

PROSPECTUS



*HBOS plc*

*(incorporated with limited liability in Scotland with registered number SC218813)*

*as Issuer and Guarantor*

*Bank of Scotland plc*

*(incorporated with limited liability in Scotland with registered number SC 327000 and operating in Australia as a registered foreign company with ABN 24 111 084 434 and ARBN 126 955 557)*

*as Issuer and Guarantor*

*BOS (Ireland) Funding plc*

*(incorporated with limited liability in Ireland under the Irish Companies Act 1908 to 1959 with registered number 18686 )*

*as Issuer*

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*PROGRAMME FOR THE ISSUANCE  
OF DEBT INSTRUMENTS*

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*Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA") (the "UK Listing Authority") for debt instruments (the "Instruments") issued under the programme (the "Programme") for the period of 12 months from the date of this Prospectus to be admitted to listing on the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Instruments to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Prospectus to Instruments being "listed" are in respect of the Market (and all related references) shall mean that such Instruments have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.*

*Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.*

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*Arranger for the Programme*

*MORGAN STANLEY*

*Dealers*

*ABN AMRO*

*BNP PARIBAS*

*CREDIT SUISSE*

*DEUTSCHE BANK*

*GOLDMAN SACHS INTERNATIONAL*

*JPMORGAN CAZENOVE*

*MERRILL LYNCH INTERNATIONAL*

*NOMURA INTERNATIONAL*

*BARCLAYS CAPITAL*

*CITI*

*DAIWA SECURITIES SMBC EUROPE*

*DRESDNER KLEINWORT*

*HSBC*

*LEHMAN BROTHERS*

*MORGAN STANLEY*

*RBC CAPITAL MARKETS*

*UBS INVESTMENT BANK*

*13 May 2008*

This Prospectus supersedes all previous Prospectuses, listing particulars and information memoranda and any supplements thereto related to the Programme in their entirety.

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with regard to HBOS plc (“**HBOS**” or the “**Company**”), Bank of Scotland plc (“**Bank of Scotland**”) and BOS (Ireland) Funding plc (“**BOSIF**”) (each an “**Issuer**” and together the “**Issuers**”), and HBOS and Bank of Scotland in their capacities as guarantors (each a “**Guarantor**” and together the “**Guarantors**”) which, according to the particular nature of each Issuer, each Guarantor and the Instruments, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the relevant Issuer or the relevant Guarantor.

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

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “*Documents Incorporated by Reference*”).

Each of the Issuers and the Guarantors (but in the case of each Issuer, only in respect of information relating to such Issuer and, in the case of Bank of Scotland as Guarantor, only in respect of information relating to Bank of Scotland and its subsidiary undertakings) has confirmed to the dealers (the “**Dealers**”) named under “*Subscription and Sale*” that the Prospectus is true and accurate in all material respects and not misleading; that there are no other facts in relation to the information contained or incorporated by reference in the Prospectus the omission of which would, in the context of the issue of the Instruments contemplated herein, make any statement herein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. Each of the Issuers (in respect of the information relating to such Issuer) and the Guarantors (in the case of Bank of Scotland in respect of the information relating to Bank of Scotland and its subsidiary undertakings) has further confirmed to the Dealers that the Prospectus (subject to being supplemented by final terms, the “**Final Terms**”) contains all such information as investors and their professional advisers would reasonably require, and reasonably expect to find, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the relevant Issuer and, where applicable, the relevant Guarantor(s) and of the rights attaching to the relevant Instruments.

Instruments may be issued in bearer form only, in bearer form exchangeable for registered instruments or in registered form only. Each of the Issuers and the Guarantors may agree with any Dealer that Instruments may be issued in a form not contemplated by the forms of Final Terms set out herein, in which event a Drawdown Prospectus (as defined in the Dealership Agreement), if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Instruments and which shall include all information incorporated therein by reference, and the final terms for such Instruments.

This Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Instruments 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 Article 3(2) of the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Instruments may only do so (i) in circumstances in which no obligation arises for the relevant Issuer or the Dealers to publish

a prospectus pursuant to Article 3(2) 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 relevant Issuer nor the Dealers have authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the relevant Issuer or the Dealers to publish or supplement a prospectus for such offer.

**Any person (an “Investor”) intending to acquire or acquiring any Instruments 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 relevant Issuer may only be responsible to the Investor for this Prospectus under section 90 of FSMA if the relevant 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 Prospectus for the purposes of section 90 of 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 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 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.**

None of the Issuers or the Guarantors has authorised the making or provision of any representation or information regarding any Issuer, any Guarantor or the Instruments other than as contained or incorporated by reference in the Prospectus, in the Dealership Agreement (as defined herein), in any other agreement or document prepared in connection with the Programme or any Instruments or as approved for such purpose by the relevant Issuer or (where applicable) the relevant Guarantor(s) or as is publicly available. Any such representation or information should not be relied upon as having been authorised by any Issuer, any Guarantor or any Dealer.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates make any representation or warranty or accept any responsibility, as to the accuracy or completeness of the information contained in the Prospectus. Unless expressly stated otherwise, neither the delivery of the Prospectus nor the Final Terms nor the offering or delivery of any Instrument shall, in any circumstances, create any implication that there has been no adverse change in the financial situation of any Issuer or any Guarantor since the date hereof or the date upon which this document has been most recently amended or supplemented or the balance sheet of the most recent financial statements which are deemed to be incorporated into the Prospectus by reference.

The distribution of the Prospectus and the Final Terms and the offering and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession the Prospectus or the Final Terms come are required by the Issuers, the Guarantors and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of the Prospectus and other offering material relating to the Instruments see “*Subscription and Sale*”. In particular, Instruments have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may include Instruments in bearer form which are

subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to U.S. persons.

Neither the Prospectus nor the Final Terms may be used for the purpose 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 offer or solicitation.

Neither the Prospectus nor the Final Terms constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by any Issuer, any Guarantor or any Dealer that any recipient of the Prospectus or the Final Terms should subscribe for or purchase any Instruments. Each recipient shall be taken to have made its own investigation and appraisal of the financial condition of the relevant Issuer and, where applicable, the relevant Guarantor(s). Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus. The Prospectus does not describe all of the risks of an investment in the Instruments.

Prior to an issue of Instruments by any designated subsidiary of HBOS, other than Bank of Scotland or BOSIF, a further Prospectus will be produced and submitted to the UK Listing Authority for approval prior to admission of such Instruments to the Official List.

Notwithstanding the foregoing, Instruments denominated in Australian dollars and issued in the Australian domestic capital markets (“**Australian Domestic Instruments**”) will be issued in registered uncertificated (or inscribed) form. Australian Domestic Instruments may or may not be listed on the stock exchange operated by ASX Limited (ABN 98 009 624 691) (“**ASX**”) and will be constituted by a Deed Poll (as defined below) and will take the form of entries on a register to be maintained by an Australian Registrar (as defined herein), all as more fully described in the applicable Final Terms.

The relevant Issuer will apply to Austraclear Limited (ABN 94 002 060 773) (“**Austraclear**”) for approval for each Series of Australian Domestic Instruments to be traded on the settlement system operated by Austraclear (“**Austraclear System**”). Such approval by Austraclear is not a recommendation or endorsement by Austraclear of the Australian Domestic Instruments.

Neither HBOS nor BOSIF is authorised under the Banking Act 1959 of Australia (the “**Banking Act of Australia**”) to carry on banking business in Australia. Bank of Scotland has been granted an authority to carry on banking business in Australia by the Australian Prudential Regulation Authority. Australian Domestic Instruments issued by any of HBOS, Bank of Scotland or BOSIF will not constitute “deposit liabilities” for the purposes of the Banking Act of Australia and the depositor protection provisions of Division 2 of Part II of the Banking Act of Australia do not apply.

BOSIF is not regulated by the Irish Financial Regulator or any regulatory authority in Ireland and any issue of Instruments does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Irish Financial Regulator.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) the audited consolidated annual financial statements of HBOS for the financial years ended 31 December 2006 and 2007, (ii) the audited financial statements of The Governor and Company of the Bank of Scotland for the financial year ended 31 December 2006 and (iii) the audited consolidated financial statements of Bank of Scotland for the financial year ended 31 December 2007 (appearing on pages 32 to 89 of the Bank of Scotland Annual Report and Accounts for 2007) together, in each case, with the audit report thereon (such audit report itself referencing the Statement of Directors' Responsibilities, and in respect of HBOS only, the audited sections of the Directors' Remuneration Report (both as defined therein and also incorporated by reference into this Prospectus)), which have been previously published or are published simultaneously with this Prospectus and which have been filed with the Financial Services Authority. Such documents shall be deemed to be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained at the offices of Shepherd and Wedderburn LLP at Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET until and including 16 May 2008 and thereafter from its offices at 1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL or for HBOS only through HBOS' internet website at <http://www.hbosplc.com>, and on or through the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/en-gb/pricenews/marketnews/](http://www.londonstockexchange.com/en-gb/pricenews/marketnews/).

## SUPPLEMENTARY PROSPECTUS

If at any time an Issuer shall be required to prepare a supplementary prospectus pursuant to Section 87G of the FSMA, such Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus or a further Prospectus which, in respect of any subsequent issue of Instruments to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and Section 87G of the FSMA.

Each of the Issuers and the Guarantors has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Instruments and whose inclusion in this Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of any Issuer or Guarantor, and the rights attaching to the Instruments, the Issuers shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Instruments and shall supply to each Dealer and the Trustee such number of copies of such supplement hereto as such Dealer and the Trustee may reasonably request.

Unless otherwise stated, all references in the Prospectus to "€", "Euro" or "EUR" are to the single currency which was introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to "US dollars", "U.S.\$", "\$" or "¢" are to the lawful currency of the United States of America, references to "pounds sterling", "Sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom, references to "A\$" or "Australian dollars" are to the lawful currency of Australia, references to "NZ\$" or "New Zealand dollars" are to the lawful currency of New Zealand and references to "Yen" or "¥" are to the lawful currency of Japan.

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**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE (AS DEFINED IN “SUMMARY OF THE PROGRAMME”) UNDER THE PROGRAMME, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (THE “STABILISING MANAGER(S)”) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS (OUTSIDE AUSTRALIA AND ON A MARKET OPERATED OUTSIDE AUSTRALIA) WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE. ANY STABILISATION ACTIONS OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.**



## SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Prospectus. Any decision to invest in any Instrument should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference, by any investor. Following implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area (an “**EEA State**”), no civil liability will attach to the Responsible Persons in any such EEA State 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 Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

**Issuers**..... HBOS plc (“**HBOS**”), Bank of Scotland plc, acting through its Treasury Division, London office and Australia branch (“**Bank of Scotland**”) and BOS (Ireland) Funding plc (“**BOSIF**”).

**HBOS** was incorporated and registered in Scotland on 3 May 2001, as a public limited company under the Companies Act 1985. **HBOS** is the holding company of the **HBOS Group**, comprising **HBOS** and its subsidiaries and subsidiary undertakings (including its wholly-owned subsidiary Bank of Scotland) (“**HBOS Group**”), a diversified financial services group engaged in a range of banking, insurance broking, financial services and finance-related activities for personal and medium and large size corporate customers throughout the UK and internationally. Headquartered in Edinburgh, Scotland, **HBOS Group** has a large and diversified customer base.

On 29 April 2008, **HBOS** announced a fully underwritten rights issue of ordinary shares to raise £4.0 billion expected to complete in August 2008 and made a trading update announcement. The Group has made fair value adjustments of £970,000,000 (Trading Book) and £1,874,000,000 post tax (Banking Book) for securities.

**HBOS Group** provides personal and business banking, savings and long term investments, mortgages, personal loans and credit cards through its Retail division. It also provides working capital finance, term loans, asset finance, motor finance, multi-currency loans and deposits, project and specialist finance, acquisition finance and syndicated lending services to its medium and large size business clients through its Corporate division, and savings, investments and pensions products, life, household, creditors, travel and motor insurance through its Insurance & Investment division. The Treasury division provides and manages liquidity and funding requirements for **HBOS Group** and provides treasury services to customers of **HBOS Group**. **HBOS Group**’s main

overseas interests are in Australia, Ireland, Europe and North America.

Bank of Scotland was established as The Governor and Company of the Bank of Scotland by an Act of the Parliament of Scotland on 17 July 1695 and on 17 September 2007 was registered as a public limited company under the Companies Act and changed its name to Bank of Scotland plc, and is a UK clearing bank headquartered in Edinburgh. Bank of Scotland is an “authorised person” under the Financial Services and Markets Act 2000 (the “FSMA”), supervised by the Financial Services Authority (the “FSA”) as a bank. The Bank Notes (Scotland) Act 1845 confirmed Bank of Scotland’s right to issue bank notes in Scotland.

