the Optional Cash Redemption Date. The Optional Early Redemption Notice shall specify the Series and the number of Securities of the relevant Series that shall be redeemed pursuant to such Optional Early Redemption Notice (the “**Optional Early Redemption Securities**”). For the avoidance of doubt, if the last day of the relevant Issuer Notice Period is the same date as the Redemption Date, the Securities of the relevant Series shall be redeemed in accordance with this Base Condition 4.2.

*In the event that the option of the Issuer is exercised with respect to some but not all of the Securities of any Series and such Securities are Cleared Securities, the rights of accountholders with the Relevant Clearing System in respect of the Securities will be governed by the standard procedures and Relevant Rules.*

#### **4.3 Early Redemption or Adjustment following the occurrence of an Additional Disruption Event**

If an Additional Disruption Event occurs, the Issuer may, in its sole and absolute discretion:

- (a) request that the Determination Agent determines, in its sole and absolute discretion, whether an appropriate adjustment can be made to the Conditions and any other provisions relating to the Securities to account for the economic effect of such event on the Securities and to preserve substantially the economic effect to the Securityholders of a holding of the relevant Security. If the Determination Agent determines that such adjustment(s) can be made, the Issuer shall determine the effective date of such adjustment(s) and take the necessary steps to effect such adjustment(s). The Issuer shall notify Securityholders of any such adjustment(s) in accordance with Base Condition 15 as soon as reasonably practicable after the nature and effective date of the adjustments is determined, and the Issuer shall not be required to obtain any consent or approval of the Securityholders to effect such adjustment(s). If the Determination Agent determines that no adjustment that could be made would produce a commercially reasonable result and preserve substantially the economic effect to the Securityholders of a holding of the relevant Security, it shall notify the Issuer of such determination and no adjustment(s) shall be made. None of the Determination Agent, the Issuer or any other party shall be liable to any holder, Securityholder or any other person for any determination and/or adjustment made or potential adjustment not made by the Determination Agent and/or the Issuer pursuant to this Base Condition 4.3(a); or
- (b) on giving not less than 10 Business Days’ irrevocable notice (or such other notice period as may be specified in the applicable Final Terms) (such period the “**Early Redemption Notice Period**”) to Securityholders in accordance with Base Condition 16, redeem all of the Securities of the relevant Series in whole, subject to Base Conditions 5.4, 6, 7 and 8, at their Early Cash Settlement Amount on the Early Cash Redemption Date.

#### **4.4 Early Redemption at the Option of the Securityholder**

If “Securityholder Put Option” is specified to apply in the applicable Final Terms, upon the holder of such Security delivering a valid Securityholder Option Exercise Notice to the Issuer, the Issuer shall, subject to Base Conditions 5.4, 6, 7 and 8 and the conditions to exercise set out below, redeem each Security to which such Securityholder Option Exercise Notice relates in whole (but not in part) at its Securityholder Optional Settlement Amount on the Securityholder Optional Redemption Date. For the purposes of these Conditions,

**“Securityholder Option Exercise Notice”** means an irrevocable notice in writing, substantially in the form obtainable from any Paying Agent and delivered in respect of the aggregate nominal amount or a number, as applicable, of Securities to be redeemed equal to or greater than the Minimum Securityholder Exercise Amount, which is effective within the Securityholder Option Exercise Period. A Securityholder Option Exercise Notice shall be deemed to be effective on the day (the **“Securityholder Option Exercise Notice Effective Date”** which shall be a Valuation Date and shall be subject to adjustment in accordance with Base Condition 5.4) (i) on which it is delivered (if it is delivered before 12.00 noon London time on any Securityholder Option Exercise Day within the Securityholder Option Exercise Period), or (ii) on the Securityholder Option Exercise Day (if any) next following the date on which it is delivered (if delivered after 12.00 noon London time on a Securityholder Option Exercise Day or delivered on a day that is not a Securityholder Option Exercise Day).

Notwithstanding anything to the contrary herein, in order to exercise such option the Securityholder must deposit the relevant Securities with any Paying Agent at its specified office together with the duly completed Securityholder Option Exercise Notice. If the Securities are Cleared Securities such option may be exercised by the relevant Securityholder giving a Securityholder Option Exercise Notice to the Issue and Paying Agent through the Relevant Clearing Systems stating the nominal amount of Notes or number of Certificates in respect of which the Securityholder Put Option is exercised and the Depositary, custodian or nominee shall deposit and surrender the relevant Securities in accordance with the Relevant Rules. No transfers of interests in Cleared Securities in respect of which an Option Exercise Notice has been delivered will be valid and an Option Exercise Notice in respect of Cleared Securities must be accompanied by a copy of instructions given to the Relevant Clearing System by the relevant accountholder that the accountholder’s account be blocked for such purposes. No Securities so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

For the avoidance of doubt, if the Securityholder Optional Redemption Date is the same date as the Redemption Date, unless otherwise specified in the applicable Final Terms, the Securities shall be redeemed in accordance with this Base Condition 4.4.

#### **4.5 Early Redemption following the occurrence of a Specified Early Redemption Event**

If on any Valuation Date from but excluding the Strike Date to and including the Final Valuation Date the Intraday Security Value for that Valuation Date is determined by the Determination Agent to be less than or equal to the Specified Early Redemption Trigger Value, then a **“Specified Early Redemption Event”** shall be deemed to have occurred and that Valuation Date shall be the **“Specified Early Redemption Valuation Date”**. The Issuer shall promptly notify the Securityholder of the occurrence of the Specified Early Redemption Event on either the Specified Early Redemption Valuation Date or no later than the following Business Day, but the failure by the Issuer in notifying the Securityholder of the occurrence of a Specified Early Redemption Event shall not prejudice or invalidate the occurrence or effect of such event.

Following the occurrence of a Specified Early Redemption Event, the Issuer shall redeem all (but not some) of the Securities, subject to Base Conditions 5, 6, 7 and 8, at their Specified Early Redemption Settlement Amount on the Specified Early Redemption Date upon giving not less than 5 Business Days’ irrevocable notice to the Securityholder (in accordance with Base

Condition 15, such period being the “**Specified Early Redemption Notice Period**”).

For the avoidance of doubt, if the Specified Early Redemption Date is the same date as the Redemption Date, the Securities of the relevant Series shall be redeemed in accordance with this Base Condition 4.5.

## 5 **Index Modification, Cancellation, Disruption or Adjustment Event, Adjustments, Notice of Adjustments**

### 5.1 **Index Adjustment Events**

If:

- (a) on or prior to any date on which the level of the Index is to be calculated, including without limitation any Valuation Date (a “**Determination Date**”), in respect of the Securities, the relevant Index Sponsor announces that it will make a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in the Index rules and methodology) (an “**Index Modification**”) or permanently cancels the Index and no successor index exists (an “**Index Cancellation**”); or
- (b) subject to Base Condition 5.2, on any Determination Date in respect of the Securities the Index Sponsor fails to calculate and announce the Index (an “**Index Disruption**” and, together with an Index Modification and an Index Cancellation, an “**Index Adjustment Event**”),

then the Determination Agent shall on each relevant Determination Date determine if such Index Adjustment Event has a material effect on the Securities and, if so, shall calculate the level of the Index by using, in lieu of a published level for the Index, the level for the Index as at that Determination Date as determined by the Determination Agent in accordance with the formula for and method of calculating the Index last in effect prior to that Index Adjustment Event, but using only those futures contracts that constituted the Index immediately prior to that Index Adjustment Event (other than those futures contracts that have since ceased to be listed on any relevant Exchange). If the Index Sponsor decides at any time to determine the Index Level using closing prices of the VSTOXX<sup>®</sup> Futures Contract instead of mid prices in determining the Index Level as described in “Description of the Index” such modification shall not constitute an Index Adjustment Event.

In the event that the Determination Agent determines that it can no longer continue to calculate the Index, the Determination Agent may, in its sole discretion, deem such Index Adjustment Event to constitute an Additional Disruption Event for the purposes of these provisions and shall adjust, redeem, cancel and/or take any other necessary action in accordance with the applicable provisions of Base Condition 4.3 in respect of the Securities.

### 5.2 **Successor Index Sponsor or Substitution of Index with substantially similar calculation**

If the Index is (1) not calculated and announced by the Index Sponsor but is calculated and announced by a successor sponsor (“**Successor Index Sponsor**”) acceptable to the Determination Agent or (2) replaced by a successor index (“**Successor Index**”) using, in the determination of the Determination Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then (x) the index as calculated

and announced by the Successor Index Sponsor or (y) the Successor Index, will be deemed to be the Index. If such Successor Index Sponsor or Successor Index are not acceptable to the Determination Agent, then an Index Adjustment Event shall be deemed to have occurred and the provisions of Base Condition 5.1 shall apply. The determination as to whether a Successor Index Sponsor or Successor Index (as the case may be) is acceptable, shall be at the sole discretion of the Determination Agent and in making such determination, the Determination Agent is not required to and shall not take into account the interests of any person (including any Securityholder or the Securityholders as a class) and may act in its own best interest, without any liability therefor.

### **5.3 Correction of the Index**

If the Index Level published on any Determination Date and used or to be used by the Determination Agent to determine the Redemption Value is subsequently corrected and the correction is published by the Index Sponsor or a Successor Index Sponsor prior to the second Exchange Business Day preceding the Redemption Date, Optional Cash Redemption Date, Securityholder Optional Redemption Date, Specified Early Redemption Date or Early Cash Redemption Date (the “**Cut-Off Date**”), as the case may be, the Determination Agent shall recalculate the relevant amount payable to Securityholders, as the case may be, using such corrected level of the Index. The Determination Agent shall notify the Issuer and the Issue and Paying Agent shall notify the Securityholders of (1) that correction and (2) the amount, if any, that is payable or deliverable as a result of that correction. For the avoidance of doubt, if any such correction is published after the Cut-Off Date, the relevant redemption amount shall not be recalculated.

### **5.4 Consequences of Disrupted Days following a Market Disruption Event affecting the Index**

If, in the sole determination of the Determination Agent, a Valuation Date is a Disrupted Day, then such Valuation Date shall be deemed to be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the original date that, but for the Disrupted Days, would have been the Valuation Date (the “**Scheduled Valuation Date**”) is a Disrupted Day. In that case (1) the eighth Scheduled Trading Day shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day, and (2) the Determination Agent shall determine the Index Level in the manner set out in the applicable Final Terms or, if not set out or not practicable, shall determine the Index Level as of the Valuation Time on the eighth Scheduled Trading Day in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the relevant Exchange traded or quoted price (the “**Traded Price**”) as of the Valuation Time on that eighth Scheduled Trading Day of each security included in the Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant futures contract on that eighth Scheduled Trading Day, its determination made in a commercially reasonable manner of the Traded Price for the relevant futures contract as of the Valuation Time on that eighth Scheduled Trading Day).

### **5.5 Adjustments**

Notwithstanding any term to the contrary, if the Issuer requests that the Determination Agent determine whether an appropriate adjustment can be made in accordance with this Base Condition 5, the Issuer shall not be obliged to make any adjustment that it does not think is

appropriate and none of the Determination Agent, the Issuer or any other party shall be liable for the Issuer making or failing to make any such adjustment.

In particular, notwithstanding that an adjustment is required to be made by the provisions set out in these Base Conditions in respect of any event affecting the Index or its Index Sponsor, the Issuer reserves the right not to make that adjustment if, at the time the adjustment is to be made pursuant thereto, an option on the Index is traded on any Futures or Options Exchange and no adjustment is made by that Futures or Options Exchange to the entitlement under that traded option in respect of that event.

#### **5.6 Notice of Adjustments**

All determinations made by the Determination Agent pursuant to these Base Conditions shall be conclusive and binding on the Securityholders, the Issue and Paying Agent and the Issuer, except in the case of manifest error. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Base Condition 15, provided that failure to give, or non-receipt of, such notice will not affect the validity or binding nature of such adjustment.

#### **5.7 Error in Index Calculation**

Notwithstanding anything to the contrary herein, if, on any Determination Date there is, in the reasonable opinion of the Determination Agent, a manifest error in the calculation of the Index by the Index Sponsor (as manifested in the level of the Index published by the Index Sponsor), the Determination Agent may calculate the level of such Index for such date in lieu of using the level published on such date by the Index Sponsor. Such calculation will be determined in accordance with the methodology and formula for calculating the Index used by the Index Sponsor. Where the Determination Agent calculates the level of the Index in accordance with this paragraph, it shall give notice in writing to the Securityholder(s) in accordance with the Base Conditions of the Index level so calculated no later than 5 Business Days after the relevant Determination Date.

If the Index Sponsor continues to calculate the Index with manifest error for more than three Scheduled Trading Days, then the Determination Agent may make such adjustments to the terms of the Security as it may in its sole discretion determine, including, without limitation, selecting an alternative index to replace the Index and/or replicating the constituents of the relevant Index and/or continuing to calculate the Index in accordance with the methodology and formula for calculating the Index used by the Index Sponsor and/or adjusting the constituents and weightings of the Index. Where the Determination Agent makes any adjustment(s) in accordance with this paragraph, it shall give notice in writing to the Securityholder(s) in accordance with the Base Conditions as soon as is reasonably practicable after making such adjustment(s).

For the avoidance of doubt, where a correction to the level of the Index is published by the Index Sponsor as described in Base Condition 5.3 after the Determination Agent has calculated the level of the Index pursuant to this Base Condition 5.7, the Determination Agent may, notwithstanding any such calculation, recalculate the relevant Settlement Amount or other relevant amount, as the case may be, using such corrected level of the relevant Index. The Determination Agent shall give notice in writing to the Securityholder in accordance with Base

Condition 15 of such recalculation no later than 5 Business Days after the correction to the level of the Index is published by the Index Sponsor.

Where such correction is published after the Determination Agent has adjusted the terms of the Security pursuant to this Base Condition 5.7, Base Condition 5.3 shall not apply and the terms of the adjustment in accordance with this Base Condition 5.7 shall prevail.

## **6 Settlement**

Subject to Base Conditions 4.2 and 8.3, Securities shall be settled in cash and not by way of physical delivery of any asset.

## **7 Calculations and Publication**

### **7.1 Calculations**

For the purposes of any calculations required pursuant to the Conditions (unless otherwise specified in the applicable Final Terms), (a) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (b) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up), and (c) all Currency amounts that fall due and payable shall be rounded to the nearest unit of such Currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "unit" means the lowest amount of such Currency that is available as legal tender in the country of such Currency. If the Securities are in global form or uncertificated registered form, (x) any calculations in respect of such Securities shall be made in respect of the aggregate nominal amount or number, as the case may be, of such Securities from time to time outstanding (or the relevant affected portion thereof) and (y) the result of any such calculation shall be rounded in accordance with the relevant method above.