Bank of Scotland and its subsidiaries and subsidiary undertakings (“**Bank of Scotland Group**”) offers a range of products, including personal and small business banking and provides a full range of banking services to the corporate and business sector, including working capital finance, term loans, asset finance, multi-currency loans and syndicated lending. The Treasury division provides and manages liquidity and funding requirements for Bank of Scotland Group and provides treasury services to customers of Bank of Scotland Group.

Bank of Scotland Group operates principally within the United Kingdom, Ireland and Australia.

BOSIF was incorporated in Ireland with registered number 18686 on 10 February 1961 and is a indirect wholly-owned subsidiary of HBOS plc. The sole object of BOSIF is to provide funding to Bank of Scotland (Ireland) Limited, its parent company.

**Guarantors**..... HBOS and Bank of Scotland guarantee on a joint and several basis in respect of Instruments issued by BOSIF and HBOS guarantees Instruments issued by Bank of Scotland. As a condition of the issuance of any Series of Instruments pursuant to the Programme by any Issuer other than HBOS, the relevant Guarantor(s) must execute a specific Guarantee Supplement.

**Use of Proceeds** ..... The net proceeds from issues of unsubordinated Instruments will be used for the general funding purposes of HBOS Group. The net proceeds from issues of subordinated Instruments will be used to strengthen the capital base of HBOS Group and to support the continuing growth of its business. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.



<b>Risk Factors</b> .....	There are certain factors which may affect an Issuer's ability to fulfil its obligations under the Instruments, including exposure to risks inherent in the business of the relevant Issuer (including changes in borrower credit quality and general economic conditions, interest rates, foreign exchange rates, equity prices, credit risk premia, house prices and other market factors and funding and liquidity risk management) and risks related to the nature of the Instruments themselves (including the Issuer early redemption right, Instruments for which there is no established market, Instruments the value of which is linked to the performance of another factor such as interest rates, an index or foreign exchange rates, Undated Instruments, subordinated Instruments and those where payments may be deferred).
<b>Arranger</b> .....	Morgan Stanley & Co. International plc.
<b>Dealers</b> .....	ABN AMRO Bank N.V., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Daiwa Securities SMBC Europe Limited, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities Ltd., Lehman Brothers International (Europe), Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc, Royal Bank of Canada Europe Limited, UBS Limited and any other dealer appointed from time to time by the Issuers and the Guarantor(s).
<b>Trustee</b> .....	The Law Debenture Trust Corporation p.l.c.
<b>Principal Paying Agent</b> .....	Citibank, N.A.
<b>Authorised Adviser</b> .....	Morgan Stanley & Co. International plc.
<b>Initial programme Amount</b> .....	The total amount outstanding at any time under the Programme may not exceed U.S.\$120,000,000,000 when aggregated with issues of securities under HBOS's and Bank of Scotland's program for the issue of medium term notes into the United States, subject to any duly authorised variation. Application has been made to admit Instruments issued under the Programme up to a limit of U.S.\$120,000,000,000 during the period of twelve months from the date hereof to listing on the Official List and to trading on the Market.
<b>Form of Instruments</b> .....	Instruments will be issued in bearer form, in bearer form exchangeable for registered instruments or in registered form. Each Series of Instruments in bearer form will be represented on issue by a temporary global instrument (each a " <b>Temporary Global Instrument</b> ") or a permanent global note (each a " <b>Permanent Global Instrument</b> ", each

	<p>Temporary Global Instrument and each Permanent Global Instrument being a “<b>Global Instrument</b>”). Instruments in registered form (other than Instruments denominated in Australian dollars and issued in the Australian domestic capital markets (“<b>Australian Domestic Instruments</b>”)) will be represented by either (i) registered certificates (each a “<b>Certificate</b>”) or (ii) interests in a global instrument certificate (a “<b>Global Instrument Certificate</b>”). Interests in a Global Instrument Certificate will be shown on, and transfers thereof will be effected only through, records maintained by depositories for Euroclear and Clearstream, Luxembourg and/or such other relevant clearing system as specified in the relevant Final Terms. Where Instruments are initially represented by a Global Instrument Certificate, individual Certificates evidencing holdings of such Instruments will only be available in certain limited circumstances.</p>
<b>Australian Domestic Instruments .....</b>	<p>Australian Domestic Instruments may be issued under the Programme. Australian Domestic Instruments:</p> <ul style="list-style-type: none"> <li>• will be issued in registered uncertificated (or inscribed) form, constituted by a deed poll to be executed by the relevant Issuer and governed by the laws of New South Wales, Australia;</li> <li>• will take the form of entries on a register to be maintained by an Australian registrar appointed by the relevant Issuer;</li> <li>• will provide for payments of principal and interest to be made in Sydney;</li> <li>• will provide for the relevant Issuer and Guarantor(s) to submit to the jurisdiction of the courts of New South Wales and appoint an agent for the service of process in New South Wales; and</li> <li>• will be eligible for lodgement into the settlement system operated by Austraclear.</li> </ul>
<b>Currencies .....</b>	<p>Instruments may be denominated in any currency or currencies and may be issued as multi-currency Instruments, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.</p>
<b>Accepting deposits.....</b>	<p>Bank of Scotland is authorised by the FSA to accept deposits in the United Kingdom.</p> <p>Neither HBOS nor BOSIF may issue Instruments which have a maturity of less than one year from the date of issue.</p>

<b>Status of Instruments .....</b>	<p>Instruments may be issued on an unsubordinated or subordinated basis.</p> <p>BOSIF may only issue unsubordinated Instruments. Only HBOS may issue Instruments which constitute Tier 1 Capital.</p>
<b>Status of Guarantees.....</b>	<p>The obligations of the Guarantors under the Guarantees in respect of subordinated Instruments will constitute subordinated obligations of the Guarantors. The obligations of the Guarantors under the Guarantees in respect of unsubordinated Instruments will constitute unsubordinated obligations of the Guarantors.</p>
<b>Issuance in Series .....</b>	<p>Instruments will be issued in series (each a “<b>Series</b>”). Each Series may comprise one or more tranches (each a “<b>Tranche</b>”) on the same or different issue dates. The Instruments of each Series will all be subject to identical terms or terms which are identical except for the issue price, the amount of the first payment of interest and/or the denomination thereof. Further Instruments may be issued as part of an existing Series.</p>
<b>Issue Price .....</b>	<p>Instruments may be issued at par or at a discount or premium and on a fully or partly paid basis.</p>
<b>Maturities.....</b>	<p>Any maturity of not less than three months, subject in all cases to applicable legal or regulatory requirements. Save as aforesaid, there is no maximum maturity and undated Instruments may be issued. Such minimum maturities may be subject to increase or decrease from time to time as a result of changes in applicable law or regulations.</p>
<b>Redemption .....</b>	<p>Instruments may be redeemable at par or at such other redemption amount (linked to an index, commodity or otherwise) as may be specified in the relevant Final Terms.</p>
<b>Early Redemption .....</b>	<p>Early redemption may be permitted for taxation reasons, but will otherwise only be permitted to the extent specified in the relevant Final Terms. Undated Instruments and Dated Subordinated Instruments (each as defined in the conditions of the Instruments herein) may not be redeemed prior to their stated maturity date without (amongst other things) prior notice to the FSA and its consent or lack of objection.</p> <p>If a Series of Instruments ceases to qualify as Tier 1 Capital, HBOS may redeem such Series.</p>
<b>Interest .....</b>	<p>Instruments may be interest bearing or non interest bearing.</p>
<b>Deferral of Interest .....</b>	<p>The Issuer may, on any Optional Interest Payment Date in relation to Tier 1 Instruments, or Undated Tier 2 Instruments,</p>

	<p>elect to defer any Interest Payment on those Instruments which would otherwise have been payable on that date.</p> <p>In certain circumstances payment of principal and interest due in respect of Tier 3 Notes may be deferred.</p>
<b>Alternative Coupon Satisfaction Mechanism .....</b>	<p>In relation to Tier 1 Instruments only, in certain circumstances, if HBOS defers an Interest Payment it must satisfy its obligation to make any Interest Payment to Instrumentholders by issuing Ordinary Shares to the Trustee or its agent. Such Ordinary Shares shall be sold for a cash amount which the agent will pay to the holders in respect of the relevant ACSM Payment.</p>
<b>Denominations .....</b>	<p>Instruments will be in such denominations as may be specified in the relevant Final Terms.</p>
<b>Taxation .....</b>	<p>Payments in respect of Instruments will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the country of incorporation of the Issuer or of the relevant Guarantor(s) and/or, where the Issuer is Bank of Scotland acting through its Australia branch, Australia and/or, if different, the country of tax residence of the relevant Issuer or of the relevant Guarantor(s) or, in each case, any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or by the administration or official interpretation thereof. In that event, the relevant Issuer or, as the case may be, the relevant Guarantor(s) will (subject to certain exceptions) pay such additional amounts as will result in the holders of Instruments or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required. For further information, please see “Taxation” and Condition 8 (Taxation).</p>
<b>Governing Law .....</b>	<p>The Instruments (save for Australian Domestic Instruments) and all related contractual documentation will be governed by, and construed in accordance with, English law. Australian Domestic Instruments (and the related documentation) will be governed by, and construed in accordance with, the laws of New South Wales, Australia.</p>
<b>Listing.....</b>	<p>Each Series of Instruments may be listed on the Official List and admitted to trading on the Market or as may otherwise be agreed and specified in the relevant Final Terms and references to listing shall be construed accordingly. Australian Domestic Instruments may be listed on the ASX. A Series of Instruments may be unlisted.</p>

<b>Conditions .....</b>	The terms and conditions applicable to each Series will be as agreed at or prior to the time of issuance of such Series, and will be specified in the relevant Final Terms. The terms and conditions applicable to each Series will therefore be those set out herein as supplemented, modified or replaced by the relevant Final Terms.
<b>Clearing Systems .....</b>	Euroclear and Clearstream, Luxembourg and/or any other clearing systems as may be specified in the relevant Final Terms.
<b>Selling Restrictions .....</b>	Certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material (including those in the United States of America, the European Economic Area, the UK, Australia, Ireland, Japan, New Zealand and The Netherlands) will be applicable to issues of Instruments.

## **RISK FACTORS**

*The Issuers believe that the following factors may affect their ability to fulfil their respective obligations under the Instruments. All of these factors are contingencies which may or may not occur and the Issuers are not in a position to express a view as to the likelihood of any such contingency occurring. Factors which the Issuers believe may be material for the purpose of assessing the market risks associated with the Instruments are also described below.*

*Prospective investors should note that the risks described below are not the only risks the Issuers face. The Issuers have described only those risks relating to their operations that they consider to be material. There may be additional risks that the Issuers currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

### **Risks relating to the relevant Issuer and its business**

***The relevant Issuer's financial performance is affected by borrower credit quality and general economic conditions, in particular in the UK.***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the relevant Issuer's businesses. Adverse changes in the credit quality of the relevant Issuer's borrowers and counterparties or a general deterioration in the UK or global economic conditions, such as that arising from systemic risks in the financial systems, could affect the recoverability and value of the relevant Issuer's assets and require an increase in the relevant Issuer's impairment provision for bad and doubtful debts and other provisions.

***Changes in interest rates, foreign exchange rates, equity prices, credit risk premia, house prices and other market factors affect the relevant Issuer's business.***

Among the most significant market risks the relevant Issuer faces are interest rate, foreign exchange and bond, equity and house price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and affect earnings reported by the relevant Issuer's non-UK subsidiaries (if any), and may affect income from foreign exchange dealing. The performance of financial markets, particularly with respect to credit risk premia, may cause changes in the value of the relevant Issuer's investment and trading portfolios. The relevant Issuer has implemented risk management methods to mitigate and control these and other market risks to which it is exposed. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the relevant Issuer's financial performance and business operations.

### ***Funding and Liquidity Risk management***

Bank of Scotland and certain other members of the HBOS Group provide financial intermediation in the form of maturity transformation, whereby they hold assets of a longer duration than the liabilities that support those assets. In order to ensure that the HBOS Group continues to meet its funding obligation and to maintain or grow its business generally, it relies on customer savings and transmission balances, as well as ongoing access to the wholesale markets. In wholesale markets, the HBOS Group looks to achieve a geographically diverse investor base and product set, of an appropriate maturity profile to ensure it is not overly exposed to short term market dislocation. In addition, the HBOS Group holds a significant stock of marketable assets that are available through either outright sale or proven sale and repurchase arrangements,



with other market participants or Central Banks to generate funds. Furthermore, the HBOS Group has the capacity to generate additional collateral through the use of certain of its assets to achieve the same goal. In times of systemic market liquidity stress, the cost of wholesale funds is likely to rise and the maturity profile shorten. If the extent of this market stress were for an extended period, then it may have an adverse effect on the HBOS Group's ability to meet its obligations as they fall due.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the HBOS Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the Financial Services Authority.