### **7.2 Determination and Publication of Amounts in respect of Settlement**

As soon as practicable on such date as the Issue and Paying Agent or, as applicable, the Determination Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or other calculation in respect of or in connection with any Security, such Agent shall calculate such rate or amount, obtain such quotation or make such determination or other calculation, as the case may be, and cause such rate, amount, determination or calculation to be notified to the Issuer, each of the Paying Agents, the Securityholders, any other Agent in respect of the Securities that is to make a payment, delivery or further calculation or determination upon receipt of such information and, if the Securities are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority, as soon as possible after its determination or calculation but in no event later than the fourth Business Day following such determination.

### **7.3 Business Day Convention**

If any date which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then such date will be

adjusted according to the Business Day Convention specified in the applicable Final Terms. If the Business Day Convention is specified to be:

- (i) the “**Following Business Day Convention**”, such date shall be postponed to the next day that is a Business Day;
- (ii) the “**Modified Following Business Day Convention**”, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day;
- (iii) the “**Nearest Business Day Convention**”, such date will be the first preceding day that is a Business Day if the relevant date otherwise falls on a day other than a Sunday or a Monday and will be the first following day that is a Business Day if the relevant date otherwise falls on a Sunday or a Monday; or
- (iv) the “**Preceding Business Day Convention**”, such date shall be brought forward to the immediately preceding Business Day.

## 8 Payments

### 8.1 Definitive Bearer Securities

Payments of principal in respect of Definitive Bearer Securities will, subject as mentioned below, be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Securities to the Issue and Paying Agent at the office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) denominated in such currency with, an Account Bank, subject to certification as to non-US beneficial ownership, as applicable.

Holders of Definitive Bearer Securities will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any such Security as a result of a transfer made in accordance with this Base Condition 8.1 arriving to such holder’s account after the due date for payment.

A record of each payment made in respect of a Definitive Bearer Security of any Series will be made on the relevant Definitive Bearer Security by or on behalf of the Issue and Paying Agent, and such record shall be *prima facie* evidence that the payment in question has been made.

Notwithstanding the foregoing, if any Definitive Bearer Securities are denominated in US dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Definitive Bearer Securities in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the sole determination of the Issuer, any adverse tax consequence to the Issuer.

## **8.2 Global Bearer Securities**

No payment falling due after the Exchange Date, if applicable, will be made on any Global Bearer Security unless exchange for an interest in a Permanent Global Security or for Definitive Bearer Securities is improperly withheld or refused. Payments on any Temporary Global Security before the Exchange Date will only be made against presentation of certification as to non-US beneficial ownership in the form set out in the Agency Agreement. All payments and deliveries in respect of Securities represented by a Global Bearer Security will be made against, and subject to the condition to settlement of, presentation for endorsement and, if no further payment or delivery falls to be made in respect of the Securities, surrender of that Global Bearer Security to or to the order of the Issue and Paying Agent or such other Paying Agent as shall have been notified to the Securityholders for such purpose.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a Global Bearer Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. None of the persons appearing from time to time in the records of the Relevant Clearing System as the holder of any portion of a Global Bearer Security shall have any claim directly against the Issuer in respect of any payment due on the Global Bearer Security, and the Issuer's obligations to make any such payment shall be discharged by payment of the requisite amount to the holder of the Global Bearer Security.

## **8.3 Taxes and Settlement Expenses**

All payments on redemption of the Securities shall be subject to deduction, or conditional upon payment by the relevant Securityholder(s), of any applicable Taxes and Settlement Expenses and any other amounts payable as specified in these Conditions or the applicable Final Terms. The Issuer shall notify the Securityholder(s) in accordance with Base Condition 15 of (i) such applicable Taxes, Settlement Expenses and other amounts payable and (ii) the manner in which such amounts shall be paid by the Securityholder(s).

## **8.4 Payment and Securities**

If the date on which any amount is specified as being or is otherwise determined to be, payable in respect of any Security is not (i) a Business Day and (ii) in the case of Definitive Bearer Securities only, a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign Currency deposits) in the relevant place of presentation, then payment will not be made until the next succeeding day which is (i) a Business Day and (ii) in the case of Definitive Bearer Securities only, also a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign Currency deposits) in the relevant place of presentation, and the holder thereof shall not be entitled to any further payment in respect of such delay.

## **8.5 Payment subject to Laws**

All payments in respect of the Securities are subject in all cases to any applicable laws, regulations and directives in any jurisdiction (whether by operation of law or agreement of the Issuer), and the Issuer will not be liable for any Taxes of whatsoever nature imposed by such

laws, resolutions, directives or agreements, but without prejudice to the provisions of Base Condition 11.

## **9 Events of Default**

If any of the following events occurs and are continuing, the holder of any Security may give notice to the Issue and Paying Agent at its specified office that such Security is, and such Security shall accordingly immediately become, due and repayable at the Early Cash Settlement Amount:

- (a) the Issuer breaches any provision of such Securities in a way that is materially prejudicial to the interests of the Securityholders, and that breach has not been remedied within 30 calendar days after the Issuer has received notice thereof from Securityholders holding at least one-tenth of either the aggregate nominal amount or the aggregate number of Securities, as applicable, then outstanding of the relevant Series demanding remedy; or
- (b) an order is made or an effective resolution is passed for the winding up of the Issuer (otherwise than in connection with a scheme of reconstruction, merger or amalgamation the terms of which have previously been approved by an Extraordinary Resolution of the Securityholders).

## **10 Agents**

### **10.1 Appointment of Agents**

The Issue and Paying Agent, the Paying Agents and the Determination Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Securityholder or holder. The Issuer reserves the right at any time to vary or terminate the appointment of the Issue and Paying Agent, any other Paying Agent or the Determination Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain (i) an Issue and Paying Agent, (ii) one or more Determination Agent(s) where the Conditions so require, (iii) Paying Agents having specified offices in at least two major European cities, (iv) such other agents as may be required by any other stock exchange on which the Securities may be listed and (v) to the extent not already satisfied pursuant to (iii) or (iv) above a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive. Notice of any termination of appointment and of any changes to the specified office of any Agent will be given to Securityholders in accordance with Base Condition 15.

### **10.2 Modification of Agency Agreement**

The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so would not in the sole determination of the Issuer be expected to be materially prejudicial to the interests of the Securityholders or if such modification is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of any applicable law or to cure, correct or supplement any defective provision contained therein.

Any such modification shall be binding on the Securityholders and shall be notified to the Securityholders in accordance with Base Condition 15 as soon as practicable thereafter,

provided that failure to give, or non-receipt of, such notice will not affect the validity or binding nature of such modification.

### 10.3 Responsibility for Calculations and Determinations

The Issue and Paying Agent and the Determination Agent, as appropriate, shall have no responsibility or liability to any person for errors or omissions in any calculations and determinations made, or actions taken, pursuant to the Conditions, and all such calculations and determinations shall (save in the case of manifest error) be final and binding on the Issuer, the Agents and the Securityholders.

## 11 Taxation

Except to the extent that the Issuer is required by law to withhold or deduct amounts for or on account of Tax or to the extent otherwise disclosed in the Conditions, a Securityholder must pay all Taxes arising from or payable in connection with the ownership, transfer, sale or redemption of any Security and/or any other payment relating to the Securities, as applicable. The Issuer is not liable for or otherwise obliged to pay amounts in respect of, any such Taxes which shall be borne by a Securityholder.

Except as otherwise specified in the applicable Final Terms, all payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, any present or future Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of or within the Bank Jurisdiction (or any authority or political subdivision thereof or therein having power to tax) unless the Issuer is required by law to withhold or deduct any such Taxes. In that event, the Issuer shall pay such additional amounts (“**Additional Amounts**”) as may be necessary in order that the net amounts receivable by the relevant holder after such withholding or deduction shall equal the respective amounts that would have been receivable by such holder in the absence of such withholding or deduction. Notwithstanding the above, no Additional Amounts shall be payable with respect to any Security:

- (a) to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Securities by reason of his having a connection with the Bank Jurisdiction other than the mere holding of the relevant Security; or
- (b) to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Security is presented for payment; or
- (c) presented for payment more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to an Additional Amount on presenting such Security for such payment on the last day of such 30-day period; or
- (d) where such withholding or deduction is imposed on a payment to an individual and required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent without such deduction or withholding; or
- (f) unless it is proved, to the satisfaction of the Issuer and Paying Agent or the Paying Agent to whom the Security is presented, that the holder is unable to avoid such withholding or deduction by satisfying any applicable certification, identification or reporting requirements or by making a declaration of non-residence or other similar claim for exemptions to the relevant tax authorities.

The imposition of any withholding or deduction on any payments in respect of the Securities by or on behalf of the Issuer will be an “**Issuer Tax Event**” if such withholding or deduction is required by law.

## **12 Prescription**

Claims against the Issuer for payment in respect of any Security shall be prescribed and become void unless made within 10 years (in the case of principal) from the appropriate Relevant Date in respect of them.

## **13 Replacement of Securities**

Should any Security in respect of any Series be lost, stolen, mutilated, defaced or destroyed, it may, subject to all applicable laws, regulations and any Relevant Stock Exchange or any other relevant authority regulations requirements, be replaced at the specified office of the Issuer and Paying Agent or such other Paying Agent as may be designated from time to time by the Issuer for such purpose and notice of whose designation is given to Securityholders, in each case on payment by the claimant of the fees, expenses and Taxes incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as the Issuer may require. If any Security is mutilated or defaced it must be surrendered before replacements will be issued.

## **14 Unlawfulness or impracticability**

If the Issuer determines that the performance of any of its absolute or contingent obligations under the Securities has become illegal or a physical impracticability in whole or in part for any reason, the Issuer may cancel the Securities by giving notice to Securityholders in accordance with Base Condition 15.

If the Issuer cancels the Securities then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Securityholder in respect of each Security held by such Securityholder, which amount shall be the Early Cash Settlement Amount of such Security, notwithstanding such illegality or impracticability less the cost to the Issuer and/or its Affiliates of unwinding any underlying related hedging arrangements as determined by the Determination Agent in its sole and absolute discretion. Payment will be subject to Base Condition 8.3 and made in such manner as shall be notified to the Securityholders in accordance with Base Condition 15.

## 15 Notices

### 15.1 To Securityholders

All notices to Securityholders will be deemed to have been duly given and valid if:

- (a) published in a daily newspaper of general circulation in England (which is expected to be the *Financial Times*); and/or
- (b) if and so long as Securities are listed on a Relevant Stock Exchange or are admitted to trading by another relevant authority, in accordance with the rules and regulations of the Relevant Stock Exchange or other relevant authority; and/or
- (c) in the case of Cleared Securities, in substitution for publication or mailing as required above, notices to Securityholders may be given to the Relevant Clearing System provided that any publication or other requirements required pursuant to Base Condition 15.1(b) shall also be complied with if applicable. In such cases notices will be deemed given on the date of transmission to the Relevant Clearing System (regardless of any subsequent publication).

If any publication required pursuant to Base Condition 15.1(a) or (b) is not practicable, notice shall be validly given if published in another leading English language daily newspaper with circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

### 15.2 To the Issuer and the Agents

In respect of any Series of Securities, all notices to the Issuer and/or the Agents must be sent to the address specified for each such entity in the Agency Agreement or to such other person or place as shall be specified by the Issuer and/or the Agent by notice given to Securityholders in accordance with this Base Condition 15.

### 15.3 Validity of Notices

Any determinations as to whether any notice delivered by a Securityholder is valid, effective and/or duly completed and in the proper form shall be made (i) in the case of Cleared Securities, by the Relevant Clearing System or (ii) in the case of any other Securities, by the relevant Paying Agent in consultation with the Issue and Paying Agent, and shall be conclusive and binding on the Issuer, the Agent and the relevant Securityholder.

Any notice determined not to be valid, effective, complete and/or in proper form shall be deemed to be *void ab initio* unless the Issuer and the Relevant Clearing System, if applicable, agree otherwise. This provision shall not prejudice any right of the person delivering the notice to deliver a new or corrected notice.

The Paying Agent shall use all reasonable endeavours promptly to notify any Securityholder submitting a notice if it is determined that such notice is not valid, effective, complete or in the proper form. In the absence of negligence or wilful misconduct on its part, none of the Issuer, the Relevant Clearing System or any Agent, as the case may be, shall be liable to any person with respect to any action taken or omitted to be taken by it in connection with any notification to a Securityholder or determination that a notice is not valid, effective, complete or in the proper form.

## 16 Substitution

The Bank as Issuer shall be entitled at any time, without the consent of the Securityholders, to substitute any other entity the identity of which shall be in the absolute discretion of the Bank in place of the Bank as Issuer (the “**New Bank Issuer**”) to act as issuer in respect of Securities issued by it that is then outstanding under the iPath® Inverse VSTOXX® Programme, provided that (i) the New Bank Issuer’s long-term unsecured, unsubordinated and unguaranteed debt obligations are rated at least the same as Barclays Bank PLC’s long-term rating at the date on which the substitution is to take effect or the New Bank Issuer has an equivalent long-term rating from another internationally recognised rating agency, and (ii) no event of default as set out in Base Condition 9 shall occur as a result thereof.

In the event of any such substitution, any reference in the Conditions to the Bank as Issuer shall be construed as a reference to the New Bank Issuer. Such substitution shall be promptly notified to the Securityholders of each Series then outstanding in accordance with Base Condition 15. In connection with such right of substitution, the Bank as Issuer shall not be obliged to have regard to the consequences of the exercise of such right for individual Securityholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with or subject to the jurisdiction of, any particular territory, and no Securityholder shall be entitled to claim from the Bank as Issuer or the New Bank Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon such Securityholder.

## 17 Governing Law and Jurisdiction

- (a) The Securities and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by English law.
- (b) The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Securities and/or the Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with them (“**Proceedings**”) shall be brought in such courts.

## 18 Severability

Should any one or more of the provisions contained in the Conditions of the Securities be or become invalid, the validity of the remaining provisions shall not be affected in any way.

## 19 Modification and Meetings

### 19.1 Modifications to the Conditions

The Issuer may, without the consent of the Securityholders, make any modification to the Conditions and/or any Securities that in its sole determination is not materially prejudicial to the interests of the Securityholder or that is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the Bank Jurisdiction or to cure, correct or supplement any defective provision contained in the Conditions or the Securities.

Any such modification shall be binding on the Securityholders and any such modification shall be notified to the Securityholders in accordance with Base Condition 15 as soon as practicable

thereafter. Failure to give, or non-receipt of, such notice will not affect the validity of such modification.

## 19.2 Meetings of Securityholders

### (a) *Definitive Bearer Securities*

The Agency Agreement contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of the Conditions or the Agency Agreement. At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is to be held) specifying the date, time and place of the meeting shall be given to Securityholders.

Such a meeting may be convened by the Issuer or Securityholders holding not less than 10 per cent. in nominal amount (in the case of Notes) or in number (in the case of Certificates) of the Securities for the time being outstanding. The quorum at a meeting of the Securityholders (except for the purpose of passing an Extraordinary Resolution (as defined below)) will be two or more persons holding or representing a clear majority in nominal amount or in number of the Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Securities, (ii) to reduce or cancel the nominal amount or number of the Securities, (iii) to vary any method of, or basis for, calculating any Settlement Amount (other than as provided for in the Conditions), (iv) to vary the currency or currencies of payment or denomination of the Securities or (v) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass the Extraordinary Resolution, in which case the quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount (in the case of Notes) or in number (in the case of Certificates) for the time being outstanding. The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in nominal amount (in the case of Notes) or in number (in the case of Certificates) outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting, held in accordance with the terms of the Agency Agreement, by a majority of at least 75 per cent. of the votes cast by Securityholders at such meeting. Any Extraordinary Resolution passed at any meeting of the Securityholders shall be binding on all the Securityholders, regardless of whether they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

### (b) *Global Securities*

The holder of a Permanent Global Security shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Securityholders and, at any such meeting, the holder of a Permanent Global Security shall be treated as having one vote in respect of each integral currency unit of the Settlement Currency of the Security in the case of

Notes or in respect of each integral currency unit of the applicable Calculation Amount per Security in the case of Certificates.

## 20 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Securityholders, to create and issue further Securities of any Series having the same terms and conditions as the Securities (for the avoidance of doubt, references to “**Issue Date**” in these Base Conditions shall be to the first issue date of the Securities and shall be the date so specified in the Final Terms) and so that the same shall be consolidated and form a single Series with such Securities. References in the Conditions to “Securities” shall be construed accordingly.

## 21 Purchases and Cancellations

The Issuer and any of its subsidiaries may at any time purchase Securities in the open market or otherwise at any price.

All Securities so purchased by or on behalf of the Issuer or any of its subsidiaries may (but need not) be surrendered for cancellation, by surrendering each such Security to the Issue and Paying Agent. If so surrendered, such Securities shall be cancelled forthwith. Any Securities so surrendered for cancellation may not be re-issued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged.

*Cancellation of Securities represented by a Permanent Global Security (other than upon its redemption) will be effected by a reduction in the nominal amount of the relevant Permanent Global Security relating to the Securities that are Notes or a reduction of the aggregate number of Certificates represented by the relevant Permanent Global Security.*

## 22 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

## 23 Definitions

“**Account Bank**” means, in relation to a payment denominated in a particular currency, a bank in the principal financial centre for such currency or, where the relevant payment is denominated in euro, in a city in which banks have access to the TARGET System.

“**Additional Amounts**” has the meaning ascribed to it in Base Condition 11.

“**Additional Business Centre**” means each centre specified as such in the applicable Final Terms.

“**Additional Disruption Event**” means, with respect to a Series of Securities, one or more of Change in Law, Hedging Disruption, Increased Cost of Hedging, Issuer Tax Event, Index Adjustment Event (to the extent applicable in accordance with Base Condition 5.1) and/or any other event specified as applicable in the applicable Final Terms.

“**Affiliate**” means, in relation to any entity (the “**First Entity**”), any entity controlled, directly or indirectly, by the First Entity, any entity that controls, directly or indirectly, the First Entity or any entity directly or indirectly under common control with the First Entity. For these purposes, “**control**” means ownership of a majority of the voting power of an entity.

**“Aggregate Nominal Amount”** means, in respect of a Series of Securities that are Notes, the aggregate nominal amount of the Securities of such Series as at the Issue Date as specified in the applicable Final Terms.

**“Bank Jurisdiction”** means, at any time, the jurisdiction of incorporation of the Bank or any New Bank Issuer substituted therefor in accordance with Base Condition 16.

**“Business Day”** means a day which is each of:

- (a) a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign Currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms;
- (b) in respect of Cleared Securities, a Clearing System Business Day for the Relevant Clearing System;
- (c) in relation to any sum payable in a Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign Currency deposits) in the principal financial centre of the country of the relevant Currency (if other than London and any Additional Business Centre specified in the applicable Final Terms); and
- (d) in relation to any sum payable in euro, a TARGET Business Day.

**“Business Day Convention”** means any of the business day conventions specified in Base Condition 7.3.

**“Calculation Amount per Security”** means the amount specified as such in the applicable Final Terms.

**“CDI”** or **“CREST Depository Interests”** means dematerialised depository interests issued, held, settled and transferred through the CREST system representing interests in the relevant Securities.

**“Change in Law”** means that, on or after the Trade Date (a) due to the adoption or announcement of or any change in any applicable law, regulation, rule, order, ruling or procedure (including, without limitation, any tax law and any regulation, rule, order, ruling or procedure of any applicable regulatory authority, tax authority and/or exchange), or (b) due to the promulgation of or any change in or public announcement of the formal or informal interpretation by any court, tribunal or regulatory authority with competent jurisdiction (including, without limitation, any relevant exchange or trading facility) of any applicable law or regulation (including any action taken by a taxing authority), the Issuer determines in its sole and absolute discretion that (i) it will, or there is a substantial likelihood that it will, within the next 30 calendar days, but before the Redemption Date become, or it has (or will) become illegal for the Issuer and/or any of its Affiliates to hold, acquire, deal in or dispose of the Hedge Positions relating to the Securities or contracts in securities, options, futures, derivatives or foreign exchange relating to such Securities in the manner contemplated by the hedging party on the Trade Date, or (ii) the Issuer or any of its Affiliates will incur a materially increased cost in (a) performing their obligations under such Securities (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on their tax position) or (b) acquiring, establishing, re-establishing, substituting, maintaining, unwinding or disposing of any Hedge Position(s) relating to the Securities or contracts in securities, options, futures, derivatives or foreign exchange relating to such Securities or (iii) the Issuer or any of its Affiliates will be

subjected to materially less favourable regulatory capital treatment with respect to the Securities and any related Hedge Positions, as compared with the regulatory capital treatment applicable to the Securities and any related Hedge Positions as of the Trade Date.

“**Cleared Securities**” means any Securities that are Global Securities held by a Common Depository, Common Safekeeper or custodian for, or registered in the name of a nominee of, a Relevant Clearing System and which terms shall include CDIs, where appropriate.

“**Clearing System Business Day**” means, in respect of a Relevant Clearing System, any day on which such Relevant Clearing System is open for the acceptance and execution of settlement instructions.

“**Clearstream**” means Clearstream Banking, société anonyme or any successor thereto.

“**Clearstream, Frankfurt**” or “**CBF**” means Clearstream Banking AG, Frankfurt am Main, or any successor thereto.

“**Clearstream Frankfurt Rules**” means the General Terms and Business Conditions of Clearstream Frankfurt and the Instructions to Participants of Clearstream Frankfurt, as may be from time to time amended, supplemented or modified.

“**Clearstream Rules**” means the Management Regulations of Clearstream and the Instructions to Participants of Clearstream, as may be amended, supplemented or modified from time to time.

“**Component**” means, in relation to the relevant Index, any futures contract which comprises such Index.

“**Conditions**” means, with respect to a Series of Securities, the terms and conditions of the Securities set out in these Base Conditions, subject to amendment and as supplemented or varied in accordance with the provisions of the applicable Final Terms.

“**CREST**” means Euroclear UK & Ireland Limited (formerly known as CRESTCo Limited).

“**CREST Deed Poll**” means a global deed poll dated 25 June 2001 (as subsequently modified, supplemented and/or restated).

“**CREST Depository**” means CREST Depository Limited.

“**CREST Nominee**” means CREST International Nominee Limited as nominee for the CREST Depository.

“**Currency**” means, with respect to a country, the lawful currency of such country.

“**C Rules**” means the requirements under US Treasury Regulation section 1.163-5(c)(2)(i)(C).

“**D Rules**” means the requirements under US Treasury Regulation section 1.163-5(c)(2)(i)(D).

“**Daily Fee**” means, in respect of each calendar day from but excluding the Strike Date to and including the Final Valuation Date, an amount per Security determined by the Determination Agent in accordance with the following formula:

$$Daily\ Fee_t = RV_{t-1} \times \frac{Annual\ Fee}{365}$$

Where:

“**Annual Fee**” means a percentage so specified in the Final Terms;

“RV<sub>t-1</sub>” means the Redemption Value on the immediately preceding calendar day.

“Daily Interest” means, in respect of each calendar day from but excluding the Strike Date to and including the Final Valuation Date, an amount per Security determined by the Determination Agent in accordance with the following formula:

$$DailyInterest_t = RV_{t-1} \times \frac{DailyInterestRate_{t-1}}{360}$$

Where:

“Daily Interest Rate<sub>t-1</sub>” means in respect of a calendar day, EONIA, being the rate equal to the overnight rate as calculated by the European Central Bank on the immediately preceding TARGET Business Day, as determined by the Determination Agent by reference to Reuters page EONIA.

“RV<sub>t-1</sub>” means the Redemption Value on the immediately preceding calendar day.

“Determination Date” has the meaning ascribed to it in Base Condition 5.1.

“Disrupted Day” means any Scheduled Trading Day on which a relevant Exchange or Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred.

“Early Cash Redemption Date” means the last day of the relevant Early Redemption Notice Period or such other date specified or determined in accordance with the applicable Final Terms, subject to adjustment in accordance with the applicable Business Day Convention.

“Early Cash Settlement Amount” means an amount in the Settlement Currency per Specified Denomination of a Security or per Calculation Amount per Security, as applicable, determined by the Determination Agent as the market value of the Securities following the event triggering the early redemption, adjusted to take into account any costs, losses and expenses which are incurred (or expected to be incurred) by (or on behalf of) the Issuer in connection with the early redemption of the Securities, including (without duplication or limitation) hedging termination and funding breakage costs (whether actual or notional). In determining the Early Cash Settlement Amount, the Determination Agent may take into account prevailing market prices and/or proprietary pricing models, or where these pricing methods may not yield a commercially reasonable result, may estimate such Early Cash Settlement Amount in a commercially reasonable manner. The Early Cash Settlement Amount will be determined by the Determination Agent on or as soon as reasonably practicable following the event giving rise to the early redemption of the Securities. For the purposes of calculating any Early Cash Settlement Amount at any time following an Event of Default, the Determination Agent will ignore the effect of such Event of Default upon the market value of the Securities.

“Early Closure” means the closure on any Exchange Business Day of any Relevant Exchange(s) relating to the Index, the VSTOXX® Index, the EURO STOXX 50® Index or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or any Related Exchange(s) at least one hour prior to the earlier of (a) the actual closing time for the regular trading session on such Exchange(s) or Related Exchange(s) on such Exchange Business Day and (b) the submission deadline of orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

“**Early Redemption Notice Period**” has the meaning ascribed to such term in Base Condition 4.3.

“**EUREX**” means the EUREX exchange.

“**EURO STOXX 50® Index**” means the EURO STOXX 50 index published under the mark “EURO STOXX 50® Index” or any successor thereto.

“**EURO STOXX 50® Options**” means a weighted series of out-of-the-money put and call options on the level of the EURO STOXX 50® Index.

“**Euroclear**” means Euroclear Bank S.A./N.V. or any successor thereto.

“**Euroclear France**” means Euroclear France S.A.

“**Euroclear Rules**” means the terms and conditions governing the use of Euroclear and the operating procedures of Euroclear, as may be amended, supplemented or modified from time to time

“**Euronext Paris**” means Euronext Paris S.A.

“**Event of Default**” means each of the events set out in Condition 9.

“**Exchange**” means, in respect of the Index, each exchange or quotation system specified as such for such Index in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the Components underlying such Index has temporarily relocated provided that the Determination Agent has determined that there is comparable liquidity relative to the Components underlying such Index on such temporary substitute exchange or quotation system as on the original Exchange.

“**Exchange Business Day**” means any Scheduled Trading Day on which each Exchange is open for trading during its regular trading sessions, notwithstanding any such Exchange closing prior to its Scheduled Closing Time.

“**Exchange Date**” means, in relation to a Temporary Global Security, the calendar day falling after the expiry of 40 calendar days after the later of the commencement of the offering or the issue date.

“**Exchange Disruption**” means a breakdown or failure in the price and trade reporting systems of the Relevant Exchange for the Index or the VSTOXX® Index (other than an Early Closure) as a result of which the reported trading prices for EURO STOXX 50® Options or VSTOXX® Futures Contract during the one hour period preceding, and including, the scheduled time at which (a) the value of EURO STOXX 50® Options is calculated for purposes of the VSTOXX® Index or (b) the VSTOXX® Futures is calculated for purposes of the Index, are materially inaccurate.

“**Exchange Event**” means that, in respect of Cleared Securities, the Issuer has been notified that any Relevant Clearing System has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no successor clearing system is available.

“**Extraordinary Resolution**” means a resolution passed in accordance with the Agency Agreement relating to the relevant Securities.

“**Final Cash Settlement Amount**” means, subject to the occurrence of an Index Adjustment Event and/or any Additional Disruption Event, an amount per Specified Denomination or per Calculation Amount per Security in the Settlement Currency equal to the Redemption Value as of the Final Valuation Date.

“**Final Terms**” means, with respect to a Series of Securities, the final terms specified as such for such Securities.

“**Final Valuation Date**” means, subject to postponement in accordance with Base Condition 5.4, the date specified as such in the Final Terms.

“**Futures or Options Exchange**” means the relevant exchange in options or futures contracts on the Index as determined by the Determination Agent in its absolute discretion.

“**Hedge Positions**” means any purchase, sale, entry into or maintenance of one or more (a) positions or contracts in securities, options, futures, derivatives or foreign exchange, (b) stock loan transactions or (c) other instruments or arrangements (howsoever described) by the Issuer or any of its Affiliates in order to hedge, individually or on a portfolio basis, the Issuer’s obligations in respect of the Securities.

“**Hedging Disruption**” means that the Issuer and/or any of its Affiliates is unable, after using commercially reasonable efforts, to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the price risk of issuing and performing its obligations with respect to the relevant Series of Securities, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s).

“**Increased Cost of Hedging**” means that the Issuer and/or any of its Affiliates would incur a materially increased (as compared with circumstances existing on the Issue Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the price risk of issuing and performing its obligations with respect to the relevant Series of Securities, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer shall not be deemed an Increased Cost of Hedging.

“**Index**” means the index specified in the applicable Final Terms, being either (a) the EURO STOXX 50® Volatility Short-Term Futures Excess Return Index described in “Description of the Index” in this iPath® Inverse VSTOXX® Base Prospectus or (b) any other index linked to the VSTOXX® Index that may be described in a supplement to the iPath® Inverse VSTOXX® Base Prospectus from time to time.