***The relevant Guarantor is subject to capital requirements that could limit its operations.***

The relevant Guarantor is subject to capital adequacy guidelines adopted by the Financial Services Authority for a bank or a bank holding company, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on a solo-consolidated basis expressed as a percentage. At least half of the total capital must be maintained in the form of Tier 1 Capital. The relevant Guarantor's failure to maintain its ratios may result in administrative actions or sanctions against it which may impact the relevant Issuer's ability to fulfil its obligations under the Instruments.

In addition, the risk-adjusted capital guidelines (the "**Basel Accord**") promulgated by the Basel Committee on Banking Supervision (the "**Basel Committee**"), which form the basis for the Financial Services Authority's capital adequacy guidelines, have been revised and implemented in the UK with effect from 1 January 2007. The principal changes effected by the revised guidelines include a range of options to determine risk-weighting. In this regard, HBOS has adopted the Advanced Internal Ratings Based Approach (for Credit Risk) and the Advanced Measurement Approach (for Operational Risk). These are the most sophisticated approaches to capital determination for the Group and its applicable subsidiaries (including Bank of Scotland and BOSIF) which became effective from 1 January 2008.

***Operational risks are inherent in the relevant Issuer's businesses***

The relevant Issuer's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of the relevant Issuer's suppliers or counterparties. Although the relevant Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuers or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the Financial Services Authority.

**Risks Relating to the Instruments**

***Instruments may not be a suitable investment for all investors***

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the relevant Instruments and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Instruments and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Instruments, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Instruments and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Instruments are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Instruments which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the value of such Instruments and the impact this investment will have on the potential investor's overall investment portfolio.

#### ***Risks related to the structure of a particular issue of Instruments***

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

##### ***Instruments subject to optional redemption by the relevant Issuer***

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

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

##### ***Index Linked Instruments and Dual Currency Instruments***

The relevant Issuer may issue Instruments with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the relevant Issuer may issue Instruments with

principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated. Potential investors should be aware that:

- (i) the market price of such Instruments may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the principal amount of such Instruments or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of any change in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Holders of Index Linked Instruments and prospective purchasers of such Instruments should ensure that they understand the nature of such Instruments and the extent of their exposure to risk and that they consider the suitability of such Instruments as an investment in the light of their own circumstances and financial condition. A small movement in the Index may result in large change in the value of such Instruments. Holders of such Instruments and prospective purchasers of such Instruments should conduct their own investigations and, in deciding whether or not to purchase such Instruments, prospective purchasers should form their own views of the merits of an investment on which the return is to be determined by reference to an index based upon such investigations and not in reliance on any information given in the relevant Final Terms. Given the highly specialised nature of Index Linked Instruments, the Issuers consider that they are only suitable for highly sophisticated investors who are able to determine for themselves the risk of an investment on which the return is determined in this way. Consequently, if you are not an investor who falls within the description above you should not consider purchasing such Instruments without taking detailed advice from a specialised professional adviser.

#### *Partly Paid Instruments*

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

#### *Variable rate Instruments with a multiplier or other leverage factor*

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

### *Inverse Floating Rate Instruments*

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

### *Fixed/floating Rate Instruments*

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

### *Instruments issued at a substantial discount or premium*

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

### *Modification and waivers and substitution*

The Conditions of the Instruments contain provisions for calling meetings of Instrumentholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Instrumentholders including Instrumentholders who did not attend and vote at the relevant meeting and Instrumentholders who voted in a manner contrary to the majority.

The Conditions of the Instruments also provide that the Trustee may, without the consent of Instrumentholders, agree to (i) any modification of the Conditions of the Instruments or the Trust Deed; (ii) the waiver or authorisation of any breach or proposed breach of any of the provisions of the Instruments; (iii) determine without the consent of the Instrumentholders that any Default or potential Default shall not be treated as such; or (iv) the substitution of another company as principal debtor under any Instruments in place of the relevant Issuer, in the circumstances described in Condition 13 of the Conditions of the Instruments.

### *European Monetary Union*

If the United Kingdom joins the European Monetary Union prior to the maturity of the Instruments, there is no assurance that this would not adversely affect investors in the Instruments. It is possible that prior to the maturity of the Instruments the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event, (i) all amounts payable in respect of any Instruments denominated in Sterling may become payable in Euro; (ii) the law may allow or require such Instruments to be re-denominated into Euro and additional measures to be taken in respect of such Instruments; and (iii) there may no longer be available published or displayed rates for deposits in

Sterling used to determine the rates of interest on such Instruments or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Instruments.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for an individual resident in and certain other persons established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system (unless, during such period, they elect otherwise), in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

In addition, the Member States have entered into provision of information arrangements, in certain cases on a reciprocal basis, or transitional withholding arrangements with certain 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 and/or certain other specified types of entity established, in one of those territories.

If payment were to be made or collected through a Member State or a relevant non-EU country or territory which has opted for a withholding system pursuant to EC Council Directive 2003/48/EC and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuers, Guarantors nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. The Issuers will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

### ***Change of law***

The Conditions of the Instruments are based on English law (save for the Australian Domestic Instruments, which are governed by the laws of New South Wales, Australia) in effect as at the date of issue of the relevant Instruments. No assurance can be given as to the impact of any possible judicial decision or change to English law (or in the case of Australian Domestic Instruments, the laws of New South Wales, Australia) or administrative practice after the date of issue of the relevant Instruments.

### ***Exchange rate risks and exchange controls***

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

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

### ***Interest rate risks***

Investment in fixed rate Instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate Instruments.

### ***Credit ratings may not reflect all risks***

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

### ***Legal investment considerations may restrict certain investments***

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

### ***Undated Instruments***

The relevant Issuer is under no obligation to redeem the Undated Instruments at any time and the Instrumentholders of Undated Instruments have no right to call for their redemption.

### ***The relevant Issuer's obligations under Subordinated Instruments are subordinated***

The relevant Issuer's obligations under Instruments specified as being subordinated in the relevant Final Terms ("**Subordinated Instruments**") will be unsecured and subordinated and will rank junior in priority to the claims of Senior Creditors of the Issuer (as defined in "Conditions of the Instruments" herein). Although Subordinated Instruments may pay a higher rate of interest than comparable Instruments which are not subordinated, there is a real risk that an investor in Subordinated Instruments will lose all or some of his investment should the Issuer become insolvent.

Upon the occurrence of certain events of bankruptcy, insolvency or reorganisation of the Issuer (as set out in the Trust Deed), where the Issuer is Bank of Scotland, HBOS shall, immediately and without further formality, assume the obligations of the Issuer as principal debtor under the Trust Deed in respect of the Instruments of any relevant Series (with its obligations subordinated to the same extent and on the same basis as its obligations under the Guarantee in respect of such Instruments were subordinated) in place of the Issuer, and the Guarantee given by HBOS in respect of such Instruments shall cease to be of effect and the Trustee and the Instrumentholders (and the Couponholders, if any) shall thereupon cease to have any rights or claims whatsoever against the Issuer in respect thereof (but without prejudice to their rights or claims against HBOS where it assumes the obligations of the Issuer as principal debtor, as aforesaid).

### ***Deferral of Payments - Subordinated Instruments***

The relevant Issuer is entitled in certain circumstances to defer the due date for payment of any principal and interest due in respect of Subordinated Instruments (as more particularly described in



Condition 3C in the case of Tier 1 Instruments and Undated Tier 2 Instruments and Condition 3B in the case of Tier 3 Instruments).

Although the relevant Issuer may only opt to defer, and not to cancel, such payments, investors should be aware that they may not receive amounts in respect of interest or principal in respect of the Subordinated Instruments on the scheduled payment date and, if so deferred, it is uncertain when the payment of such amounts will be satisfied.

#### ***Alternative Coupon Satisfaction Mechanism and Tier 1 Instruments***

Investors will receive payments made in respect of Tier 1 Instruments in cash. However, as more particularly described in Condition 5D.08, (i) in respect of any Deferred Interest Payment, HBOS must, and (ii) in respect of any Interest Payment, HBOS may, satisfy its obligation to make any payment (which term does not include any payment of principal to holders) by issuing its Ordinary Shares to the Trustee or its agent or through the transfer of existing Ordinary Shares. In such event, such Ordinary Shares shall be sold for a cash amount which the agent will pay to the holders in respect of the relevant ACSM Payment.

Any relevant Deferred Interest Payment shall only be satisfied by operation of the ACSM if the Ordinary Shares Threshold would not be exceeded as a result of the issue and/or transfer of the relevant Ordinary Shares and, in each case, only if the proceeds raised from the issue and/or transfer of the relevant Ordinary Shares is received no more than six months before the relevant ACSM Payment Date.

No Tier 1 Instruments of any Series may be redeemed, substituted or varied unless all Deferred Interest Payments, if any, in relation to such Series are satisfied through the operation of the ACSM on or prior to the date set for the relevant redemption, substitution or variation. Accordingly, if, in relation to any Series of Tier 1 Instruments, the Ordinary Shares Threshold would be exceeded as described above or if HBOS does not have a sufficient number of Ordinary Shares available in connection with the payment of any Deferred Interest Payments in relation to such Series by operation of the ACSM at the relevant time, HBOS may not redeem, substitute or vary such Tier 1 Instruments until such time as the Ordinary Shares Threshold would not be exceeded or a sufficient number of Ordinary Shares are so available (as applicable).

HBOS cannot be certain that the public market for its Ordinary Shares at any given time will enable it to raise sufficient proceeds to pay any Deferred Interest Payment.

#### ***Redemption due to Regulatory Event***

If at any time, in relation to the Instruments of any Series which comprises Tier 1 Capital, they cease so to qualify, HBOS may, subject to Condition 6.14, redeem all, but not some only, of such Series of Instruments at the price set out in the applicable Final Terms together with any outstanding interest and subject to the solvency condition set out in Condition 3C.02.

If the Tier 1 Instruments are to be so redeemed, there can be no assurance that holders of such Tier 1 Instruments will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Subordinated Instruments.

#### ***Amendments to, or Substitution, Variation or Redemption of, the Tier 1 Instruments following the Suspension of the ACSM***

If, following any take-over offer or any reorganisation, restructuring or scheme of arrangement, HBOS ceases to be the Ultimate Owner, then the operation of the ACSM shall be suspended. In such event, unless a Permitted Restructuring Arrangement is put in place within six months of the occurrence of a Permitted Restructuring, an independent investment bank or financial institution appointed by HBOS and

approved by the Trustee shall determine, subject as provided in Condition 5D.09, what amendments (if any) to the Terms and Conditions, Trust Deed and any other relevant documents are appropriate to be made by HBOS and the Trustee in order to preserve substantially the economic effect of a holding of the Tier 1 Instruments and to replicate the ACSM in the context of the capital structure of the new Ultimate Owner. If the investment bank or financial institution is unable to determine appropriate amendments, as notified to HBOS, the previous Ultimate Owner (if not HBOS), the new Ultimate Owner, the Trustee, the Agent and the ACSM Calculation Agent (if any), each Tier 1 Note will (subject to the non-objection of, or the obtaining of consent of, the Financial Services Authority) at the option of HBOS either be substituted for, or have their terms varied so that they become, in either case with the assistance of the Trustee, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities. If, notwithstanding the above, the Trustee does not assist as provided above, the Financial Services Authority objects or (if consent is required) does not consent to such substitution or variation or it is otherwise not practicable for the Tier 1 Instruments to be so substituted or varied, HBOS may, subject to Condition 6.14, elect to redeem the Tier 1 Instruments at the price set out in the applicable Final Terms together with any outstanding interest (including Deferred Interest Payments), all as more particularly described in Condition 5D.09.

If the Tier 1 Instruments are to be so redeemed, there can be no assurance that holders of such Instruments will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Tier 1 Instruments.

***HBOS is a holding company***

HBOS is the parent company of the HBOS Group with all operations conducted by operating subsidiaries. Accordingly, creditors of a subsidiary, including, in particular, Bank of Scotland, would have to be paid in full before sums would be available to pay to its shareholders and so to the holders of Instruments issued by HBOS.

***There is no established market for the Instruments***

The Instruments are securities for which there is currently no established market. Although application has been made for Instruments issued under the Programme to be admitted to the Official List and for such Instruments to be admitted to trading on the Market, no guarantee can be given as to the liquidity of any market that may develop for the Instruments, the ability of an Instrumentholder to sell its Instruments or the prices at which the Instruments may be traded.

The future trading price of the Instruments will depend on many factors, including, among others, prevailing interest rates, the Issuers' and Guarantors' operating results and the market for similar securities.

The liquidity of a trading market for the Instruments may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. It is possible that the market for the Instruments will be subject to disruptions. Any such disruption may have a negative effect on an Instrumentholder, regardless of the relevant Issuer's prospects and financial performance.