“**Index Adjustment Event**” has the meaning ascribed to it in Base Condition 5.1.

“**Index Cancellation**” has the meaning ascribed to it in Base Condition 5.1.

“**Index Disruption**” has the meaning ascribed to it in Base Condition 5.1.

“**Index Level**” means, in respect of each Valuation Date, the level of the Index at the Valuation Time on such Valuation Date, as published by the Index Sponsor and viewed on the Price Source.

“**Index Level<sub>t</sub>**” means the Index Level on the relevant Valuation Date<sub>t</sub>.

“**Index Level<sub>t-1</sub>**” means the Index Level on the Valuation Date<sub>t</sub> immediately preceding the relevant Valuation Date<sub>t</sub>.

“**Index Level<sub>T</sub>**” means the Index Level on Valuation Date<sub>T</sub>.

“**Index Modification**” has the meaning ascribed to it in Base Condition 5.1.

“**Index Sponsor**” means STOXX Limited or any successor thereto.

“**Intraday Security Value**” or “**IV<sub>t</sub>**” means, in respect of a Security at any time on any relevant Valuation Date<sub>t</sub>, the value determined by the Determination Agent in accordance with the formula below. Condition 5.3 and 5.4 shall not apply to the determination of any level of the Index used to calculate Intraday Index Performance Percentage<sub>t</sub> or Disrupted Intraday Index Performance Percentage<sub>t</sub>:

- (i) where Valuation Date<sub>t-1</sub> is not a Disrupted Day:

$$IV_t = \text{Max} [0; RV_{t-1} \times (1 - \text{IntradayIndexPerformancePercentage}_t) + \text{Daily Interest}_t - \text{Daily Fee}_t]$$

Where:

“**IV<sub>t</sub>**” means Intraday Security Value.

“**RV<sub>t-1</sub>**” means the Redemption Value on the immediately preceding calendar day.

“**Intraday Index Performance Percentage<sub>t</sub>**” is calculated in accordance with the following formula:

$$\text{IntradayIndexPerformancePercentage}_t = \frac{\text{IntradayIndexLevel}_t}{\text{IndexLevel}_{t-1}} - 100\%$$

“**Daily Fee<sub>t</sub>**” means the Daily Fee for the relevant calendar day.

“**Daily Interest<sub>t</sub>**” means the Daily Interest for the relevant calendar day.

- (ii) where Valuation Date<sub>t-1</sub> is a Disrupted Day, notwithstanding anything to the contrary in Base Condition 5.4:

$$IV_t = \text{Max} [0; RV_N \times (1 - \text{DisruptedIntradayIndexPerformancePercentage}_t) + \text{Interest}_t - \text{Fee}_t]$$

Where:

“**IV<sub>t</sub>**” means Intraday Security Value.

“**RV<sub>N</sub>**” means the Redemption Value on Day<sub>N</sub>.

“**Day<sub>N</sub>**” means the calendar day preceding and falling closest to the relevant Valuation Date<sub>t</sub>, such calendar day being either (i) Valuation Date or (ii) a non-Scheduled Trading Day, as long as the Valuation Date immediately preceding such non-Scheduled Trading Day is not a Disrupted Day.

“**Disrupted Intraday Index Performance Percentage<sub>t</sub>**” is calculated in accordance with the following formula:

$$\text{DisruptedIndexPerformancePercentage}_t = \frac{\text{IntradayIndexLevel}_t}{\text{IndexLevel}_T} - 100\%$$

“**Interest<sub>t</sub>**” means the Daily Interest accrued from Day<sub>N</sub> to the relevant Valuation Date<sub>t</sub>, calculated as:

$$Interest_t = RV_N \times DailyInterestRate_N \times \frac{CD}{360}$$

“Fee<sub>t</sub>” means the Daily Fee accrued from Day<sub>N</sub> to the relevant Valuation Date<sub>t</sub>, calculated as:

$$Fee_t = RV_N \times Annual\ Fee \times \frac{CD}{365}$$

“Annual Fee” means a percentage so specified in the applicable Final Terms.

“CD” means the number of calendar days between the relevant Valuation Date<sub>t</sub> (included) and Day<sub>N</sub> (excluded).

“Daily Interest Rate<sub>N</sub>” means in respect of a calendar day, EONIA, being the rate equal to the overnight rate as calculated by the European Central Bank on Day<sub>N</sub>, as determined by the Determination Agent by reference to Reuters page EONIA. If Day<sub>N</sub> is not a TARGET Business Day it shall be the rate on the immediately preceding TARGET Business Day.

“Intraday Index Level<sub>t</sub>” means the most recently published level of the Index on the relevant Valuation Date<sub>t</sub>, as published by the Index Sponsor and viewed on the Price Source as determined in the sole discretion of the Determination Agent.

“iPath® Inverse VSTOXX® Base Prospectus” means this document as amended and/or supplemented from time to time by any Base Prospectus Supplement.

“iPath® Inverse VSTOXX® Programme” means the programme to issue the Securities described herein.

“Issue Price per Security” means the price specified as such in the applicable Final Terms.

“Issuer Notice Period” has the meaning ascribed to it in Base Condition 4.2.

“Issuer Option Exercise Period” means the period specified as such in the applicable Final Terms or, if no such period is specified, the period from (but excluding) the Issue Date to (but excluding) the twentieth Business Day preceding the Redemption Date.

“Issuer Tax Event” has the meaning ascribed to it in Base Condition 11 unless otherwise specified in the applicable Final Terms.

“Market Disruption Event” means:

- (i) the occurrence or existence of:
  - (a) a Trading Disruption which the Determination Agent determines is material at any time;
  - (b) an Exchange Disruption, which the Determination Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time;
  - (c) an Early Closure; or
  - (d) any event, which the Determination Agent determines is material, which disrupts or impairs the ability of the Issuer or of any market participants to effect transactions in, or obtain market values for, futures, options or derivatives

contracts relating to the Index (including any proprietary index created by the Issuer or an associate of the Issuer); or

- (ii) the occurrence or existence, in respect of futures or options contracts relating to the Index, of: (a) a Trading Disruption; (b) an Exchange Disruption, which in either case the Determination Agent determines is material, at any time during the one hour period that ends at the Valuation Time in respect of the Related Exchange; or (c) an Early Closure, in each case in respect of such futures or options contracts.

In addition, for the purposes of determining whether a Market Disruption Event exists, if a Market Disruption Event occurs in respect of a futures contract included in the Index at any time, then the relevant percentage contribution of that futures contract to the Index Level shall be based on a comparison of (x) the portion of the Index Level attributable to that futures contract and (y) the overall Index Level, in each case immediately before the Market Disruption Event occurred.

**“Minimum Securityholder Exercise Amount”** has the meaning specified in the Final Terms.

**“Optional Cash Redemption Date”** means the last day of the relevant Issuer Notice Period or such other date specified or determined in accordance with the applicable Final Terms, subject to adjustment in accordance with the applicable Business Day Convention and postponement in accordance with Base Condition 5.4.

**“Optional Cash Settlement Amount”** means an amount per Specified Denomination or per Calculation Amount per Security determined by the Determination Agent to be equal to (a) the sum of the Optional Cash Valuation Date Amounts (or where there is only one Optional Cash Valuation Date Amount, that Optional Cash Valuation Date Amount) divided by (b) the number of Optional Early Redemption Securities, as specified in the Optional Early Redemption Notice given by the Issuer, adjusted to take into account any costs, losses and expenses which are incurred (or expected to be incurred) by (or on behalf of) the Issuer in connection with the early redemption of such Optional Early Redemption Securities, including (without duplication or limitation) hedging termination and funding breakage costs (whether actual or notional).

**“Optional Cash Valuation Date”** means each Valuation Date during the relevant Issuer Notice Period that the Issuer shall, in its sole discretion, determine to be a date on which a certain number, determined by the Issuer in its sole discretion, of the Optional Early Redemption Securities shall be redeemed. For the avoidance of doubt, there may be more than one Optional Cash Valuation Date in respect of such Optional Early Redemption Securities.

**“Optional Cash Valuation Date Amount”** means, in respect of an Optional Cash Valuation Date and the relevant number of the Optional Early Redemption Securities to be redeemed on that Optional Cash Valuation Date, subject to the occurrence of a Market Disruption Event, Index Adjustment Event and/or any Additional Disruption Event, an amount in the Settlement Currency equal to the Redemption Value as of such Optional Cash Valuation Date multiplied by the number of Optional Early Redemption Securities redeemed on that Optional Cash Valuation Date.

**“Optional Early Redemption Notice”** has the meaning ascribed to it in Base Condition 4.2.

**“Optional Early Redemption Securities”** has the meaning ascribed to it in Base Condition 4.2.

“**Price Source**” means, in respect of the Index Level, the publication (or such other origin of reference, including an Exchange) containing (or reporting) the Index Level (or prices from which the Index Level is calculated).

“**Principal Base Prospectus**” means the base prospectus dated 14 June 2011 in respect of the Bank’s Global Structured Securities Programme (as amended and/or supplemented from time to time by any Base Prospectus Supplement).

“**Proceedings**” has the meaning given it in Base Condition 17.

“**Redemption Date**” means, in respect of any Series of Securities, the date specified as the Redemption Date in the applicable Final Terms, unless the Final Valuation Date is postponed in accordance with Base Condition 5.4, in which case it shall be the date falling two Business Days after the postponed Final Valuation Date. The Redemption Date shall be subject to adjustment in accordance with the applicable Business Day Convention.

“**Redemption Value**” or “**RV<sub>t</sub>**” means, in respect of a Security on any relevant calendar day, the value determined by the Determination Agent in accordance with the following formula:

on the Strike Date,  $RV_t = \text{EUR}25$ ; and

for all other days:

$$RV_t = \text{Max} [0; RV_{t-1} \times (1 - \text{IndexPerformancePercentage}_t) + \text{Daily Interest}_t - \text{Daily Fee}_t]$$

Where:

“**RV<sub>t-1</sub>**” means the Redemption Value on the immediately preceding calendar day,

“**Index Performance Percentage<sub>t</sub>**” means the following:

- (i) in respect of each calendar day which is not a Scheduled Trading Day, zero;
- (ii) in respect of each Valuation Date, a number determined by the Determination Agent in accordance with the following formula:

$$\text{IndexPerformancePercentage}_t = \frac{\text{IndexLevel}_t}{\text{IndexLevel}_{t-1}} - 100\% ;$$

“**Daily Fee<sub>t</sub>**” means the Daily Fee for the relevant calendar day.

“**Daily Interest<sub>t</sub>**” means the Daily Interest for the relevant calendar day.

“**Related Exchange**” means, subject to the proviso below, in respect of the relevant Index, each exchange or quotation system specified as such for the Index in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures and options contracts relating to the Index has temporarily relocated (provided that the Determination Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to the Index on such temporary substitute exchange or quotation system as on the original Related Exchange), provided, however that where “All Exchanges” is specified as the Related Exchange in the applicable Final Terms, “**Related Exchange**” shall mean each exchange or quotation system where trading has a material effect (as determined by the Determination Agent) on the overall market for futures or options contracts relating to the Index.

**“Relevant Clearing System”** means:

- (a) with respect to Securities, Euroclear France, Euroclear, Clearstream, Clearstream Frankfurt and/or such other clearing system specified in the applicable Final Terms, as the case may be, through which interests in Securities are to be held and/or through an account at which such Securities are to be cleared; and
- (b) with respect to CDIs, CREST.

**“Relevant Exchange”** means, with respect to the EURO STOXX 50<sup>®</sup> Index, the primary exchange or market of trading for any equity security (or any combination thereof) then included in the EURO STOXX 50<sup>®</sup> Index or, with respect to the VSTOXX<sup>®</sup> Index, the primary exchange or market for EURO STOXX 50<sup>®</sup> Options or, with respect to the Index, the VSTOXX<sup>®</sup> Futures Contracts.

**“Relevant Rules”** means the Rules of the Relevant Clearing System.

**“Relevant Stock Exchange”** means, in respect of any Series of Securities, the stock exchange upon which such Securities are listed as specified in the applicable Final Terms, if any.

**“Rules”** means the Clearstream Rules, the Clearstream Frankfurt Rules, the Euroclear Rules, the CREST Manual and/or the terms and conditions and any procedures governing the use of such other Relevant Clearing System as may be specified in the Final Terms relating to a particular issue of Securities.

**“Scheduled Closing Time”** means, in respect of any Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after-hours or other trading outside regular trading session hours.

**“Scheduled Trading Day”** means any day on which each Exchange and each Related Exchange are scheduled to open for trading for their respective regular trading sessions, provided that a day shall be a Scheduled Trading Day if it is known at any time before that day each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions on that day. Conversely, a day shall not be a Scheduled Trading Day if it is known at any time before that day that at Exchange or Related Exchange is not scheduled to be open for trading for its regular trading session on that day.

**“Scheduled Valuation Date”** has the meaning ascribed to it in Base Condition 5.4.

**“Securities”** means any securities which may from time to time be issued under this iPath<sup>®</sup> Inverse VSTOXX<sup>®</sup> Base Prospectus.

**“Securityholder Option Exercise Day”** means a calendar day when both (i) the Determination Agent is open for business in London and New York and (ii) the exchanges of all futures contracts included in the Index are open for trading.

**“Securityholder Option Exercise Notice”** means an irrevocable written notice from the relevant Securityholder to the Issuer, in the form obtainable from any Paying Agent, specifying the number of Securities to be redeemed and the Securityholder Optional Redemption Date.

**“Securityholder Option Exercise Notice Effective Date”** has the meaning given to it in Base Condition 4.4.

**“Securityholder Option Exercise Period”** has the meaning specified in the Final Terms.

**“Securityholder Optional Redemption Charge”** means an amount per Security equal to the Securityholder Optional Redemption Percentage multiplied by the Redemption Value, calculated by the Determination Agent on the relevant Securityholder Option Exercise Day.

**“Securityholder Optional Redemption Date”** means, unless otherwise specified in the Final Terms, the second Business Day following the Securityholder Optional Exercise Notice Effective Date, unless the Securityholder Option Exercise Notice Effective Date is postponed in accordance with Base Condition 5.4, in which case it shall be the date falling two Business Days after the postponed Securityholder Option Exercise Notice Effective Date. The Securityholder Optional Redemption Date shall be subject to adjustment in accordance with the applicable Business Day Convention.

**“Securityholder Optional Redemption Percentage”** means the percentage figure specified in the Final Terms.

**“Securityholder Optional Settlement Amount”** means an amount per Security calculated by the Determination Agent based on the Redemption Value on the Securityholder Option Exercise Notice Effective Date minus the Securityholder Optional Redemption Charge.

**“Series”** means the Securities of each original issue together with the Securities of any further issues expressed to be consolidated to form a single Series with the Securities of an original issue.

**“Settlement Amount”** means the Final Cash Settlement Amount, the Securityholder Optional Settlement Amount, the Optional Cash Settlement Amount, the Specified Early Redemption Settlement Amount or the Early Cash Settlement Amount, as applicable.

**“Settlement Currency”** means the Currency specified as such in the applicable Final Terms.

**“Settlement Expenses”** means, in respect of any Security or Securities, any costs, fees and expenses or other amounts (other than in relation to Taxes) payable by a Securityholder per Specified Denomination per Security or per Calculation Amount per Security, as applicable, on or in respect of or in connection with the redemption or settlement of such Security or Securities as determined by the Determination Agent in its sole and absolute discretion.

**“Specified Denomination”** has the meaning given to it in Base Condition 1.2.

**“Specified Early Redemption Event”** has the meaning given to it in Base Condition 4.5.

**“Specified Early Redemption Date”** means the last day of the relevant Specified Early Redemption Notice Period, unless the Specified Early Redemption Valuation Date is postponed in accordance with Base Condition 5.4, in which case it shall be the date falling five Business Days after the postponed Specified Early Redemption Valuation Date. The Specified Early Redemption Date shall be subject to adjustment in accordance with the applicable Business Day Convention.

**“Specified Early Redemption Notice Period”** has the meaning given to it in Base Condition 4.5.

**“Specified Early Redemption Settlement Amount”** means in respect of each Security, the Redemption Value calculated for the Specified Early Redemption Valuation Date.

**“Specified Early Redemption Trigger Value”** means an amount determined by the Determination Agent on each calendar day in accordance with the following formula:

(i) where Valuation Date<sub>t-1</sub> is not a Disrupted Day:

$$RV_{t-1} \times 25 \text{ per cent.}$$

Where:

“RV<sub>t-1</sub>” means the Redemption Value on the immediately preceding calendar day.

(ii) where Valuation Date<sub>t-1</sub> is a Disrupted Day:

RV<sub>tN</sub> x 25 per cent.

Where:

“RV<sub>tN</sub>” means the Redemption Value on Day<sub>N</sub>.

“Day<sub>N</sub>” means the calendar day preceding and falling closest to the relevant Valuation Date<sub>t</sub>, such calendar day being either (i) Valuation Date<sub>t-n</sub> or (ii) a non-Scheduled Trading Day, so long as the Valuation Date immediately preceding such non-Scheduled Trading Day is not a Disrupted Day.

“Specified Early Redemption Valuation Date” has the meaning given to it in Base Condition 4.5.

“Strike Date” means the date specified as such in the Final Terms.

“Successor” means, in relation to any Agent or such other or further person as may from time to time be appointed by the Issuer in respect of Securities, the person identified as the successor to such Agent or other person by the Determination Agent (or if the successor relates to the Determination Agent, the Issuer) in its sole and absolute discretion. Notice of any Successor identified shall be given to Securityholders as soon as reasonably practicable after such identification in accordance with Base Condition 15.

“Successor Index” has the meaning ascribed to it in Base Condition 5.2.

“Successor Index Sponsor” has the meaning ascribed to it in Base Condition 5.2.

“TARGET Business Day” means a day on which the TARGET System is operating.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 (“TARGET2”) (or if such system ceases to be operative, such other system (if any) determined by the Determination Agent to be a suitable replacement).

“Taxes” means any tax, duty, impost, levy, charge or contribution in the nature of taxation or any withholding or deduction for or on account thereof, including (but not limited to) any applicable stock exchange tax, turnover tax, stamp duty, stamp duty reserve tax and/or other taxes, duties, assessments or governmental charges of whatever nature chargeable or payable and includes any interest and penalties in respect thereof.

“TEFRA” means the US Tax Equity and Fiscal Responsibility Act of 1982 and regulations promulgated thereunder.

“Trade Date” means the date specified as such in the applicable Final Terms.

“Traded Price” has the meaning ascribed to it in Base Condition 5.4.

“Trading Disruption” means any of the following events:

(i) a suspension, absence or material limitation of trading of equity securities then constituting 20 per cent. or more of the level of the EURO STOXX 50® Index on the Relevant Exchange(s) for such securities for more than two hours of trading (one hour on any day that is an “index roll

date” for purposes of calculating the VSTOXX® Index or the relevant successor index) during, or during the one hour period preceding the close of, the principal trading session on such Relevant Exchange;

- (ii) a breakdown or failure in the price and trade reporting systems of any Relevant Exchange for the EURO STOXX 50® Index as a result of which the reported trading prices for equity securities then constituting 20 per cent. or more of the level of the EURO STOXX 50® Index are materially inaccurate (i) during the one hour preceding the close of the principal trading session on such Relevant Exchange or (ii) during any one hour period of trading on such Relevant Exchange on any day that is an “index roll date” for the purpose of calculating the VSTOXX® Index;
- (iii) a suspension, absence or material limitation of trading on any Relevant Exchange for the VSTOXX® Index for more than two hours of trading (one hour on any day that is an “index roll date” for the purpose of calculating the VSTOXX® Index) during, or during the one hour period preceding the close of the principal trading session on such Relevant Exchange;
- (iv) a decision to permanently discontinue trading on the Relevant Exchange in EURO STOXX 50® Options or the VSTOXX® Futures Contract; or
- (v) the occurrence or existence of a lack of, or a material decline in, the liquidity in the market for trading in any futures contract underlying the Index.

For the purpose of determining whether a Trading Disruption has occurred:

- (a) a limitation on the hours or number of days of trading will not constitute a Trading Disruption Event if it results from an announced change in the regular business hours of the relevant exchange for the VSTOXX® Index;
- (b) limitations pursuant to the rules of any relevant exchange similar to NYSE Rule 80B (or any applicable rule or regulation enacted or promulgated by any other self-regulatory organisation or any government agency of scope similar to NYSE Rule 80B as determined by the Determination Agent) on trading during significant market fluctuations will constitute a suspension, absence or material limitation of trading;
- (c) a suspension of trading in a futures contract on the VSTOXX® Index by the Relevant Exchange for the VSTOXX® Index by reason of (i) a price change exceeding limits set by the Relevant Exchange; (ii) an imbalance of orders or (iii) a disparity in bid prices and ask prices; and
- (d) “suspension, absence or material limitation of trading” on any Relevant Exchange will not include any time when such Relevant Exchange is itself closed for trading under ordinary circumstances.

“**Valuation Date**” or “**Valuation Date<sub>t</sub>**” means each Scheduled Trading Day from and including the Issue Date, up to and including the Final Valuation Date, unless there is a Disrupted Day in respect of the Index on that date in which event Base Condition 5.4 will apply.

“**Valuation Date<sub>t-1</sub>**” means the Valuation Date<sub>t</sub> immediately preceding the relevant Valuation Date<sub>t</sub>.

“**Valuation Date<sub>T</sub>**” means the Valuation Date<sub>t</sub> which was not a Disrupted Day immediately preceding the relevant Valuation Date.

“**Valuation Time**” means the time specified as such in the applicable Final Terms, or if no such time is specified, the Scheduled Closing Time for the relevant Exchange on the relevant Valuation Date in relation to the Index. If the relevant Exchange closes prior to its Scheduled Closing Time and the

specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

**“VSTOXX® Futures Contracts”** means futures contracts on the VSTOXX® Index traded on the EUREX and maturing in the relevant month.

**“VSTOXX® Index”** means the EURO STOXX 50® Volatility Index or any successor index thereto.

## FORM OF FINAL TERMS

The Final Terms for each Series of Securities will include such of the following information as is applicable with respect to such Securities and such other information as may be required from time to time by any applicable Relevant Stock Exchange.

### Final Terms



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## BARCLAYS BANK PLC

*(Incorporated with limited liability in England and Wales)*

### iPath® Inverse VSTOXX® Programme and

### GLOBAL STRUCTURED SECURITIES PROGRAMME for the issue of Securities

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## [[CURRENCY]][AMOUNT/NUMBER][UP TO [AMOUNT/NUMBER]] iPath® Inverse VSTOXX® Short-Term Futures Exchange Traded Note[s]]

Issue Price: *[issue price]* [of par]

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[This document constitutes the final terms of the Securities (the "Final Terms") described herein for the purposes of Article 5.4 of Directive 2003/71/EC and is prepared in connection with the iPath® Inverse VSTOXX® Programme established by Barclays Bank PLC (the "Bank") and should be read in conjunction with the base prospectus dated 19 June 2012, as supplemented, amended, updated and/or restated from time to time, which constitutes a base prospectus (the "iPath® Inverse VSTOXX® Base Prospectus") for the purpose of Directive 2003/71/EC. Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of these Final Terms and the iPath® Inverse VSTOXX® Base Prospectus including the information incorporated therein by reference. These Final Terms and the iPath® Inverse VSTOXX® Base Prospectus are available for viewing during normal business hours at the registered office of the Issuer and the specified office of the Issue and Paying Agent for the time being in London and copies may be obtained from such office. Words and expressions defined in the iPath® Inverse VSTOXX® Base Prospectus and not defined in this document shall bear the same meanings when used herein.]

*[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.]*

This document constitutes the final terms of the Securities (the "Final Terms") described herein for the purposes of Article 5.4 of Directive 2003/71/EC and is prepared in connection with the iPath® Inverse VSTOXX® Programme established by Barclays Bank PLC (the "Bank") and should be read in conjunction with the base prospectus dated 19 June 2012, as supplemented, amended, updated and/or restated from time to time, which constitutes a base prospectus (the "iPath® Inverse VSTOXX® Base Prospectus") for the purposes of Directive 2003/71/EC. The Base Conditions are extracted from the iPath® Inverse VSTOXX® Base Prospectus dated [ ], which are incorporated by reference in the iPath® VSTOXX® Base Prospectus. Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of these Final Terms and the iPath® VSTOXX® Base Prospectus including the information incorporated therein by reference. These Final Terms and the iPath® Inverse VSTOXX® Base Prospectus are available for viewing during normal business hours at the registered office of the Issuer and the specified office of the Issue and Paying Agent for the time being in London and copies may be obtained from such office. Words and expressions defined in the iPath® Inverse VSTOXX® Base Prospectus and not defined in this document shall bear the same meanings when used herein.]

The Issuer accepts responsibility for the information contained in these Final Terms. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in these Final Terms is in accordance with the facts and does not contain anything likely to affect the import of such information. [The information relating to [●] contained herein has been accurately extracted from *[insert information source(s)]*. The Issuer confirms that this information has been accurately reproduced and that as far as the Issuer 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.]

Investors should refer to the sections headed "Risk Factors" in the iPath® Inverse VSTOXX® Base Prospectus for a discussion of certain matters that should be considered when making a decision to invest in the Securities.

[The Securities are issued in the form of Certificates notwithstanding that they are entitled "exchange traded notes".]<sup>1</sup>

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<sup>1</sup> Include this sentence for Securities issued in the form of Certificates.

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**Barclays Capital**

Final Terms dated [Issue Date]

The distribution of this document and the offer of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession these Final Terms come are required by the Bank to inform themselves about and to observe any such restrictions. Details of selling restrictions for various jurisdictions are set out in "Purchase and Sale" in the Principal Base Prospectus.

**Part A**  
**Terms and Conditions of the Securities**

The Securities shall have the following terms and conditions, which shall complete, modify and/or amend the Base Conditions set out in the iPath® Inverse VSTOXX® Base Prospectus.

*[When adding any other 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 iPath® Inverse VSTOXX® Base Prospectus under Article 16 of Directive 2003/71/EC]*

**Parties**

Issuer:	Barclays Bank PLC
Manager[s]:	Barclays Bank PLC
Determination Agent:	Barclays Bank PLC
Issue and Paying Agent:	The Bank of New York Mellon
Luxembourg Agent:	The Bank of New York Mellon (Luxembourg) S.A.
Frankfurt Agent:	The Bank of New York Mellon, Frankfurt Branch
Additional Agents:	[ ] [Not Applicable]

*[Insert the following paragraphs where TEFRA C Rules or TEFRA D Rules apply]*

[THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND THE SECURITIES ARE SUBJECT TO US TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”) AND IN THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND REGULATIONS THEREUNDER. THESE FINAL TERMS HAVE BEEN PREPARED BY THE ISSUER FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE SECURITIES OUTSIDE THE UNITED STATES TO NON-US PERSONS IN RELIANCE ON REGULATION S AND FOR LISTING OF THE SECURITIES ON THE RELEVANT STOCK EXCHANGE, IF ANY, AS STATED HEREIN. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE SECURITIES AND DISTRIBUTION OF THESE FINAL TERMS AND THE IPATH® INVERSE VSTOXX® BASE PROSPECTUS [AND THE BASE PROSPECTUS SUPPLEMENT[S]], SEE “PURCHASE AND SALE” IN THE PRINCIPAL BASE PROSPECTUS.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.]

*[Insert the following paragraph where neither TEFRA C Rules nor TEFRA D Rules apply]*

[THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND, SUBJECT TO CERTAIN EXCEPTIONS, THE

SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”). THESE FINAL TERMS HAVE BEEN PREPARED BY THE ISSUER FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE SECURITIES OUTSIDE THE UNITED STATES TO NON-US PERSONS IN RELIANCE ON REGULATION S AND FOR LISTING OF THE SECURITIES ON THE RELEVANT STOCK EXCHANGE, IF ANY, AS STATED HEREIN. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE SECURITIES AND DISTRIBUTION OF THESE FINAL TERMS AND THE IPATH® INVERSE VSTOXX® BASE PROSPECTUS [AND THE BASE PROSPECTUS SUPPLEMENT[S]] SEE “PURCHASE AND SALE” IN THE PRINCIPAL BASE PROSPECTUS.]