## CONDITIONS OF THE INSTRUMENTS

*The following are the Conditions of the Instruments which (save for the wording in italics and subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms) will be applicable to each Series of Instruments, provided that the relevant Final Terms in relation to any Series of Instruments may specify other Conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace the following Conditions for the purposes of such Series of Instruments:*

The Instruments (other than Instruments denominated in Australian dollars and issued in the Australian domestic capital markets (“**Australian Domestic Instruments**”)) are constituted by a trust deed (the “**Trust Deed**”, which expression shall include any amendments or supplements thereto or amendments and restatements thereof as at the date of issue of the Instruments) dated 21 August 1992 as most recently amended and restated on 13 May 2008, and made between HBOS plc (“**HBOS**” which expression shall include its successors), Bank of Scotland plc (acting through its Treasury Division, London office or Australia branch) (“**Bank of Scotland**” which expression shall include its successors) and BOS (Ireland) Funding plc (“**BOSIF**”), (together, the “**Issuers**” and each an “**Issuer**” which expression shall include any Subsidiary (as defined in the Trust Deed) of HBOS which becomes an Issuer pursuant to the Trust Deed as contemplated in Condition 16.02 and shall exclude any Issuer which has ceased to be an Issuer pursuant to the Trust Deed as contemplated by Condition 16.03), HBOS and, in respect of BOSIF and any Subsidiary (as defined in the Trust Deed) of HBOS which becomes an Issuer pursuant to the Trust Deed as contemplated in Condition 16.02, Bank of Scotland (collectively, the “**Guarantors**” and each a “**Guarantor**”) and The Law Debenture Trust Corporation p.l.c., as trustee for the holders of Instruments (“**Instrumentholders**”) and Coupons (“**Couponholders**”) from time to time (the “**Trustee**”, which expression shall include any successor to The Law Debenture Trust Corporation p.l.c. in its capacity as such). The Instruments (other than Australian Domestic Instruments) will have the benefit of an amended and restated paying agency agreement (the “**Paying Agency Agreement**”, which expression shall include any amendments or supplements thereto or amendments and restatements thereof as at the date of issue of the Instruments) dated 13 May 2008, and made between the Issuers, the Guarantors and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor to Citibank, N.A. in its capacity as such which is specified in the relevant Final Terms (as defined below) and shall include any principal paying agent appointed as principal paying agent in respect of a particular issue of Instruments) and, other paying agents referred to therein (the “**Paying Agents**”, which expression shall, whenever the context so permits, include the Principal Paying Agent and any additional or successor paying agents duly appointed pursuant to the Paying Agency Agreement), the registrar and the transfer agents, (the “**Registrar**” and the “**Transfer Agents**”) and the Trustee. References in these Conditions to “Instruments” are to the Instruments of one Series only, not to all Instruments that may be issued under the Programme. A separate agency agreement may be entered into in respect of a particular series of Instruments and all references to “**Paying Agency Agreement**” shall be construed as references to such separate agreement.

Australian Domestic Instruments will be issued in registered uncertificated (or inscribed) form. They will be constituted by a deed poll (each a “**Deed Poll**”) to be executed by the relevant Issuer. The provisions of these Conditions relating to Global Instruments, Certificates, Coupons and Talons do not apply to Australian Domestic Instruments. In relation to any Australian Domestic Instruments to be issued, an Australian registry services agreement (the “**Australian Registry Services Agreement**”) will be entered into between the Issuers, the Trustee and a suitable service provider as Australian registrar (the “**Australian Registrar**”), and a paying agency agreement (the “**Australian Paying Agency Agreement**”) will be entered into between the Issuers and a suitable service provider as Australian paying agent (the “**Australian Paying Agent**”).

Pursuant to the Trust Deed and subject to the delivery to the Trustee of a Guarantee Supplement relating to the relevant Instruments, HBOS and Bank of Scotland have agreed to jointly and severally guarantee the due and punctual payment of all amounts due by BOSIF and any Subsidiary (as defined in the Trust Deed) of HBOS which becomes an Issuer pursuant to the Trust Deed as contemplated in Condition 16.02 under or in respect of the Instruments and the Trust Deed as and when the same shall become due and payable (the “**Guarantee**”). Pursuant to the Trust Deed and subject to the delivery to the Trustee of a Guarantee Supplement relating to the relevant Instruments, HBOS has guaranteed the due and punctual payment of all amounts due by Bank of Scotland under or in respect of the Instruments and the Trust Deed as and when the same shall become due and payable (also the “**Guarantee**”). References to the Guarantor in these Conditions are references to the Guarantor or the Guarantors (as the case may be) of the relevant Issuer’s payment obligations under or in respect of the Instruments and the Trust Deed. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection free of charge at the principal office for the time being of the Trustee (presently at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents. Copies of the Deed Poll, the Australian Registry Services Agreement and the Australian Paying Agency Agreement will be available for inspection at the specified office of the Australian Registrar following the issue of any Australian Domestic Instruments. All persons from time to time entitled to the benefit of obligations under any Instruments and the Trust Deed shall be deemed to have notice of and to be bound by all of the provisions of the Trust Deed and the Paying Agency Agreement insofar as they relate to the relevant Instruments.

The Instruments will be issued in series (each a “**Series**”) and each series may comprise one or more tranches (each a “**Tranche**”) issued on the same or different dates. Each Series will be the subject of at least one set of final terms (the “**Final Terms**”), a copy of which will be available for inspection during normal business hours at the principal office for the time being of the Trustee (presently at the aforesaid address) and at the specified office of each of the Paying Agents. A copy of the Final Terms will, in the case of a Series in relation to which application has been made for admission to the Official List of the UK Listing Authority (the “**Official List**”) and for trading on the Regulated Market of the London Stock Exchange (the “**Market**”), be lodged with the Listing Applications Department of the UK Listing Authority and the London Stock Exchange.

The statements in these Conditions are subject to, and include summaries of, the provisions of the Trust Deed and the Paying Agency Agreement.

## **1 Form and Denomination**

- 1.01 Instruments will be issued in bearer form (“**Bearer Instruments**”), in registered form (“**Registered Instruments**”) or in bearer form exchangeable for Registered Instruments (“**Exchangeable Bearer Instruments**”). Australian Domestic Instruments will only be Registered Instruments. This Instrument may be a Fixed Rate Instrument, a Floating Rate Instrument, a Non Interest Bearing Instrument, an Index Linked Interest Instrument, an Index Linked Redemption Instrument, an Instalment Instrument, a Dual Currency Instrument, a Partly Paid Instrument, a combination of any of the foregoing or any other kind of Instrument, depending upon the Interest and Redemption/Payment Basis shown hereon.

*All Registered Instruments (other than Australian Domestic Instruments) shall have the same Specified Denomination. Where Exchangeable Bearer Instruments are issued, the Registered Instruments for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Instruments.*

### ***Form of Instruments***

- 1.02 Registered Instruments (other than Australian Domestic Instruments) are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2.05, each Certificate shall represent the entire holding of those Registered Instruments by the same Instrumentholder.

Bearer Instruments will be represented upon issue by a temporary global instrument (a “**Temporary Global Instrument**”) or a permanent global instrument (a “**Permanent Global Instrument**” which expression shall include the Permanent Global SIS Instrument as defined in the Trust Deed) in substantially the relevant form (subject to amendment and completion) scheduled to the Trust Deed. On or after the date (the “**Exchange Date**”) which is forty days after the original issue date of the Instruments of the relevant Series and provided customary certification as to the non-U.S. beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument) has been received, interests in the Temporary Global Instrument may be exchanged for:

- (i) interests in a Permanent Global Instrument representing the Instruments of that Series; or
  - (ii) if so specified in the relevant Final Terms, definitive Instruments (“**Definitive Instruments**”) in substantially the form (subject to amendment and completion) scheduled to the Trust Deed, and such Definitive Instruments shall be serially numbered.
- 1.03 If any date on which a payment of interest, if any, is due on the Instruments of a Series occurs whilst any of the Instruments of that Series are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the non-U.S. beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument) has been received by Euroclear Bank SA/NV (“**Euroclear**”) or Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) or any other relevant clearing system. Payments of principal or interest (if any) on a Permanent Global Instrument will be made through Euroclear or Clearstream, Luxembourg or, as the case may be, any other relevant clearing system which is so specified in the applicable Final Terms, without any requirement for certification.
- 1.04 Interests in a Permanent Global Instrument will be exchangeable for Definitive Instruments in whole (but not in part only), in the limited circumstances set out therein. Any exchange for Definitive Instruments made under this Condition 1.04 shall be free of charge to the Instrumentholder.
- 1.05 Interest-bearing Definitive Instruments will have endorsed thereon a grid for the recording of payment of interest or, in the case of Undated Instruments or if so specified in the relevant Final Terms, will have attached thereto, at the time of their initial delivery, coupons (“**Coupons**”) presentation of which will be a prerequisite to the payment of interest in certain circumstances specified below. Undated Instruments which are interest bearing will, and long dated Instruments which are interest bearing may, if so specified in the relevant Final Terms, in addition have attached thereto at the time of their initial delivery, a talon (“**Talon**”) exchangeable for further Coupons (and, in respect of Undated Instruments or such

long dated Instruments, the expression “Coupons” shall, where the context so permits, include Talons).

- 1.06 Instruments amounts in respect of which (other than interest) are repayable by instalments (“**Instalment Instruments**”) which are Definitive Instruments will have endorsed thereon a grid for the recording of repayment of principal.

#### ***Denomination of Instruments***

- 1.07 Instruments will be in the denomination or denominations (each of which denominations must be integrally divisible by each smaller denomination) specified in the relevant Final Terms, subject to compliance with all applicable legal or regulatory requirements.

#### ***Currency of Instruments***

- 1.08 Instruments may be denominated in any currency or currencies (including, without limitation, Euro (“**EUR**”), Japanese yen (“**¥**”), Pounds Sterling (“**£**”), New Zealand dollars (“**NZ\$**”), Australian dollars (“**A\$**”) and United States dollars (“**U.S.\$**”), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
- 1.09 For the purposes of these Conditions, references to Instruments shall, as the context may require, be deemed to be to Certificates, Temporary Global Instruments, Permanent Global Instruments or, as the case may be, Definitive Instruments.
- 1.10 In the case of Australian Domestic Instruments, the following provisions shall apply in lieu of the forgoing provisions of Condition 1 in the event of any inconsistency.

Australian Domestic Instruments will be debt obligations of the relevant Issuer owing under a Deed Poll and will take the form of entries in a Register to be established and maintained by the Australian Registrar in Sydney (the “**Australian Register**”) unless otherwise agreed with the Australian Registrar. The Paying Agency Agreement is not applicable to the Australian Domestic Instruments.

Australian Domestic Instruments will not be serially numbered. Each entry in the Australian Register constitutes a separate and individual acknowledgement to the relevant Instrumentholder of the indebtedness of the Issuer to the relevant Instrumentholder. The obligations of the relevant Issuer in respect of each Australian Domestic Instrument constitute separate and independent obligations which the Instrumentholder and the Trustee are entitled to enforce in accordance with these Conditions, the Trust Deed and the Deed Poll. No certificate or other evidence of title will be issued by or on behalf of the relevant Issuer to evidence title to an Australian Domestic Instrument unless the relevant Issuer determines that certificates should be made available or it is required to do so pursuant to any applicable law or regulation.

No Australian Domestic Instrument will be registered in the name of more than four persons. Australian Domestic Instruments registered in the name of more than one person are held by those persons as joint tenants. Australian Domestic Instruments will be registered by name only, without reference to any trusteeship and an entry in the Australian Register in relation to an Australian Domestic Instrument constitutes conclusive evidence that the person so entered is the registered owner of such Instrument, subject to rectification for fraud or error.



Upon a person acquiring title to any Australian Domestic Instrument by virtue of becoming registered as the owner of that Australian Domestic Instrument, all rights and entitlements arising by virtue of the relevant Deed Poll or the Trust Deed in respect of that Australian Domestic Instrument vest absolutely in the registered owner of the Australian Domestic Instrument, such that no person who has previously been registered as the owner of the Australian Domestic Instrument has or is entitled to assert against the Issuer or the Australian Registrar or the registered owner of the Australian Domestic Instrument for the time being and from time to time any rights, benefits or entitlements in respect of the Australian Domestic Instrument.

## **2 Title and Transfer**

- 2.01 Title to Bearer Instruments and Coupons passes by delivery. Title to Registered Instruments passes by registration in the register that the relevant Issuer shall procure to be kept by the Registrar or the Australian Registrar in accordance with the provisions of the Paying Agency Agreement or the Australian Registry Services Agreement (the “**Register**”). References herein to the “**Instrumentholders**” signify, in the case of Bearer Instruments, the bearers of such Bearer Instruments or, in the case of Registered Instruments, the person in whose name a Registered Instrument is registered. References herein to “**Couponholders**” signify the bearers of such Coupons. For the avoidance of doubt, where an Australian Domestic Instrument is entered into the Austraclear System, the expression “**Instrumentholder**” includes Austraclear Limited (ABN 94 002 060 773) (“**Austraclear**”) as operator of the system operated by Austraclear for holding securities and the electronic recording and settling of transactions in those securities between members of that system (the “**Austraclear System**”).
- 2.02 Subject as provided in the Trust Deed in relation to any Temporary Global Instrument or any Permanent Global Instrument, any Instrumentholder or any Couponholder will (except as otherwise required by applicable law, an order of a court of competent jurisdiction or regulatory requirement) be treated as the absolute owner thereof and of all rights thereunder for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Instrumentholder or Couponholder. No person shall have any right to enforce any term or condition of any Instruments, Coupons or Talons under the Contracts (Rights of Third Parties) Act 1999.
- 2.03 Subject as provided in Condition 2.08, Exchangeable Bearer Instruments may be exchanged for the same nominal amount of Registered Instruments (other than Australian Domestic Instruments) the request in writing of the relevant Instrumentholder and upon surrender of each Exchangeable Bearer Instrument to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Instrument is surrendered for exchange after the Record Date (as defined in Condition 9.04) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Instruments may not be exchanged for Bearer Instruments. Bearer Instruments of one Specified Denomination may not be exchanged for Bearer Instruments of another Specified Denomination. Bearer Instruments that are not Exchangeable Bearer Instruments may not be exchanged for Registered Instruments.
- 2.04 This Condition 2.04 does not apply to Australian Domestic Instruments. One or more Registered Instruments may be transferred upon the surrender (at the specified office of the

Registrar or any Transfer Agent) of the Certificate representing such Registered Instruments to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Instruments represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Registered Instruments and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Instruments scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Instrumentholder upon request.

- 2.05 In the case of an exercise of an Issuer's or Instrumentholder's option in respect of, or a partial redemption of, a holding of Registered Instruments (other than Australian Domestic Instruments) represented by a single Certificate, a new Certificate shall be issued to the Instrumentholder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Instruments (other than Australian Domestic Instruments) of the same holding having different terms, separate Certificates shall be issued in respect of those Registered Instruments of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Instruments (other than Australian Domestic Instruments) to a person who is already a holder of Registered Instruments (other than Australian Domestic Instruments), a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- 2.06 Each new Certificate to be issued pursuant to Conditions 2.03, 2.04 or 2.05 shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or exercise notice and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice (as defined in Condition 6.09) or Certificate shall have been made or, at the option of the Instrumentholder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the Instrumentholder entitled to the new Certificate to such address as may be so specified, unless such Instrumentholder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2.06, "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- 2.07 Exchange and transfer of relevant Registered Instruments and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar, the Australian Registrar, the Australian Paying Agent or the Transfer Agents (as the case may be), but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity

as the Registrar, the Australian Registrar, the Australian Paying Agent or the relevant Transfer Agent may require).

- 2.08 No Instrumentholder may require the transfer of a Registered Instrument to be registered or an Exchangeable Bearer Instrument to be exchanged for one or more Registered Instrument(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Instrument, (ii) during the period of 15 days prior to any date on which Instruments may be called for redemption by the Issuer at its option pursuant to Condition 6 below, (iii) after any such Instrument has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Instrument called for redemption may, however, be exchanged for one or more Registered Instrument(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.
- 2.09 Australian Domestic Instruments may be transferred in whole but not in part. Australian Domestic Instruments will be transferred by duly completed and (if applicable) stamped transfer and acceptance forms in the form specified by, and obtainable from, the Australian Registrar or by any other manner approved by the Issuer and the Australian Registrar. Australian Domestic Instruments entered in the Austraclear System will be transferable only in accordance with the rules and regulations known as the “**Austraclear System Regulations**” established by Austraclear (as amended or replaced from time to time) to govern the use of the Austraclear System.

Unless the Australian Domestic Instruments are lodged in the Austraclear System, application for the transfer of Australian Domestic Instruments must be made by the lodgement of a transfer and acceptance form with the Australian Registrar. Each transfer and acceptance form must be accompanied by such evidence (if any) as the Australian Registrar may require to prove the title of the transferor or the transferor’s right to transfer the Australian Domestic Instruments and must be signed by both the transferor and the transferee.

The transferor of an Australian Domestic Instrument is deemed to remain the Instrumentholder of that Australian Domestic Instrument until the name of the transferee is entered in the Australian Register in respect of that Australian Domestic Instrument. Transfers will not be registered later than eight days prior to the Maturity Date of an Australian Domestic Instrument.

Australian Domestic Instruments may only be transferred within, to or from Australia if (i) the aggregate consideration payable by the transferee at the time of transfer is at least A\$500,000 (or its equivalent in another currency, in either case disregarding moneys lent by the transferor or its associates) or the offer or invitation giving rise to the transfer does not constitute an offer or invitation for which disclosure is required to be made to investors in accordance with Part 6D.2 of the Corporations Act 2001 of Australia, (ii) the transfer is in compliance with all applicable laws, regulations or directives (including, without limitation, in the case of a transfer to or from Australia, the laws of the jurisdiction in which the transfer takes place), (iii) the offer or invitation is not made to a person who is a “retail client” within the meaning of section 761G of the Corporations Act, and (iv) in the case of a transfer between persons outside Australia, if a transfer and acceptance form is signed outside Australia. A transfer to an unincorporated association is not permitted.

A person becoming entitled to an Australian Domestic Instrument as a consequence of the death or bankruptcy of an Instrumentholder or of a vesting order or a person administering

the estate of an Instrumentholder may, upon producing such evidence as to that entitlement or status as the Australian Registrar considers sufficient, transfer the Australian Domestic Instrument or, if so entitled, become registered as the holder of the Australian Domestic Instrument.

Where the transferor executes a transfer of less than all Australian Domestic Instruments registered in its name, and the specific Australian Domestic Instruments to be transferred are not identified, the Australian Registrar may register the transfer in respect of such of the Australian Domestic Instruments registered in the name of the transferor as the Australian Registrar thinks fit, provided the aggregate principal amount of the Australian Domestic Instruments registered as having been transferred equals the aggregate principal amount of the Australian Domestic Instruments expressed to be transferred in the transfer.

### **3 Status of the Instruments**

Neither Bank of Scotland nor BOSIF are permitted to issue any Tier 1 Capital. In addition BOSIF is not permitted to issue any subordinated Instruments.

#### **3A. Status – Unsubordinated Instruments**

3A.01 This Condition 3A is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being unsubordinated or not specified as being subordinated.

3A.02 The Instruments constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future, other than any obligations preferred by mandatory provisions of applicable law.

#### **3B. Status – Subordinated Instruments (other than Undated Instruments)**

This Condition 3B is applicable in relation to the Instruments of a Series (other than the Instruments of a Series which are specified in the relevant Final Terms as having no fixed maturity date (“**Undated Instruments**”) specified in the relevant Final Terms as being subordinated (“**Dated Subordinated Instruments**”).

##### ***Status***

3B.01 The Instruments constitute direct and unsecured obligations of the Issuer, subordinated in the manner specified in Condition 3B.02 and rank *pari passu* without any preference among themselves and with the Instruments of each other Series to which the provisions of this Condition are expressed to apply.

##### ***Subordination***

3B.02 This Condition 3B.02 is applicable in relation to Instruments (other than Undated Instruments) issued on a subordinated basis.

The rights and claims of the Trustee, Instrumentholders and Couponholders against the Issuer in respect of the Instruments and Coupons (including Coupons payable in cash or by way of the issuance of Ordinary Shares in accordance with Condition 5D.08 if applicable) will be subordinated, in the event of the bankruptcy, winding up, liquidation, insolvency, administration or other equivalent proceedings of the Issuer, to the claims of Senior

Creditors of the Issuer (as defined below) in the manner provided in this Condition 3B.02 and in the Trust Deed, but shall rank at least *pari passu* and rateably with all other subordinated obligations (including guarantee obligations) of the Issuer and shall rank in priority to all undated or perpetual subordinated obligations (including guarantee obligations) of the Issuer and to the claims of holders of all classes of share capital of the Issuer.

**“Senior Creditors of the Issuer”** means all of the creditors of the Issuer whose claims are admitted to proof in the winding up or liquidation of the Issuer and who are unsubordinated creditors of the Issuer.

The subordination provisions apply to amounts payable under the Instruments and Coupons and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against the Issuer in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

### ***Deferral of Principal and Interest***

3B.03 The following paragraph shall apply to Instruments which are Tier 3 Instruments only:

The Issuer shall be entitled, by notice in writing to the Trustee (a **“Deferral Notice”**), to defer the due date for payment of any principal or interest in respect of such Tier 3 Instruments in the circumstances described below, and, accordingly, on the giving of such Deferral Notice the due date for payment of any such principal or interest (the **“Deferred Payment”**) shall be so deferred and the Issuer shall not be obliged to make payment thereof on the date the same would otherwise have become due and payable, and such deferral of payment shall not constitute a default by the Issuer for any purpose. Accordingly the applicable provisions of these Conditions in relation to such Tier 3 Instruments shall in all respects have effect subject to this Condition 3B.03. The Issuer (A) shall give a Deferral Notice in circumstances where its Capital Resources (as defined below) would be less than its Capital Resources Requirement (as defined below) after payment of any such principal or interest in whole or in part and (B) may give a Deferral Notice where the FSA has required or requested the Issuer to defer payment of the relevant Deferred Payment. Interest will accrue on principal deferred as aforesaid in accordance with the provisions of these Conditions and the Trust Deed, save that such interest shall only become due and payable at such time as the principal in respect of which it has accrued becomes due and payable under the following sentence. Promptly upon being satisfied that (x) (in the case of (A) above) its Capital Resources would not be less than its Capital Resources Requirement after payment of the whole or any part of any Deferred Payment or (y) (in the case of (B) above) the FSA will not object to the payment of the whole or any part of any Deferred Payment, the Issuer shall give to the Trustee written notice thereof (the **“Payment Notice”**) and the relevant Deferred Payment (or the appropriate part of it) and any accrued interest as aforesaid shall become due and payable on the seventh day after the date of such Payment Notice. In addition, all Deferred Payments (or remaining part of any Deferred Payment part only of which has been made as aforesaid) which remain unpaid shall become due and payable in full on the commencement (as defined in the Trust Deed) of a liquidation or winding up of the Issuer. Where more than one Deferred Payment (or remaining part thereof) remains unpaid, payment of part thereof shall be made pro rata according to the amounts of such Deferred Payments remaining unpaid and of any accrued interest as aforesaid remaining unpaid. The Issuer shall promptly give notice to the Instrumentholders of the relevant Series in accordance with Condition 15 of any Deferral Notice or Payment Notice.

As used above:

“**Capital Regulations**” means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FSA.

“**Capital Resources**” has the meaning given to such term in the Capital Regulations and shall include any successor term from time to time equivalent thereto as agreed between the Issuer and the Trustee.

“**Capital Resources Requirement**” has the meaning given to such term in the Capital Regulations and shall include any successor term from time to time equivalent thereto as agreed between the Issuer and the Trustee.

### **3C. Status – Subordinated Undated Instruments**

This Condition 3C is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being subordinated which are Undated Instruments (such Instruments as are expressed in the relevant Final Terms to be Tier 2 Instruments, “**Undated Tier 2 Instruments**”).

#### ***Status***

3C.01 The Instruments constitute direct and unsecured obligations of the Issuer, subordinated in the manner specified in Condition 3C.02, and rank *pari passu* without any preference among themselves and (but only in relation to Instruments that are not expressed in the relevant Final Terms to be tier 1 instruments (“**Tier 1 Instruments**”)) at least *pari passu* with the Instruments of each other Series to which the provisions of this Condition are expressed to apply and, in relation to such Instruments in respect of which Bank of Scotland is Issuer, rank *pari passu* with the obligations of Bank of Scotland in respect of the U.S. \$250,000,000 Undated Floating Rate Primary Capital Notes and the £200,000,000 Perpetual Notes of Bank of Scotland and, in relation to such Instruments in respect of which HBOS is Issuer, rank *pari passu* with the obligations of HBOS in respect of the £300,000,000 7.50 per cent. Undated Subordinated Step-up Notes, €300,000,000 Floating Rate Undated Subordinated Step-up Notes, ¥42,500,000,000 3.50 per cent. Undated Subordinated Step-up Notes, £600,000,000 Undated Subordinated Notes, €500,000,000 Fixed to Floating Rate Undated Subordinated Notes, £500,000,000 5.75 per cent. Undated Subordinated Step-up Notes, U.S.\$1,000,000,000 6.85 per cent. Undated Subordinated Notes, £600,000,000 5.75 per cent. Undated Subordinated Step-up Notes and U.S.\$1,000,000,000 5.375 per cent. Undated Fixed to Floating Rate Subordinated Notes of HBOS.