#### Provisions relating to the Securities

1	Title:	[[CURRENCY][AMOUNT/NUMBER][UP TO [AMOUNT/NUMBER]] iPath® Inverse VSTOXX® Short-Term Futures Exchange Traded Note[s]]
2	(i) Series:	[[]]
	(ii) Tranche:	[[]]
3	Notes:	[Applicable] [N/A]
	(i) Aggregate Nominal Amount as at the Issue Date:	[[]] / [Up to [•]]
	(ii) Specified Denomination:	[[]] <i>[For multiple Specified Denominations greater than EUR50,000 (or equivalent) insert:]</i> [EUR50,000] and integral multiples of [EUR1,000] in excess thereof [up to and including [EUR99,000].] [Notes will not be issued in definitive form with a Specified Denomination above [EUR99,000].]
	[(iii) Calculation Amount per Security as at the Issue Date:]	[[]] <i>[Insert this for Notes having multiple Specified Denominations]</i>
4	Certificates:	[Applicable] [N/A]
	(i) Number of Certificates:	[[]]/[Up to [•]]
	(ii) Calculation Amount per Security as at the Issue Date:	[[]]

5	Form:	
	(i) Global/Definitive:	Global Bearer Securities [Temporary Global Security, exchangeable for a Permanent Global Security]/[Permanent Global Security]
	(ii) CGN Form:	Applicable
	(iii) Exchangeable for Definitive Bearer Securities:	[Yes]/[Only in limited circumstances as further set out in Base Condition 1.1(a)]
	(iv) CDIs:	[Applicable] [N/A]
6	Trade Date:	[ ]
7	Issue Date:	[ ]
8	Strike Date:	[ ]
9	Issue Price:	[Notes – [ ] per cent. of the Aggregate Nominal Amount] [Certificates – [ ] per Security]
10	Relevant Stock Exchange[s]:	[London Stock Exchange] [Frankfurt Stock Exchange] [Other ( <i>specify</i> )] [Not Applicable]
11	Related Exchange:	[All Exchanges]
<b>Provisions relating to Redemption</b>		
12	Redemption Date:	[ ]
13	Settlement Method:	Cash Settlement
14	Final Valuation Date:	[ ]
15	Final Cash Settlement Amount:	Subject to the occurrence of an Index Adjustment Event and/or any Additional Disruption Event, an amount [per Specified Denomination] or [per Calculation Amount per Security] in the Settlement Currency equal to the Redemption Value as of the Final Valuation Date.
16	Valuation Time:	[As defined in Base Condition 23] [ ]
17	Settlement Currency:	[ ]
18	Early Cash Redemption Date:	[As defined in Base Condition 23] [ ]

19	Early Redemption Notice Period:	[As defined in Base Condition 5.4] [ ]
20	Specified Early Redemption Event:	Applicable
	(i) Specified Early Redemption Valuation Date:	[As defined in Base Condition 23] [Other ( <i>specify</i> )]
	(ii) Specified Early Redemption Date:	[As defined in Base Condition 23][•] [Other ( <i>specify</i> )]
21	Annual Fee:	[ ]
22	Call Option:	Applicable
	(i) Optional Cash Redemption Date:	[As defined in Base Condition 23] [Other ( <i>specify</i> )]
	(ii) Issuer Option Exercise Period:	[As defined in Base Condition 23][ ] [Other ( <i>specify</i> )]
	(iii) Issuer Notice Period:	[As defined in Base Condition 4.2] [Other ( <i>specify</i> )]
23	Securityholder Put Option:	[Applicable / Not Applicable] [N/A]
	(i) Minimum Securityholder Exercise Amount:	[•] [in aggregate nominal amount of the Securities]/[in number of the Securities]
	(ii) Securityholder Option Exercise Period:	[From and including [•], to and including [•]]
	(iii) Securityholder Optional Redemption Date:	[•]/[The third Business Day following the Securityholder Option Exercise Notice Effective Date]
	(iv) Securityholder Optional Redemption Percentage:	[•]
24	Index:	[EURO STOXX 50® Volatility Short-Term Futures Excess Return Index]/[ <i>other</i> ]
25	Index Level:	[ <i>Specify method of determination of Index Level on the Price Source</i> ]
26	Price Source:	[(Specify relevant Bloomberg Code for the relevant [ <i>Index</i> ])]
27	Exchange:	[EUREX]/[ <i>Specify</i> ]

**Provisions regarding Market Disruption Events and Index Adjustment Events**

28	Consequences of Market Disruption Events:	As set out in Base Condition 5.4
29	Index Adjustment Events:	As set out in Base Condition 5.1

### Provisions relating to Additional Disruption Events

30	Issuer Tax Event:	Applicable
31	Change in Law:	Applicable
32	Hedging Disruption:	Applicable
33	Increased Cost of Hedging:	Not Applicable
34	Additional Disruption Event(s) in addition to those specified in Condition 23 of the Base Conditions:	[N/A][Insert]
35	Additional terms and conditions relating to the Securities:	[ ] (Additional terms should only be specified where the Series is an unlisted private placement) [N/A]

### Definitions

36	Business Day Convention:	[Following Business Day Convention] [Modified Following Business Day Convention] [Nearest Business Day Convention] [Preceding Business Day Convention]
37	Additional Business Centre(s):	[ ]

### Selling restrictions and provisions relating to certification

38	Non-US Selling Restrictions:	[As described in the iPath® Inverse VSTOXX® Base Prospectus] [Other (specify)] [N/A]
39	Applicable TEFRA exemption:	[C Rules; C Rules Applicable] [D Rules; D Rules Applicable] [N/A]

### General

40	Relevant Clearing System[s]:	[Euroclear] [Clearstream] [Clearstream Frankfurt] [CREST, in respect of CDIs] [Specify details including address if different]
41	If syndicated, names [and addresses] of Managers [and underwriting commitments]:	[N/A] [give names and addresses and underwriting commitments]

- 42 Relevant securities codes: ISIN: [ ]  
Common Code: [ ]  
[Valoren: [ ]]  
[WKN: [ ]]  
[CUSIP: [ ]]  
[SEDOL: [ ]]  
[Other (*specify*)]
- 43 Additional Series Specific Risk Factors: [*Specify details*]  
*(Additional risk factors should only be specified where the Series is an unlisted private placement)*

**Part B**  
**Other Information**

**1 LISTING AND ADMISSION TO TRADING**

- (i) Listing: [London/Frankfurt/ Paris /other (specify)/None]
- (ii) Admission to trading: [Application is expected to be made by the Issuer (or on its behalf) for the Securities to be admitted to trading on [the London Stock Exchange’s Regulated Market]/[Frankfurt Stock Exchange’s Regulated Market]/[Euronext Paris’ Regulated Market] /*[specify]* on or around the Issue Date.] The Regulated Market[s] of the [the London Stock Exchange] [and the] [Frankfurt Stock Exchange] [and of Euronext Paris] [is a] [are] regulated market[s] for the purposes of Directive 2004/39/EC. *(Where documenting a fungible issue, indicate that original Securities are already admitted to trading.)*
- (iii) Estimate of total expenses related to admission to trading: [ ]
- (iv) Name and address of the Market Makers that are to act as intermediaries in secondary trading, providing liquidity through bid and offer rates and description of the main terms of their commitment: [ ]/[None] *[Specify basic terms and conditions of market making arrangements to be provided by the relevant Market Maker]*

**2 RATINGS**

- Ratings: [The Securities have not been individually rated.]  
[Upon issuance the Securities are expected to be rated:  
[S&P: [ ]]  
[The credit rating[s] referred to above will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the “**CRA Regulation**”) as having been issued by Standard & Poor’s Credit Market Services Europe Limited, which is established in the European Union and has been registered under the CRA Regulation.]  
[[Other]: [ ]]  
[The credit rating referred to above will be treated for the purposes of Regulation (EC) No

1060/2009 on credit rating agencies (the “CRA Regulation”) as having been issued by [Other], which is a [registered rating agency established in the EU] / [unregistered rating agency established outside the EU] / [rating agency established in the EU and is applying to be registered but has not yet been registered] / [third country rating agency that is endorsed by an EU registered agency] / [third country rating agency that has not applied to be registered but is certified] in accordance with the CRA Regulation.]

### 3 NOTIFICATION

[The Financial Services Authority of the United Kingdom has been requested to provide/has provided [include first alternative for an issue which is contemporaneous with the establishment or update of the iPath® Inverse VSTOXX® Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the iPath® Inverse VSTOXX® Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

[Not Applicable]

### 4 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:]

[Not Applicable]

[Save as discussed in [ ],] so far as the Issuer is aware, no person involved in the offer of the Securities has no interest material to the offer.]

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the iPath® Inverse VSTOXX® Base Prospectus under Article 16 of the Prospectus Directive.)]

### 5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)] Reasons for the offer:

[General funding]

[Specify if other reasons]

(See “Use of Proceeds” wording in the iPath® Inverse VSTOXX® Base Prospectus - if reasons for

*offer different from general corporate purposes 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 Securities 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.)*

## 6 OPERATIONAL INFORMATION

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together with their addresses) and the relevant identification number(s):

Clearstream, Frankfurt

[Euroclear CREST]

[Euroclear France]

*[insert name(s) and number(s) and/or amendments to the Conditions]*

Delivery:

Delivery [against/free of] payment

## 7 OFFER INFORMATION

*[If applicable, the following details should be included:]*

(i) Offer Price:

[Issue Price]

*[specify]*

*[To be determined on the basis of the prevailing market conditions on or around the Price Determination Date]*

(ii) [Price Determination Date:]

[•]

(iii) [Total Amount of the Offer. If the amount is not fixed, description of arrangements and time for announcing to the public the definitive amount of the Offer:]

*[To be determined on the basis of demand for the Securities and prevailing market conditions and published in accordance with Article 8 of the Prospectus Directive]*

(iv) Conditions to which the offer is subject:

*[Not Applicable/give details]*

[Right to cancel: The offer may be cancelled if the nominal amount or aggregate number of Securities purchased is less than the minimum amount specified below, or if the Issuer assesses, at its absolute discretion, that any applicable laws, court rulings, decisions by governmental or other authorities or other similar factors render it illegal, impossible or impractical, in whole or in part, to complete the offer or that there has been a material adverse change in the market conditions]

- (v) Time period during which the offer will be open: [The period from and including the Issue Date of the first Tranche of this Series to but excluding the Redemption Date]/[●]
- (vi) Description of the application process: [Not Applicable/*give details*]  
[Purchases from the relevant Distributors/Market Makers can be made by submitting to the relevant Distributor/Market Maker a form provided by the relevant Distributor/Market Maker, or otherwise as instructed by the relevant Distributor/Market Maker]
- (vii) Details of the minimum and/or maximum amount of application: [Not Applicable/*give details*]
- (viii) Details of method and time limits for paying up and delivering the Securities: [Not Applicable/*give details*]  
[Payments for the Securities shall be made to the relevant Distributor/Market Maker on [[]]/[such date as the relevant Distributor/Market Maker may specify] as instructed by the relevant Distributor/Market Maker]  
[The Securities are expected to be delivered to the purchasers' respective accounts on or around [[]]/[the date as notified by the relevant Distributor/Market Maker]]
- (ix) Manner in and date on which results of the offer are to be made public: [Not Applicable/*give details*]
- (x) Categories of prospective Investors to which the Securities are offered and whether tranche(s) have been reserved for certain countries: [Not Applicable/*give details*]
- (xi) Process for notification to applicants of [Not Applicable/*give details*]

the amount allotted and indication whether dealing may begin before notification is made: [Applicants will be notified by the relevant Distributor/Market Maker of the success of their application. Dealings in the Securities may begin before such notification is made]

(xii) Amount of any expenses and taxes specifically charged to the subscriber or purchaser: [Not Applicable/*give details*]  
[The Issuer may also pay a commission or other amount to Distributors/Market Makers in connection with this offer]

(xiii) Name(s) and address(es), to the extent known to the Issuer, of the placers (“Distributors”) in the various countries where the offer takes place: [Not Applicable/Name/*give details*]

(xiv) Market-Maker: [Not Applicable/*give details*]

(xv) Market Making Agreement with the Issuer: [Yes / No]

(xvi) [Liability for the offer:] [Any offers made by a Distributor/Market Maker will be made in its own name and not as an agent of the Issuer and only the relevant Distributor/Market Maker will be liable for the relevant offer. The Issuer does not accept any liability for the offer or sale of Securities by the relevant Distributor/Market Maker]

[[The Issue Price includes a commission element to be shared with a third party which shall not exceed [ ] per cent., further details of which are available upon request.][*Or if applicable*] [A distribution fee has been paid to a third party. The amount of this fee will not exceed [ ] per cent. of the Aggregate Nominal Amount for each year of the term of the Securities. Such fee shall be paid [on the Trade Date]/[annually] and is not refundable in the event of early redemption or sale on the secondary market.]]

If Securities are in global form or uncertificated registered form, (x) any calculations in respect of such Securities shall be made in respect of the aggregate nominal amount or number, as the case may be, of such Securities from time to time outstanding (or the relevant affected portion thereof) and (y) the result of any such calculation shall be rounded in accordance with the relevant method above.

[*Insert Index disclaimer*]

## DESCRIPTION OF THE INDEX

### EURO STOXX 50<sup>®</sup> Volatility Short-Term Futures Excess Return Index

#### 1 Overview

##### 1.1 Concept

The Index measures the return from a rolling long position in the first and second month VSTOXX<sup>®</sup> Futures Contract.

The Index rolls from the first month VSTOXX<sup>®</sup> Futures Contract into the second month VSTOXX<sup>®</sup> Futures Contract on a daily basis.

The Index is calculated and disseminated by STOXX Limited (the “**Index Sponsor**”).

**VSTOXX<sup>®</sup> Index:** The VSTOXX<sup>®</sup> Index is based on real time option prices on the EURO STOXX 50<sup>®</sup> Index and is designed to reflect the market expectations of near-term volatility by measuring the square root of the implied variance across all options of a given time to expiration. Further information on the VSTOXX<sup>®</sup> Index is available at <http://www.stoxx.com/>.

**EURO STOXX 50<sup>®</sup> Index:** The EURO STOXX 50<sup>®</sup> Index is a free-float market capitalization-weighted index of 50 European blue-chip stocks (each, a “component” for the purposes of this paragraph) from those countries participating in the European Monetary Union. Each component's weight is capped at 10% of the EURO STOXX 50<sup>®</sup> Index's total free float market capitalisation. The EURO STOXX 50<sup>®</sup> (Price) Index is a market price index and does not account for or include the receipt or re-investment of dividends. The EURO STOXX 50<sup>®</sup> Index was developed with a base value of 1000 as of December 31, 1991. Further information on the EURO STOXX 50<sup>®</sup> Index is available at <http://www.stoxx.com/>.

##### 1.2 Input Data

During the calculation hours of the Index, the following data is used via snapshots every 15 seconds to calculate the level of the Index:

- Mid prices of the first and second month VSTOXX<sup>®</sup> Futures Contracts.