#### ***Condition of Payment***

3C.02 The rights and claims of the Trustee, Instrumentholders and Couponholders against the Issuer in respect of the Instruments and Coupons (including, without limitation, Coupons payable in cash or, in the case of Tier 1 Instruments, by way of the issuance of Ordinary Shares (as defined below) in accordance with Condition 5D.08, if applicable) will be subordinated to the claims of Senior Creditors (as defined below) of the Issuer in that the payment of principal, redemption amount, interest or other amounts in respect of the Instruments or Coupons will, in addition to the right of the Issuer to defer payment of interest in accordance with Condition 3C.03 below, be conditional upon the Issuer and, in relation to Instruments which are guaranteed, the Guarantor being solvent at the time of payment by the Issuer (or, as the case may be, at the time of issue of such Ordinary Shares)



and, subject to the relevant provisions of Condition 3C.04 below, no principal, redemption amount, interest or other amounts shall be payable in respect of such Instruments or Coupons (including, without limitation, Coupons payable in cash or, in the case of Tier 1 Instruments, by way of the issuance of Ordinary Shares in accordance with Condition 5D.08, if applicable) except to the extent that the Issuer and, in relation to Instruments which are guaranteed (assuming that a payment was then due by the Guarantor), the Guarantor could make such payment and still be solvent (whether or not it is bankrupt or is being liquidated or is in winding up) immediately thereafter.

For the purposes of this Condition 3C.02 and of Condition 4C.02 below, the Issuer or, as the case may be, the Guarantor shall be considered to be solvent if (i) it is able to pay its debts to Senior Creditors as they fall due and (ii) its Assets (as defined below) exceed its Liabilities (as defined below) to Senior Creditors. A report as to the solvency of the Issuer or the Guarantor by two Executive Officers (as defined in the Trust Deed) of the Issuer or, as the case may be, the Guarantor (subject always to the provisions of the Trust Deed) or, in certain circumstances as provided in the Trust Deed, the Auditors (as defined in the Trust Deed) or, if the Issuer or, as the case may be, the Guarantor is bankrupt or is being liquidated or wound up or is in administration, its receiver in bankruptcy or its trustee, its liquidator or, as the case may be, its administrator shall, unless the contrary is proved, be treated and accepted by the Issuer, the Guarantor, the Trustee, Instrumentholders and Couponholders as correct and sufficient evidence thereof.

In relation to Tier 1 Instruments only, the Issuer shall (except where Condition 3C.04 applies) satisfy any Deferred Interest Payment (as defined below) which arises as a result of this Condition 3C.02 in the manner, and at the time, provided in Condition 3C.03. Deferred Interest Payments shall not bear interest except in the case of Condition 5D.08(vi). In relation to Instruments which are not Tier 1 Instruments only, amounts representing interest in respect of which the condition referred to in this paragraph is not satisfied on the due date for the payment thereof shall, so long as the same remains unpaid, constitute “**Arrears of Interest**” (otherwise than for the purposes of Condition 3C.03). Arrears of Interest under this Condition 3C.02 shall not bear interest.

“**Ordinary Shares**” means ordinary shares in the capital of HBOS.

“**Senior Creditors**” means (subject as provided below) in relation to the Issuer or the Guarantor, creditors of the Issuer or, as the case may be, the Guarantor (a) who are depositors and/or other unsubordinated creditors of the Issuer or, as the case may be, the Guarantor or (b) whose claims are, or are expressed to be, subordinated to the claims of depositors and/or other creditors, whether subordinated or unsubordinated, of the Issuer or, as the case may be, the Guarantor other than those whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the Trustee, the Instrumentholders and Couponholders of the relevant Series.

“**Assets**” means the total amount of the non-consolidated gross assets of the Issuer or, as the case may be, the Guarantor, and “**Liabilities**” means the total amount of the non-consolidated gross liabilities of the Issuer or, as the case may be, the Guarantor, in each case, as shown by the latest published audited balance sheet of the Issuer or, as the case may be, the Guarantor, but adjusted for contingencies and for subsequent events in such manner and to such extent as such Executive Officers, Auditors or, as the case may be, receiver in bankruptcy, trustee or liquidator may determine to be appropriate.

The condition of payment applies only to amounts payable under the Instruments and Coupons and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against the Issuer in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

*It should be noted that if the Issuer would not otherwise be solvent, the amount of principal and of sums which would otherwise be payable as interest in respect of the Instruments will be available to meet the losses of the Issuer.*

*It should also be noted that the Issuer may defer payments of interest in respect of Instruments as provided in Condition 3C.03.*

### ***Deferral of Interest***

3C.03 The following paragraph shall apply to Instruments which are Tier 1 or Undated Tier 2 Instruments only:

- (i) If Equity Accounting is specified in the relevant Final Terms, on any Optional Interest Payment Date there may be paid (if the Issuer so decides and gives notice of such decision to Instrumentholders) the interest accrued in the Interest Period which ends on that Optional Interest Payment Date, but the Issuer may, at its option, defer such payment in accordance with this Condition 3C.03(i), and any such deferred payment shall not constitute a default by the Issuer for any purpose. In relation to Instruments which are not Tier 1 Instruments only, any interest so deferred on an Optional Interest Payment Date shall, so long as the same remains unpaid, constitute “**Arrears of Interest**”. In the case of Tier 1 Instruments any interest so deferred on an Optional Interest Payment Date or any interest which is deferred as a result of Condition 3C.02 shall constitute “**Deferred Interest Payments**”. Deferred Interest Payments shall not bear interest except in the circumstance specified in Condition 5D.08(vi).

The following paragraph shall apply to Instruments which are Tier 1 or Undated Tier 2 Instruments only:

- (ii) If Financial Liability Accounting is specified in the relevant Final Terms:
  - (a) on any Optional Interest Payment Date with respect to which (I) a Capital Disqualification Event has not occurred or is not continuing or (II) the Issuer is in breach of its Applicable Regulatory Capital Requirements, there may be paid (if the Issuer so decides and gives prior notice of such decision to Instrumentholders) the interest accrued in the Interest Period which ends on that Optional Interest Payment Date, but the Issuer may at its option, defer such payment in accordance with this Condition 3C.03(ii), and any such deferral of payment shall not constitute a default by the Issuer for any purpose. In relation to Instruments which are Tier 2 Instruments only, any interest so deferred on an Optional Interest Payment Date shall, so long as the same remains unpaid, constitute “**Arrears of Interest**”. In the case of Tier 1 Instruments any interest so deferred on an Optional Interest Payment Date or any interest which is deferred as a result of Condition 3C.02 shall constitute Deferred Interest Payments; and

- (b) on any Optional Interest Payment Date with respect to which (I) a Capital Disqualification Event has occurred and is continuing and (II) the Issuer is in compliance with its Applicable Regulatory Capital Requirements, the Issuer shall (subject to Condition 3C.02) be obliged to pay the interest accrued in the Interest Period which ends on that Optional Interest Payment Date.

The following paragraph shall apply to Instruments which are Undated Tier 2 Instruments only:

- (iii) The Issuer may at its option, but subject to Condition 3C.02 and to the provisions of the following sentence (and only upon the expiry of not less than seven days' notice to the Instrumentholders given in accordance with Condition 15), at any time pay all or part of the Arrears of Interest (being, if part only, the whole of the interest accrued on all of the Instruments of the relevant Series during any one or more Interest Accrual Periods) but so that, in the case of any such partial payment, the interest accrued during any Interest Accrual Period shall not be paid prior to that accrued during any earlier Interest Accrual Period. If there is outstanding more than one Series of Undated Instruments, then the Issuer shall not pay all or any part of the Arrears of Interest in respect of any Series unless it pays all or (as near as practicable) an equivalent proportion of the Arrears of Interest in respect of each other Series of Undated Instruments then outstanding. All Arrears of Interest shall (subject to Conditions 3C.02 and 3C.04) become due in full on the earliest of (a) the date set for any redemption permitted under either of Conditions 6.05 or 6.06, and (b) the commencement of liquidation or winding up of the Issuer. If notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Conditions 3C.02 and 3C.04) to do so upon the expiry of such notice. Any Arrears of Interest under this Condition 3C.03 shall themselves bear interest calculated at the same rate or rates and, mutatis mutandis, in the same manner as applies from time to time with respect to the Undated Instruments of the relevant Series in accordance with Condition 5.

The following paragraph shall apply to Instruments which are Tier 1 Instruments only:

- (iv) If the Issuer opts to defer payment of interest on any Optional Interest Payment Date or if the conditions to payment are not satisfied, the Issuer shall (except where Condition 3C.04 applies) satisfy any Deferred Interest Payment (as defined below) only by operation of the procedures set out in Condition 5D.08. Such Deferred Interest Payments may be satisfied in the manner aforesaid (upon the expiry of not less than 16 London Business Days' notice given to the Instrumentholders in accordance with Condition 15 and to the Trustee) at any time and in any event the Issuer must (subject to Condition 5D.09) satisfy any Deferred Interest Payments in the manner aforesaid upon the first of the following to occur (x) redemption of the Instruments in accordance with Condition 6.06, (y) redemption, substitution or variation of the terms of the Instruments in accordance with Condition 6.05, 6.10 or 6.11 (the date on which any such redemption, substitution or variation referred to in (x) or (y) above occurs being the "**Termination Date**") or (z) substitution of the Instruments in accordance with Condition 6.15.

The following paragraph shall apply to Instruments which are Tier 1 Instruments or Undated Tier 2 Instruments only:

- (v) If, on any Optional Interest Payment Date, interest in respect of any Interest Accrual Period shall not have been paid as a result of the exercise by the Issuer of its discretion pursuant to this Condition 3C.03 or the operation of Condition 3C.02, then from either (A) the date on which payment was originally, or but for the non-satisfaction of Condition 3C.02 would have been, due until the earlier of (a) the date on which the Issuer next pays in full the Interest Amounts due and payable on an Interest Payment Date on all outstanding Instruments of such Series (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Instrumentholders in a manner satisfactory to the Trustee) and (b) the date upon which the Issuer has satisfied in full all Arrears of Interest or as the case may be all Deferred Interest Payments or (B) such other period as specified in the relevant Final Terms the Issuer and, if the Issuer is BOS, HBOS shall not (i) declare or pay a distribution or dividend on any Junior Securities (other than a final dividend declared, made or paid by the relevant company before the issuer gives notice that such Interest Amount is to be deferred) or (ii) redeem, purchase, or otherwise acquire for any consideration any Junior Securities or Parity Securities.

In these Conditions, the following terms shall have the following meanings:

**“Applicable Regulatory Capital Requirements”** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Issuer or, where the Instruments are issued by Bank of Scotland, the Guarantor, on a solo and/or consolidated basis, including transitional rules and waivers.

**“Capital Disqualification Event”** is deemed to have occurred if (a) the Instruments would not be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital resources for the Issuer under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Issuer that the Instruments would not be eligible to qualify as regulatory capital resources for the Issuer.

**“Capital Regulations”** means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FSA.

**“FSA”** means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary bank supervisory authority with respect to the Issuer.

**“Junior Securities”** means the Ordinary Shares and any other securities of HBOS or any other member of the HBOS Group ranking or expressed to rank junior to the Instruments either issued directly by HBOS or, where issued by a member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by HBOS which ranks or is expressed to rank junior to the Instruments;

**“Optional Interest Payment Date”** means any due date for the payment of the interest accrued in respect of any Interest Period;

**“Parity Securities”** means (in the case of Tier 1 Instruments) the most senior ranking class or classes of non-cumulative preference shares in the capital of HBOS from time to time and (in the case of Tier 1 Instruments and Undated Tier 2 Instruments) any other securities of HBOS or any other member of the HBOS Group ranking or expressed to rank *pari passu*

with the Instruments and/or (in the case of Tier 1 Instruments) such preference shares either issued directly by HBOS or, where issued by a member of the HBOS Group, where the terms of the securities benefit from a guarantee or support agreement entered into by HBOS which ranks or is expressed to rank *pari passu* with the Instruments and/or (in the case of Tier 1 Instruments) such preference shares and in each case which comply (in the case of Tier 1 Instruments) with the then current requirements of the FSA in relation to Tier 1 Capital.

### ***Liquidation or Winding up or Administration***

#### **3C.04**

The following paragraph applies to Instruments that are not Tier 1 Instruments:

If, at any time, where the Issuer is either Bank of Scotland or HBOS, an order is made for the liquidation or winding up of the Issuer or an effective resolution is passed for the winding up of the Issuer or an administrator of the Issuer is appointed and the administrator has given notice that it intends to declare and distribute a dividend, the Instruments shall become due and payable in accordance with this Condition 3C.04 and the Issuer shall, in lieu of any other payment on the Instruments of the relevant Series representing principal, redemption amount, accrued interest, Arrears of Interest and/or interest due but unpaid, but subject to the condition set out in Condition 3C.02 above, be obliged to pay, in respect of such Instruments, such amounts as would have been payable if the Instrumentholders had, on the day preceding the commencement of such liquidation, winding up or, as appropriate, the giving of such notice by the administrator, become holders of preference stock or shares in the capital of Bank of Scotland or HBOS (as appropriate) forming or being part of a class having a preferential right in the liquidation, winding up or administration (as appropriate) over the holders of all other classes of stock and shares in the capital of Bank of Scotland or HBOS (as appropriate) and entitled to receive in such liquidation, winding up or administration (as appropriate) an amount equal to the principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable prior to the time that such order is made for the liquidation or winding up of Bank of Scotland or HBOS (as appropriate) or an effective resolution is passed for the winding up of Bank of Scotland or HBOS (as appropriate), and interest (if any) accrued since the Payment Date immediately preceding or coinciding with the commencement of such liquidation, winding up or, as appropriate, notice to the date of such repayment and all Arrears of Interest and/or, as the case may be, all such interest due but unpaid.

The following paragraph applies to Tier 1 Instruments only:

If, at any time (i) an order is made for the liquidation or winding up of the Issuer or an effective resolution is passed for the winding up of the Issuer or (ii) following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to distribute a dividend, the Issuer shall be obliged to pay, in respect of the principal of and interest on such Instruments (in lieu of any other payment by the Issuer), such amounts (if any) as would have been payable in respect thereof if the Instrumentholders had, on the day preceding the commencement of such liquidation, winding up or, as appropriate, giving of such notice either:

if Option A is specified in the relevant Final Terms,

(i) been holders of shares in the capital of the Issuer as follows:

- (A) for each £1 (or, where the Specified Currency is other than pounds sterling, the Specified Currency Unit specified in the applicable Final Terms) otherwise payable in respect of any Interest Amount (which includes any Accrued Interest Payment and any Deferred Interest Payment which has not been settled in accordance with the ACSM (as defined below) as a result of the Ordinary Shares Threshold (as defined below), any insufficiency of available authorised share capital or otherwise) or other amount payable in respect of, or arising from, each Instrument in respect of which the conditions specified in Condition 3C.02 are not satisfied on the date on which the same would otherwise be due and payable or which otherwise have not been satisfied, apart from principal: one preference share of £1 (or, where the Specified Currency is other than pounds sterling, the Specified Currency Unit specified in the applicable Final Terms) each in the capital of the Issuer ranking equally with the Notional Preference Shares (as defined below);
- (B) subject to satisfaction of amounts due as provided in (C) below, for each £1 (or, where the Specified Currency is other than pounds sterling, the Specified Currency Unit specified in the applicable Final Terms) otherwise payable in respect of the principal amount of each Instrument: such number of Ordinary Shares whose nominal value aggregates to £1 (or, where the Specified Currency is other than pounds sterling, whose nominal value aggregates to the equivalent of the Specified Currency Unit specified in the applicable Final Terms as determined as provided therein); and
- (C) if and to the extent that the principal amount of each Instrument exceeds the amount of any Accrued Interest Payment and any Deferred Interest Payment attributable to such Instrument (the “**excess amount**”), for each £1 (or, where the Specified Currency is other than pounds sterling, the Specified Currency Unit specified in the applicable Final Terms) of excess amount otherwise payable in respect of, or arising from, such Instrument: one preference share of £1 (or, where the Specified Currency is other than pounds sterling, the Specified Currency Unit specified in the applicable Final Terms) each in the capital of the Issuer ranking equally with the Notional Preference Shares; or

if Option B is specified in the relevant Final Terms,

- (ii) been holders of preference stock or shares in the capital of the Issuer forming or being part of a class having a preferential right in the liquidation, winding up or administration (as appropriate) over the holders of all other classes of stock and shares in the capital of the Issuer and entitled to receive in such liquidation, winding up or administration (as appropriate) an amount equal to the principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable prior to the time that such order is made for the liquidation or winding up of the Issuer or such notice is given by the administrator of the intention to declare and distribute a



dividend or an effective resolution is passed for the winding up of the Issuer and interest (if any) accrued since the Interest Payment Date immediately preceding or coinciding with the commencement of such liquidation, winding up or, as appropriate, notice by the administrator of the intention to declare and distribute a dividend to the date of such repayment and all Accrued Interest Payments and Deferred Interest Payments and/or, as the case may be, all such interest due but unpaid.

As used in paragraphs (i)(A), (B) and (C) above:

**“Notional Preference Shares”** means an actual or notional class of preference shares in the capital of the Issuer having an equal right to return of assets in the winding up or administration to, and so ranking *pari passu* with, the most senior class or classes of issued preference shares with non-cumulative dividends (if any) in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the winding up or administration over, and so rank ahead of the holders of all other classes of issued shares for the time being in the capital of the Issuer but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Upper Tier 2 Securities in a winding up or administration of the Issuer is determined;

**“Ordinary Shares Threshold”** means, in connection with any Deferred Interest Payment, that the aggregate number of Ordinary Shares issued and/or transferred by HBOS in any rolling 12-month period shall not exceed 2 per cent. of the aggregate number of the Ordinary Shares of HBOS in issue (including those in issue and those held by HBOS in treasury).

#### ***Loss Absorption***

*The payment obligations of the Issuer in respect of the Instruments are conditional upon the Issuer and, in relation to Instruments which are guaranteed, the Guarantor, being solvent immediately before and after payment by the Issuer and, in relation to Instruments which are guaranteed, (assuming that a payment was then due by the Guarantor) the Guarantor. If this condition is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal, redemption amount, interest or other amounts in respect of the Instruments may be used by the Issuer or, as the case may be, the Guarantor, to absorb losses.*

## **4 Status of the Guarantee**

### **4A. Status – Unsubordinated Guarantee**

This Condition 4A is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being guaranteed on an unsubordinated basis.

#### ***Status***

4A.01 The obligations of the Guarantor under the Guarantee in respect of such Instruments constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and claims under the Guarantee rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future, save only for such obligations as may be preferred by mandatory provisions of applicable law.

#### **4B. Status – Subordinated Guarantee (other than in respect of Undated Instruments)**

This Condition 4B is applicable in relation to Dated Subordinated Instruments of a series specified in the relevant Final Terms as being guaranteed on a subordinated basis.

##### ***Status***

4B.01 The obligations of the Guarantor under the Guarantee constitute direct and unsecured obligations of the Guarantor, subordinated in the manner described in Condition 4B.02 below, and claims under the Guarantee rank *pari passu* without any preference among themselves and at least *pari passu* with claims under the Guarantee in respect of the Instruments of any other Series to which this Condition 4B is expressed to apply.

4B.02 The rights and claims of the Trustee, Instrumentholders and Couponholders against the Guarantor under the Guarantee in respect of such Instruments and Coupons (including Coupons payable in cash or by way of the issuance of Ordinary Shares in accordance with Condition 5D.08 if applicable) are subordinated, in the event of winding up, liquidation, insolvency, administration or other equivalent proceedings of the Guarantor, to the claims of Senior Creditors of the Guarantor (as defined below), in the manner provided in this Condition 4B.02 and in the Trust Deed, but shall rank at least *pari passu* and rateably with all other subordinated obligations (including guarantee obligations) of the Guarantor and shall rank in priority to all undated or perpetual subordinated obligations (including guarantee obligations) of the Guarantor and to the claims of holders of all classes of share capital of the Guarantor.

“Senior Creditors of the Guarantor” shall have the same meanings as “Senior Creditors of the Issuer” as defined in Condition 3B.02 but as if references therein to the Issuer were references to the Guarantor.

The subordination provisions apply only to amounts payable under the Guarantee and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against a Guarantor in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

#### **4C. Status – Subordinated Guarantee – Undated Tier 2 Instruments**

This Condition 4C is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being guaranteed on a subordinated basis and which are Undated Tier 2 Instruments.

##### ***Status***

4C.01 The obligations of the Guarantor under the Guarantee constitute direct and unsecured obligations of the Guarantor, subordinated in the manner described in Condition 4C.02 below, and claims under the Guarantee rank *pari passu* without any preference among themselves and (in relation to Instruments that are not Tier 1 Instruments only) at least *pari passu* with claims under the Guarantee in respect of the Instruments of any other Series to which this Condition is expressed to apply and rank *pari passu* with the obligations of the Guarantor in respect of the £300,000,000 7.50 per cent. Undated Subordinated Step-up Notes, €300,000,000 Floating Rate Undated Subordinated Step-up Notes, ¥42,500,000,000 3.50 per cent. Undated Subordinated Step-up Notes, £600,000,000 Undated Subordinated Notes, €500,000,000 Fixed to Floating Rate Undated Subordinated Notes, £500,000,000 5.75 per cent. Undated Subordinated Step-up Notes, U.S.\$1,000,000,000 6.85 per cent.

Undated Subordinated Notes, £600,000,000 5.75 per cent. Undated Subordinated Step-up Notes and U.S.\$1,000,000,000 5.375 per cent. Undated Fixed to Floating Rate Subordinated Notes of the Guarantor.

### ***Condition of Payment***

4C.02 The rights and claims of the Trustee, Instrumentholders and Couponholders against the Guarantor under the Guarantee in respect of such Instruments and Coupons (including without limitation Coupons payable in cash or by way of the issuance of Ordinary Shares in accordance with Condition 5D.08, if applicable) are subordinated to the claims of Senior Creditors (as defined in Condition 3C.02) of the Guarantor in that the payment of amounts guaranteed under the Guarantee will be conditional upon the Guarantor being solvent at the time of payment by the Guarantor (or, as the case may be, at the time of issue of such Ordinary Shares) and in that no amounts guaranteed under the Guarantee shall be payable (including without limitation Coupons payable in cash or by way of the issuance of Ordinary Shares in accordance with Condition 5D.08, if applicable) except to the extent that the Guarantor could make such payment and still be solvent (within the meaning of Condition 3C.02) (whether or not it is being liquidated or is in winding up or administration) immediately thereafter.

A report as to the solvency of the Guarantor by two Executive Officers (as defined in the Trust Deed) of the Guarantor (subject always to the provisions of the Trust Deed) or the Auditors (as defined in the Trust Deed) of the Guarantor or, if the Guarantor has been liquidated or is being wound up, its liquidator shall, unless the contrary is proved, be treated and accepted by the Guarantor, the Trustee, Instrumentholders and Couponholders as correct and sufficient evidence thereof.

The condition of payment applies only to amounts payable under the Guarantee and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against the Guarantor in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

### **4D Status of BOSIF Instruments**

In relation only to Instruments issued by BOSIF (“**BOSIF Instruments**”) (which are guaranteed on a joint and several basis by HBOS and Bank of Scotland), the Trustee has, in the Trust Deed, agreed with BOSIF and the Guarantors that it is not entitled to the benefit of any guarantee that any other member of the HBOS Group may extend in respect of obligations of BOSIF. Further, if the Trustee does receive any payment under such a guarantee, it shall hold the same on trust for the person/entity who has made such payment and shall not be treated as having received any payment in respect of such BOSIF Instruments.

## **5 Interest**

Instruments may be interest-bearing or non-interest-bearing, as specified in the relevant Final Terms. The Final Terms in relation to each Series of interest-bearing Instruments shall specify which one (and one only in relation to any period of time) of Conditions 5A, 5B or 5C shall be applicable provided that Condition 5D will be applicable as specified therein and save to the extent inconsistent with the relevant Final Terms, the applicable Day Count Fraction will be as specified in Condition 5E and/or in the relevant Final Terms and the applicable business day convention will be as specified in Condition 5F and/or in the relevant Final Terms.

In relation to Tier 1 Instruments only, the Issuer may at its option elect for any interest payment to be satisfied by operation of the procedures set out in Condition 5D.08 upon notice to the Trustee, the Agent and the ACSM Calculation Agent not less than 16 London Business Days prior to the relevant Interest Payment Date.

**5A. Interest – Fixed Rate**

Instruments in relation to which this Condition 5A is specified in the relevant Final Terms as being applicable shall bear interest from their date of issue (as specified in the relevant Final Terms) or from such other date as may be specified in the relevant Final Terms at the rate or rates per annum specified in the relevant Final Terms. Such interest will be payable in arrear on the Interest Payment Dates specified in the relevant Final Terms and on the date of final maturity thereof subject, in the case of Undated Instruments, to the provisions of Conditions 3C.02, 3C.03, 3C.04, 5D.05, 5D.08 and 5D.09. Interest in respect of a period of less than one year will be determined in accordance with Condition 5D.06. The amount of interest payable will be determined in accordance with Condition 5D.06.

**5B. Interest – Floating Rate**

5B.01 Instruments in relation to which this Condition 5B is specified in the relevant Final Terms as being applicable shall bear interest at the rates per annum determined in accordance with this Condition 5B.