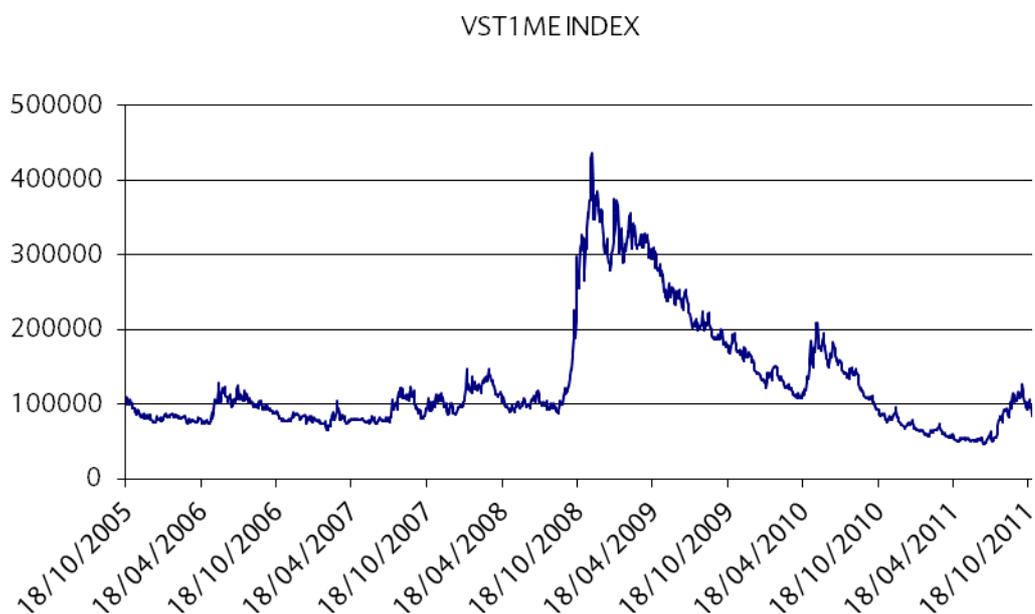
### 1.3 Historical Data

Historical data on the Index is set out below on an annual basis. The Index commenced on 18th October 2005 starting with the base value of 100,000.

30 December 2005	83,231.6
29 December 2006	72,921.5
28 December 2007	86,243.8
30 December 2008	298,837
30 December 2009	142,278
30 December 2010	74,613.6
30 December 2011	84,839.06

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Graph showing historical performance of the Index:



Information about the past and further performance of the Index and its volatility can be obtained by reference to Bloomberg ticker VST1ME <Index> DES <GO>

#### 1.4 Identifiers

Name	Type	ISIN	Symbol
EURO STOXX 50® Volatility Short-Term Futures Index	Excess Return	CH0110459747	VST1ME

## 2 Calculation

### 2.1 Main characteristics

The Index returns are calculated from a long VSTOXX® Futures Contracts position that is rolled continuously throughout the period between the first and second month VSTOXX® Futures Contracts.

VSTOXX® Futures Contracts are traded on the EUREX exchange. The futures are cash settled based on the final settlement price, equal to the average of the VSTOXX® Index values calculated between 11:30 and 12:00 CET on the last trading day of the future. The last trading day of each future is 30 calendar days before the expiring date of the options underlying the volatility index (i.e. 30 days before the third Friday of the expiration month of the underlying options, provided that this is a day when the EUREX is open). As of the date of this iPath® Inverse VSTOXX® Base Prospectus, this is usually the Wednesday before the second last Friday of a respective expiring month of the future, provided that the EUREX is open on such day, otherwise it is the preceding day on which the EUREX is open. Full contract specifications for the VSTOXX® Future Contracts are available from <http://www.eurexchange.com>.

EUREX is amongst the world's largest futures and options exchanges. Its electronic trading and clearing platform offers a range of products, and amongst others operates markets in fixed income, futures and options. EUREX was established in 1998 with the merger of Deutsche Terminbörse (DTB, the German derivatives exchange) and SOFFEX (Swiss Options and Financial Futures). Further information on the EUREX exchange is available at <http://www.eurexchange.com>.

## 2.2 Index Calculation

### 2.2.1 Excess Return Calculation

$$Index\ ER_t = Index\ ER_{t-1} X \left( \frac{\sum_{i=1}^2 w_{i,t-1} * F_{i,t}}{\sum_{i=1}^2 w_{i,t-1} * F_{i,t-1}} \right)$$

Where:

“ $F_{i,t}$ ” is the mid price of  $i^{th}$  futures contract on Index Business Day  $t$ ;

“**Index Business Day**” is a VSTOXX® Futures Contract Business Day;

“**Index ER<sub>t</sub>**” is the level of the EURO STOXX 50® Volatility Short-Term Futures Excess Return Index on an Index Business Day  $t$ ;

“**VSTOXX® Futures Contract Business Day**” means each day on which futures contracts on the VSTOXX® Index are traded on the EUREX; and

“ $w_{i,t}$ ” is the weight of the  $i^{th}$  futures contract on Index Business Day  $t$ .

### 2.2.2 Roll Period

The Index rolls futures positions on a daily basis. The Roll Period starts from and includes the monthly VSTOXX® Futures Contract settlement date and runs through to but excludes the subsequent monthly VSTOXX® Futures Contract settlement date.

Rolling between the first month future ( $F_1$ ) to second month future ( $F_2$ ) takes place over  $n$  Index Business Days in the Roll Period. The weights (expressed as a percentage) allocated to each  $F_1$  to  $F_2$  on any given Index Business Day  $t$  are determined as follows:

$$w_{1,t} = 100 x \frac{p_t}{n}$$

$$w_{2,t} = 100 x \frac{n - p_t}{n}$$

Where:

Roll Period = the period from and including the most recent VSTOXX® Futures Contract settlement date up to but excluding the subsequent VSTOXX® Futures Contract settlement date.

$n$  = the total number of Index Business Days in the current Roll Period; and

$p_t$  = the number of Index Business Days remaining in the current Roll Period, starting with the following Index Business Date up to and including the last Index Business Day in the current Roll Period. For the avoidance of doubt, on the last Index Business Date of the period,  $p_t = 0$ .

At the close of the last Index Business Day of any Roll Period (the Index Business Day immediately preceding a VSTOXX® Futures Contract settlement date) all of the weight is allocated to the second month VSTOXX® Futures Contract. On VSTOXX® Futures Contract settlement date, the second month contract position becomes the first month contract at settlement. On VSTOXX® Futures Contract settlement date and on each subsequent Index Business Day of the new Roll Period, a fraction of the first month contract is sold and an equal notional amount of the second month VSTOXX® Futures Contract is bought. In this way the allocation to the first month contract is progressively rolled into the following month contract over the Roll Period.

### 2.3 Computational Accuracy

The Index is published as figures rounded to two decimal places.

## 3 Dissemination and Policies

### 3.1 Dissemination

Each Index is calculated in real time (15 Seconds) and disseminated on every EUREX exchange trading day, from 09:00 to 17:30 CET.

### 3.2 Delisting of VSTOXX® Futures Contracts

If one or more VSTOXX® Futures included in the Index is no longer listed, STOXX Ltd. in consultation with the STOXX Supervisory Board may decide on the appropriate measures and notify the market on the measures.

### 3.3 Consequences of a disruption event

If an event occurs in relation to a relevant VSTOXX® Futures Contract that the Index Sponsor determines is an index disruption event pursuant to the Index rules and methodology then the Index Sponsor will calculate the value of the Index based on the most recent prior mid futures prices published by EUREX and the roll for that day will be carried to the next Index Business Day as described in paragraph 2.2.2 (*Roll Period*) above. In such circumstances, the Determination Agent may nonetheless determine that an Index Adjustment Event has occurred pursuant to Base Condition 5.1.

If the EUREX exchange fails to open due to unforeseen circumstances, STOXX Ltd. may determine not to publish the Index Level for that day.

In situations where an exchange introduces a holiday during the month of the Index calculation, the Index Level will not be published on such a holiday and the roll for that day will be carried to the next Index Business Day as described in paragraph 2.2.2 (*Roll Period*) above.

## 4 Index Modification

It is expected that, at any time after the Issue Date, that closing prices will be used instead of mid prices to determine the value of the VSTOXX® Futures Contract (i.e.  $F_{i,t}$ ). In such an event, the Index

Sponsor shall notify the market on the change in methodology for calculation of the Index. For the avoidance of doubt, such change in methodology shall not be deemed to constitute an Index Adjustment Event pursuant to Base Condition 5.1.

## CLEARANCE, SETTLEMENT AND TRANSFER SYSTEMS

### Book-Entry Ownership

#### *Global Bearer Securities*

The Issuer may make applications to Clearstream, Frankfurt, Euroclear France, Euroclear and/or Clearstream for acceptance in their respective book-entry systems in respect of any Series of Securities. A Temporary Global Security and/or Permanent Global Security in bearer form without Coupons will be deposited with Clearstream, Frankfurt (as Depositary for itself). Transfers of interests in such Permanent Global Securities will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream, Frankfurt.

Interests in the Securities may also be cleared through Euroclear France, Euroclear and Clearstream, Luxembourg using the bridge between Clearstream, Frankfurt and Clearstream, Luxembourg. Transfers of interests in the relevant Securities represented by such Permanent Global Securities will then be made in accordance with the normal Euromarket debt securities operating procedures of the Relevant Clearing Systems. If so specified in the Final Terms, Securities may also be transferred in alternative clearing systems in accordance with their rules.

#### *Pre-issue Trades Settlement*

It is expected that delivery of Securities will be made against payment therefor on the relevant Issue Date, which could be more than three business days following the date of pricing. Purchasers of Securities may be affected by such local settlement practices and, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers of Securities who wish to trade Securities between the date of pricing and the date that is three business days prior to the relevant Issue Date should consult their own adviser.

#### *Brief Description of CDIs*

Investors may hold indirect interests in Cleared Securities issued under the iPath® Inverse VSTOXX® Programme by holding CREST Depository Interests (“CDIs”) through CREST. CDIs represent indirect interests in the Cleared Securities to which they relate (the “Underlying Securities”) and holders of CDIs will not be the legal owners of the Underlying Securities.

Securities which are expected to constitute Underlying Securities for the purpose of CDIs shall be specified as such in the applicable Final Terms.

#### *Issuance of CDIs*

CDIs may be issued by CREST Depository Limited (the “CREST Depository”) and held through CREST in dematerialised uncertificated form in accordance with the CREST Global Deed Poll dated 25 June 2001 (as subsequently modified, supplemented and/or restated, the “CREST Deed Poll”). CDIs in respect of Underlying Securities will be constituted and issued to Investors pursuant to the terms of the CREST Deed Poll.

Following their delivery into Euroclear (directly or through another clearing system using bridging arrangements with Euroclear), interests in Underlying Securities may be delivered, held and settled in

CREST by means of the creation of dematerialised CDIs representing the interests in the relevant Underlying Securities. Interests in the Underlying Securities will be credited to the CREST Nominee's account with Euroclear and the CREST Nominee will hold such interests as nominee for the CREST Depository which will issue CDIs to the relevant CREST participants.

Each CDI will be treated as one Underlying Security, for the purposes of determining all rights and obligations and all amounts payable in respect thereof. The CREST Depository will pass on to holders of CDIs any interest or other amounts received by it as holder of the Underlying Securities on trust for such CDI holder. CDI holders will also be able to receive from the CREST Depository notices of meetings of holders of Underlying Securities and other relevant notices issued by the Issuer.

Transfers of interests in Underlying Securities by a CREST participant to a participant of Euroclear or another Relevant Clearing System will be effected by cancellation of the CDIs and transfer of an interest in such Securities underlying the CDIs to the account of the relevant participant with Euroclear or such other Relevant Clearing System. The CDIs will have the same securities identification number as the ISIN of the Underlying Securities and will not require a separate listing on the Official List.

The rights of the holders of CDIs will be governed by the arrangements between CREST, the Relevant Clearing System and the Issuer including the CREST Deed Poll (in the form contained in Chapter 3 of the CREST International Manual (which forms part of the CREST Manual)) executed by the CREST Depository. These rights may be different from those of holders of Securities which are not represented by CDIs.

The attention of prospective Investors in CDIs is drawn to the terms of the CREST Deed Poll, the CREST Manual and the CREST Rules, copies of which are available from Euroclear UK & Ireland Limited at 33 Cannon Street, London EC4M 5SB or by calling +442078490000 or from the Euroclear UK & Ireland Limited website at <https://www.euroclear.com/site/public/EUI>.

## TAXATION

### A. General Taxation Information

The information provided below does not purport to be a complete summary of tax law and practice currently applicable to the Securities. Transactions involving Securities (including purchases, transfers and/or redemptions) and the death of a holder of any Security may have tax consequences for potential purchasers which may depend, amongst other things, upon the tax residence and/or status of the potential purchaser. Potential purchasers of Securities are therefore advised to consult their own tax advisers as to the tax consequences of transactions involving Securities and the effect of any tax laws in any jurisdiction in which they may be tax resident or otherwise liable to tax. In particular, no representation is made as to the manner in which payments under the Securities would be characterised by any relevant taxing authority.

The following summaries do not consider the tax treatment of payments in respect of the Index and/or futures contracts. The taxation provisions applicable to such items may be different (and in some cases significantly different) from those described in the summary below.

Purchasers and/or sellers of Securities may be required to pay stamp taxes and other charges in addition to the issue price of the Securities.

Prospective Investors are referred to Base Condition 8.3.

### B. United Kingdom Taxation

*The comments below are of a general nature based on current United Kingdom tax law and HM Revenue & Customs (“HMRC”) published practice and are a summary of the understanding of the Issuer of current law and practice with respect to the Securities in relation only to United Kingdom withholding tax, stamp duty and stamp duty reserve tax. The comments below are not intended to be exhaustive and relate only to persons who are the absolute beneficial owners of Securities.*

*Prospective Securityholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are unsure as to their tax position should seek their own professional advice.*

#### 1 Withholding Tax

##### 1.1 Payments constituting interest

To the extent that payments made on or in respect of the Securities are or are treated as interest, no withholding or deduction for or on account of United Kingdom tax should be applied to such payments provided that any such payment is made in one of the following sets of circumstances:

(i) *Payments of interest by a bank*

No withholding or deduction for or on account of United Kingdom tax should be applied to such payments provided the Issuer is and continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 (the “Act”), and any interest on the Securities

is paid in the ordinary course of its business within the meaning of section 878 of the Act.

(ii) *Payments of interest in respect of Securities which are listed on a recognised stock exchange*

No withholding or deduction for or on account of United Kingdom tax should be applied to such payments provided that the Securities constitute “quoted Eurobonds”. The Securities issued 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 Act. The London Stock Exchange, the Frankfurt Stock Exchange and Euronext Paris are recognised stock exchanges for these purposes. Securities will be treated as listed on a recognised stock exchange if (a) they are admitted to trading on that stock exchange; and (b) are either: (x) included in the Official List, or (y) are officially listed in Germany or France in accordance with provisions corresponding to those generally applicable in EEA states, as the case may be.

(iii) *Payments of interest to certain Securityholders*

No withholding or deduction for or on account of United Kingdom tax should be applied to such payments provided that the Issuer reasonably believes that, at the time the payment is made, either:

- (a) the person beneficially entitled to the interest payable on the Securities is within the charge to United Kingdom corporation tax as regards the payment of such interest; or
- (b) the payment is made to one of the classes of exempt bodies or persons set out in section 936 of the Act,

provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that such payment of interest will not be an “excepted payment” at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount may have to be withheld from any payments of interest on the Securities for or on account of United Kingdom income tax at the basic rate, subject to the availability of other exemptions or reliefs or to any direction to the contrary from HMRC in respect of such relief as may be available under an applicable double taxation treaty.

## 1.2 **Payments other than interest**

Payments on or in respect of the Securities may be made without deduction of United Kingdom tax where the payments are not regarded as interest for tax purposes.

## 2 **EU Directive on the Taxation of Savings Income**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each EU 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 or certain other persons in that other Member State; however, for a transitional period, Austria and Luxembourg will (unless they elect otherwise) instead apply a withholding system in

relation to such payments, deducting tax at rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU territories to the exchange of information relating to such payments.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual 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 or certain other persons in one of those territories.

The Directive may apply to payments made by the Issuer on or in respect of the Securities to the extent that such payments are or are treated as payments of savings income.

### **3 United Kingdom Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)**

No United Kingdom stamp duty should arise on the issuance of the Securities.

No United Kingdom stamp duty should be required to be paid on the transfer of Securities provided no instrument of transfer is executed.

No SDRT should arise on the issuance or transfer of Securities to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services where those Securities are denominated in sterling or, provided they are subscribed for only in cash, denominated in another currency.

No SDRT should generally be payable in relation to an agreement to transfer Securities within a clearance service.

In the event that CDIs representing interests in Securities are issued, no SDRT should be payable in relation to transfers of such CDIs.

### **C. German Taxation**

*The following summary does not consider all aspects of income taxation in the Federal Republic of Germany (“Germany”) that may be relevant to a holder of the Securities in the light of the holder’s particular circumstances and income tax situation. The summary applies to Investors holding the Securities as private investment assets (except where explicitly stated otherwise) and is not intended to be, nor should it be construed to be, legal or tax advice. This discussion is based on German tax laws and regulations, all as currently in effect (except where explicitly stated otherwise) and all subject to change at any time, possibly with retroactive effect.*

*Prospective holders should consult their own tax advisers as to the particular tax consequences to them of subscribing, purchasing, holding and disposing of the Securities, including the application and effect of state, local, foreign and other tax laws and the possible effects of changes in the tax laws of Germany.*

## 1 German resident holders of Securities

### 1.1 Income from the Securities

If the Securities are held as private assets (*Privatvermögen*) by an individual Investor whose residence or habitual abode is in Germany, any capital gain received upon the redemption or disposal of the Securities is taxed as investment income (*Einkünfte aus Kapitalvermögen*) at a 25 per cent. flat tax (*Abgeltungsteuer*) (plus a 5.5 per cent. solidarity surcharge thereon and, if applicable to the individual Investor, church tax).

The capital gain is generally determined as the difference between the proceeds from the redemption or disposal of the Securities and the acquisition costs. Expenses directly related to the sale or redemption are taken into account in computing the taxable gain. Otherwise, the deduction of related expenses for tax purposes is not possible.

Where the Securities are denominated in a currency other than Euro, the acquisition costs and the proceeds from the sale or redemption are computed in Euro, each at the time of the acquisition, sale or redemption, respectively.

Capital losses from the Securities held as private assets are tax-recognised irrespective of the holding period of the Securities. However, in the case where no payments are made to the Investors on the maturity or redemption date, the capital loss will not be recognised by the tax authorities. To the extent that the losses are tax-recognised, the losses may not be used to offset other income like employment or business income but may only be offset against investment income subject to certain limitations. Losses not utilised in one year may be carried forward into subsequent years but may not be carried back into preceding years.

The flat tax is generally collected by way of withholding (see succeeding paragraph – *Withholding tax*) and the tax withheld will generally satisfy the individual Investor's tax liability with respect to the Securities. If, however, no or insufficient tax was withheld the Investor will have to include the income received with respect to the Securities in its income tax return and the flat tax will then be collected by way of tax assessment. The Investor may also opt for inclusion of investment income in its income tax return if the aggregated amount of tax withheld on investment income during the year exceeded the Investor's aggregated flat tax liability on investment income (e.g., because of an available loss carry forward or a foreign tax credit). If the Investor's total income tax liability on all taxable income including the investment income determined by generally applicable graduated income tax rates is lower than 25 per cent. the Investor may opt to be taxed at graduated rates with respect to its investment income.

Individual Investors are entitled to a tax allowance (*Sparer-Pauschbetrag*) for investment income of 801 Euro per year (1,602 Euro for married couples filing their tax return jointly). The tax allowance is taken into account for the purposes of the withholding tax (see succeeding paragraph – *Withholding tax*) if the Investor files a withholding tax exemption request (*Freistellungsauftrag*) with the respective bank or financial institution where the securities deposit account to which the Securities are allocated is held. The deduction of related expenses for tax purposes is not possible.

If the Securities are held as business assets (*Betriebsvermögen*) by an individual or corporate Investor that is tax resident in Germany (i.e., a corporation with its statutory seat or place of management in Germany), capital gains from the Securities are subject to personal or corporate income tax (plus solidarity surcharge thereon) and trade tax. The trade tax liability depends on the applicable trade tax factor of the relevant municipality where the business is located. In case of an individual Investor the trade tax may, however, be partially or fully creditable against the Investor's personal income tax liability depending on the applicable trade tax factor and the Investor's particular circumstances. The capital gains will have to be included in the Investor's personal or corporate income tax return. Any German withholding tax (including surcharges) is generally fully creditable against the Investor's personal or corporate income tax liability or refundable, as the case may be.

## 1.2 Withholding tax

If the Securities are kept or administered in a domestic securities deposit account by a German credit or financial services institution (or by a German branch of a foreign credit or financial services institution), or by a German securities trading firm (*Wertpapierhandelsunternehmen*) or a German securities trading bank (*Wertpapierhandelsbank*) (altogether the "Domestic Paying Agent") from the time of their acquisition, a 25 per cent. withholding tax, plus a 5.5 per cent. solidarity surcharge thereon, is levied on the capital gains, resulting in a total withholding tax charge of 26.375 per cent. If the Securities were sold or redeemed after being transferred to another securities deposit account the 25 per cent. withholding tax (plus solidarity surcharge thereon) would be levied on 30 per cent. of the proceeds from the sale or the redemption, as the case may be, unless the Investor or the previous account bank was able and allowed to provide evidence for the Investor's actual acquisition costs to the new Domestic Paying Agent. In case of a transfer of securities deposit accounts among Domestic Paying Agents the previous account bank is required to provide to the new account bank the Investor's acquisition data. The applicable withholding rate is in excess of the aforementioned rate if church tax is collected for the individual Investor.

No withholding is generally required on capital gains derived by German resident corporate holders of Securities and upon application by individual holders of Securities holding the Securities as business assets.

## 2 Non-German resident holders of Securities

Income derived from the Securities by holders who are not tax resident in Germany is in general exempt from German income taxation, and no withholding tax shall be withheld, provided however (i) the Securities are not held as business assets of a German permanent establishment of the Investor or by a permanent German representative of the Investor or (ii) the Securities are not presented for payment or credit at the offices of a German credit or financial services institution including a German branch of a foreign credit or financial services institution (over-the-counter transaction).

If the income derived from the Securities is subject to German taxation according to (i) or (ii) above, the income is subject to withholding tax similar to that described above under the paragraph *Withholding tax*. Under certain circumstances, foreign Investors may benefit from tax reductions or

tax exemptions under applicable double tax treaties (*Doppelbesteuerungsabkommen*) entered into with Germany.

### **3 Inheritance tax / gift tax**

The transfer of Securities to another person by way of gift or inheritance is subject to German gift or inheritance tax, respectively, if:

- (i) the testator, the donor, the heir, the donee or any other acquirer had his residence, habitual abode or, in the case of a corporation, association (*Personenvereinigung*) or estate (*Vermögensmasse*), had its seat or place of management in Germany at the time of the transfer of property,
- (ii) except as provided under (i), the testator's or donor's Securities belong to a business asset attributable to a permanent establishment or a permanent representative in Germany,

Special regulations apply to certain German expatriates.

Investors are urged to consult with their tax adviser to determine the particular inheritance or gift tax consequences in the light of their particular circumstances.

### **4 Other taxes**

The purchase, sale or other disposal of Securities does not give rise to capital transfer tax, value added tax, stamp duties or similar taxes or charges in Germany. However, in certain circumstances entrepreneurs may choose liability to value added tax with regard to the sales of Securities which would otherwise be tax exempt. Net wealth tax (*Vermögensteuer*) is, at present, not levied in Germany.

### **5 European directive on the taxation of savings income**

On 3 June 2003 the Economic and Financial Affairs Council of the European Union (ECOFIN Council) adopted directive 2003/48/EC on taxation of savings income in the form of interest payments ("**Savings Directive**"). Under the Savings Directive and from 1 July 2005, each EU Member State is required to provide the tax authorities of another Member State with details of payments of interest and other similar income paid by a person in one Member State to an individual resident in another Member State. Austria and Luxembourg must instead impose a withholding tax for a transitional period unless during such period they elect to participate in the information exchange.

In Germany, provisions for implementing the EU Savings Tax Directive have been enacted by legislative regulations of the federal government (*Zinsinformationsverordnung*). These provisions apply as from 1 July 2005.

Capital gains derived from the sale or redemption of the Securities should not be treated as interest for purposes of the Savings Directive but there is a degree of uncertainty as to whether the tax authorities would take a different view in which case the capital gains would be subject to the aforementioned reporting requirements under the Savings Directive.

## D. European Union Taxation

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), each EU Member State is required, from 1 July 2005, 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; however, for a transitional period, Austria, and Luxembourg will (unless they elect otherwise) instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU territories to the exchange of information relating to such payments.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual 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 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.

## GENERAL INFORMATION

### Authorisation and Consents

The establishment of the iPath® Inverse VSTOXX® Programme and the issue of Securities under the iPath® Inverse VSTOXX® Programme have been duly authorised by resolutions of an authorised committee of the Board of Directors of the Bank on 25 July 2011.

The Issuers have obtained all necessary consents, approvals and authorisations in connection with establishing the iPath® Inverse VSTOXX® Programme and will obtain all such consents, approvals and authorisations in connection with the issue and performance of each Security or Series of Securities issued under the iPath® Inverse VSTOXX® Programme.

### Use of Proceeds

The Issuer intends to apply the net proceeds from the sale of any Securities either for hedging purposes or for general corporate purposes unless otherwise specified in the Final Terms relating to a particular Security or Series of Securities. If, in respect of any particular issue of Securities, there is a particular identified use of proceeds this will be stated in the applicable Final Terms.

### Base Prospectus

This iPath® Inverse VSTOXX® Base Prospectus may be used for a period of one year from its date in connection with a public offer of Securities in the EU, or for the listing and admission to trading of Series of Securities. A revised iPath® Inverse VSTOXX® Base Prospectus will be prepared in connection with the listing of any Series of Securities issued after such period unless all consents necessary are obtained for an extension of such period.

If at any time the Bank shall be required to prepare a supplement to this iPath® Inverse VSTOXX® Base Prospectus (a “**Base Prospectus Supplement**”) pursuant to section 87 of the FSMA, or to give effect to the provisions of Article 16(1) of the Prospectus Directive, the Bank will prepare and make available an appropriate amendment or supplement to this iPath® Inverse VSTOXX® Base Prospectus or a further base prospectus which, in respect of any subsequent issue of Securities to be offered to the public or to be admitted to trading on the Regulated Market of the London Stock Exchange or the Frankfurt Stock Exchange, and/or of any other Relevant Stock Exchange, shall constitute a Base Prospectus Supplement as required by the FSA and section 87 of the FSMA.

### Listing

Any Series of Securities may be admitted to listing and trading on the London Stock Exchange or Frankfurt Stock Exchange and/or Euronext Paris and/or any other Relevant Stock Exchange as set out in the applicable Final Terms.

Unlisted Securities may also be issued under the iPath® Inverse VSTOXX® Programme.

### Relevant Clearing Systems

The Securities issued under the iPath® Inverse VSTOXX® Programme may be accepted for clearance (i) directly through Clearstream Frankfurt. Interests in the Securities may also be cleared through Euroclear and Clearstream using the bridge between Clearstream Frankfurt and Clearstream.

Securityholders may also hold interests in the Securities through CREST through the issuance of CDIs representing Underlying Securities. The appropriate security identification codes, including the common code for each Series, allocated by Clearstream Frankfurt, Euroclear or Clearstream will be set out in the applicable Final Terms, together with the International Securities Identification Number (the “ISIN”) for that Series. If the Securities are to be cleared through an additional or alternative clearing system, the appropriate information will be set out in the applicable Final Terms. Transactions will normally be effected for settlement not earlier than three business days after the date of transaction.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg, the address of Clearstream Frankfurt is Clearstream Banking AG, Neue Borsenstrasse 1, 60487 Frankfurt am Main, Germany and the address of CREST is Euroclear UK & Ireland, 33 Cannon Street, London EC4M 5SB. The address of Euroclear France is 115 rue Réaumur, 75081 Paris, Cedex 02, France. The address of any additional clearing system will be set out in the applicable Final Terms.

### **Documents available**

For as long as this iPath® Inverse VSTOXX® Base Prospectus remains in effect or any Securities remain outstanding, copies of the following documents will, when available, be made available during usual business hours on a weekday (Saturdays and public holidays excepted) for inspection and in the case of (b), (c), (g), (h) and (i) below shall be available for collection free of charge at the registered office of the Issuer and at the specified office of the Issue and Paying Agent and, in the case of the Final Terms in respect of any Series, at the specified office of the relevant Paying Agents:

- (a) the constitutional documents of the Issuer;
- (b) the documents set out in the “INFORMATION INCORPORATED BY REFERENCE” section of this iPath® Inverse VSTOXX® Base Prospectus;
- (c) all future annual reports and semi-annual financial statements of the Bank;
- (d) the relevant Subscription Agreement;
- (e) the relevant Agency Agreement;
- (f) the Deed of Covenant;
- (g) this iPath® Inverse VSTOXX® Base Prospectus in respect of the iPath® Inverse VSTOXX® Programme and any future supplements thereto;
- (h) any Final Terms issued in respect of Securities admitted to listing, trading and/or quotation by any listing authority, stock exchange, and/or quotation system since the most recent base prospectus was published; and
- (i) any other future documents, supplements and/or announcements issued by the Issuer.

### **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to any of the Securities or the performance of the relevant Index or any other underlying.

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