5B.02 Such Instruments shall bear interest from their date of issue (as specified in the relevant Final Terms) or from such other date as may be specified in the relevant Final Terms. Such interest will, subject, in the case of Undated Instruments, to the provisions of Conditions 3C.02, 3C.03, 3C.04, 5D.05, 5D.08 and 5D.09, be payable on each Interest Payment Date. If such date of issue or such other date as aforesaid or any succeeding Interest Payment Date falls on the last Business Day of a month, each subsequent Interest Payment Date shall be the last Business Day of the relevant month.

5B.03 The Final Terms in relation to each Series of Instruments in relation to which this Condition 5B is specified as being applicable shall specify the Relevant Screen Page.

5B.04 The Rate of Interest in respect of Floating Rate Instruments for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

**(i) *ISDA Determination for Floating Rate Instruments***

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Determination Agent as a rate equal to the relevant ISDA Rate. For the purposes of this subparagraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified hereon
- (b) the Designated Maturity is a period specified hereon and

- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Instruments*

- (a) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (I) the offered quotation; or
- (II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Determination Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Determination Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Instruments is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Instruments will be determined as provided in the applicable Final Terms.

- (b) If the Relevant Screen Page is not available, or if sub-paragraph (a)(I) above applies and no such offered quotation appears on the Relevant Screen Page, or if sub-paragraph (a)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Determination Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Determination Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Determination Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Determination Agent.

If paragraph (b) above applies and the Determination Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided

below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Determination Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Determination Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Determination Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin, Rate Multiplier or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin, Rate Multiplier or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin, Rate Multiplier or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- 5B.05 The Determination Agent will, as soon as practicable after determining the Rate of Interest in relation to each Interest Period, calculate the Interest Amount payable in respect of the principal amount of the smallest or minimum denomination of such Instruments specified in the relevant Final Terms for the relevant Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to such principal amount, multiplying the product by the Day Count Fraction (as defined below) specified in the relevant Final Terms and rounding the resulting figure to the nearest sub-unit of the currency in which such Instruments are denominated or, as the case may be, in which such interest is payable (one half of any such sub-unit being rounded upwards) save that, where the relevant currency is Japanese yen, one half of one yen shall be rounded downwards.

## 5C. Interest – Other Rates

- 5C.01 **Rate of Interest for Index Linked Interest Instruments:** The Rate of Interest in respect of Index Linked Interest Instruments for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon. The amount of interest payable will be determined in accordance with Condition 5D.06.



- 5C.02 **Rate of Interest for Non Interest Bearing Instruments:** Where an Instrument the Interest Basis of which is specified to be Non Interest Bearing is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Instrument. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Instrument shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6.02). The rate of interest will be calculated in accordance with provisions of Condition 5D.06.
- 5C.03 **Rate of Interest for Dual Currency Instruments:** In the case of Dual Currency Instruments, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon. The rate of interest will be calculated in accordance with the provisions of Condition 5D.06.
- 5C.04 **Rate of Interest for Partly Paid Instruments:** In the case of Partly Paid Instruments (other than Partly Paid Instruments which are Non Interest Bearing Instruments), interest will accrue as aforesaid on the paid-up principal amount of such Instruments and otherwise as specified hereon.
- 5C.05 Instruments in relation to which this Condition 5C is specified in the relevant Final Terms as being applicable and which are not Index Linked Interest Instruments, Non Interest Bearing Instruments, Dual Currency Instruments or Partly Paid Instruments shall bear interest at the rates per annum or calculated on the basis specified in, and be payable subject, in the case of Undated Instruments, to the provisions of Conditions 3C.02, 3C.03, 3C.04, 5D.05, 5D.08 and 5D.09, in the amounts and in the manner determined in accordance with, the relevant Final Terms.

## **5D. Interest – Supplemental Provisions**

- 5D.01 Conditions 5D.02, 5D.03, 5D.04, 5D.05 and 5D.06 shall be applicable (as appropriate) in relation to all Instruments which are interest-bearing.

### ***Notification of Items Determined by the Determination Agent***

- 5D.02 The Determination Agent will cause each Rate of Interest, floating rate, Interest Payment Date, final day of a Calculation Period, Interest Amount, floating amount or other item determined or calculated by it in accordance with the relevant Final Terms to be notified to the Issuer, the Guarantor (if applicable), the Trustee, the Principal Paying Agent, the Australian Paying Agent and the Australian Registrar (as appropriate) as soon as practicable after such determination or calculation but in any event not later than the fourth London Banking Day thereafter and in relation to Instruments other than Australian Domestic Instruments, the Principal Paying Agent will cause them to be notified to the Paying Agents (from whose respective specified offices such information will be available) and, in the case of those Instruments listed, traded and/or quoted on a listing authority, stock exchange and/or quotation system and such listing authority, stock exchange and/or quotation system so requires, to such listing authority, stock exchange and/or quotation system by the time required by the relevant listing authority, stock exchange and/or quotation system.
- 5D.03 The Determination Agent will be entitled (with the consent of the Trustee) to amend any Interest Amount, floating amount, Interest Payment Date or last day of a Calculation Period (or to make (with the consent of the Trustee) appropriate alternative arrangements by way of

adjustment) without notice in the event of the extension or abbreviation of any relevant Interest Period or Calculation Period. If for any reason the Determination Agent does not, at any time, determine or calculate any item required to be determined by it, the Trustee shall determine or calculate the relevant item in such manner as, in its absolute discretion (having such regard as it shall think fit to the procedures described above, but subject always to any minimum or maximum interest rate which may be prescribed), it thinks fit or, as the case may be, the Trustee shall calculate or determine the relevant item in the manner specified above and such determination or calculation shall be deemed to have been made by the Determination Agent.

- 5D.04 The determination by the Determination Agent or the Trustee of all items falling to be determined by it shall, in the absence of manifest error, be final and binding on all parties. As used herein the “**Determination Agent**” means the Principal Paying Agent or such other agent as may be specified in the relevant Final Terms.

#### *Accrual of Interest*

- 5D.05 Interest shall accrue on the principal amount of each Instrument or, in the case of an Instalment Instrument, on each instalment of principal or, in the case of Partly Paid Instruments, on the paid up principal amount of such Instrument or otherwise as indicated in the relevant Final Terms. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal on the due date for payment thereof) or the date of substitution thereof pursuant to Condition 6.11 or 6.15, as the case may be, unless upon due presentation and (except in the case of payment of an instalment of principal other than the final instalment) surrender thereof, payment in full of the principal amount or the relevant instalment or, as the case may be, redemption amount is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue until whichever is the earlier of:
- (1) the date on which all amounts due in respect of such Instruments have been paid; and
  - (2) five days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to Instrumentholders in accordance with Condition 15 or individually.

#### *Calculations*

- 5D.06 The amount of interest payable per Calculation Amount (as defined in the applicable Final Terms) in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save

that the Day Count Fraction shall be for the period for which interest is required to be calculated.

***Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding***

5D.07

- (i) If any Margin or Rate Multiplier is specified hereon (either (a) generally, or (b) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (a), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (b), calculated in accordance with Condition 5 above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (a) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (b) all fractions shall be rounded to seven significant figures (with halves being rounded up) and (c) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves 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.

The following Condition 5D.08 shall apply to Tier 1 Instruments only:

***Alternative Coupon Satisfaction Mechanism***

**5D.08**

- (i) Each ACSM Payment (as defined below), when due to be satisfied in accordance with these Conditions, shall (except as provided in Condition 5D.09) be satisfied by the Issuer in full only through the issue and/or transfer of Ordinary Shares to the Trustee or its agent in accordance with this Condition 5D.08. The Issuer shall appoint an ACSM Calculation Agent (if it has not already done so) and notify the Trustee, the Agent and the ACSM Calculation Agent not less than 16 London Business Days prior to the relevant ACSM Payment Date that an ACSM Payment is to be satisfied on such ACSM Payment Date. All other payments due must, subject to Conditions 3C.02 and 3C.03, be satisfied in accordance with Condition 9.
- (ii) Any relevant Deferred Interest Payment shall only be made by operation of the ACSM if the Ordinary Shares Threshold would not be exceeded as a result of the issue and/or transfer of Payment Ordinary Shares (as defined below) in connection therewith and, in each case, only if the proceeds raised from the issue and/or transfer of the Payment Ordinary Shares is received no more than six months before the relevant ACSM Payment Date.
- (iii) Issue of Ordinary Shares

If any ACSM Payment is to be satisfied through the issue of Ordinary Shares as required by the provisions of this Condition 5D.08 then:

- (a) by or before the close of business on the seventh London Business Day prior to the relevant ACSM Payment Date, the Issuer will issue and/or transfer to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) such number of Ordinary Shares (the “**Payment Ordinary Shares**”) as, in the determination of the ACSM Calculation Agent, will have a market value as near as practicable to, but not less than the relevant ACSM Payment to be satisfied in accordance with this Condition 5D.08; and
- (b) the Trustee has agreed to use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the ACSM Calculation Agent as soon as practicable (subject to any necessary consents being obtained) and in any case by not later than the close of business in London on the sixth London Business Day prior to the relevant ACSM Payment Date and the ACSM Calculation Agent shall be required to agree in the ACSM Calculation Agency Agreement to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. The ACSM Calculation Agent shall further be required to agree in the ACSM Calculation Agency Agreement to convert, as agent of the Trustee, the proceeds of such sale into the currency of payment, if necessary, at prevailing market exchange rates and deliver such converted proceeds of such sale to, or hold such converted proceeds of such sale to the order of, the Trustee, who shall pay or procure that its agent pays or shall instruct the ACSM Calculation Agent to pay such proceeds as it holds in respect of the

relevant ACSM Payment on its due date to the Agent for application in accordance with Condition 5D.08(iv).

The Trustee shall not be liable to anyone for any loss occasioned by the transfer or sale of the Payment Ordinary Shares or the conversion of the proceeds of such sale as aforesaid, in each case by or on behalf of the Trustee, or any delay or failure in effecting such transfer or sale of the Payment Ordinary Shares or conversion of the proceeds (as the case may be) under these Conditions.

If the proceeds of the sale of the Payment Ordinary Shares will not, in the opinion of the ACSM Calculation Agent despite the arrangements described above, result in a sum at least equal to the relevant ACSM Payment being available to satisfy the necessary ACSM Payment in full on its due date, the Issuer, the Trustee and the ACSM Calculation Agent shall take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Ordinary Shares on one or more further occasions (also “**Payment Ordinary Shares**”) and allotting them in favour of the Trustee or its agent and following, *mutatis mutandis*, the procedures contained above (and exchanged into the currency of payment, if necessary), a sum as near as practicable to, and at least equal to, the relevant ACSM Payment will be available to satisfy the relevant ACSM Payment in full on its due date. If, despite the operation of the above provisions, a shortfall exists on the London Business Day preceding the intended ACSM Payment Date, the Issuer shall, for a period of five years from such date (or such other period if any as specified in the relevant Final Terms), continue to use all reasonable endeavours to settle any ACSM Payment in accordance with this Condition 5D.08 and may in accordance with the provisions of any ACSM Calculation Agency Agreement, and subject to having the relevant corporate authorisations in place, continue to issue and allot the relevant number of Payment Ordinary Shares until the Trustee shall have received funds on behalf of the Issuer equal to the full amount of such shortfall. The foregoing is subject to the proviso that if a shortfall exists on the London Business Day preceding the intended Termination Date no part of the ACSM Payment shall be due until such time as the Issuer is able to pay a sum at least equal to the ACSM Payment in full in accordance with the procedures set out in this Condition 5D.08 on the Termination Date.

(iv) Issue Satisfies Payment

Where the Issuer is required to satisfy an ACSM Payment hereunder by the issue and/or transfer of Payment Ordinary Shares to the Trustee (or its agent) and issues and/or sells such Payment Ordinary Shares, such issue and/or transfer shall satisfy the relevant ACSM Payment or, as the case may be, the relevant part of such ACSM Payment, if done in accordance with this Condition 5D.08. The proceeds of sale of Payment Ordinary Shares shall be paid by the Agent to the Instrumentholders in respect of the relevant ACSM Payment.

(v) Insufficiency

The Issuer shall not be entitled to exercise its option pursuant to Condition 6.05, 6.06, 6.10, 6.11 or 6.15 to redeem, substitute or vary any of the Instruments of the relevant Series until such time as the Issuer has available for, and the directors have the corresponding authority to, issue such number of Payment Ordinary Shares as is required to be issued in accordance with this Condition 5D.08 for the purposes of satisfying in full in accordance with this

Condition 5D.08 any ACSM Payment required to be satisfied in connection with such redemption of the Instruments of the relevant Series.

(vi) Market Disruption

Notwithstanding the provisions of Condition 5D.08(iii), if there exists, in the opinion of the Issuer, a Market Disruption Event (as defined below) with respect to Payment Ordinary Shares on or after the 15th London Business Day preceding any ACSM Payment Date, then the Issuer may give a notice to the Trustee, the Agent, the ACSM Calculation Agent and (in accordance with Condition 15) the Instrumentholders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant ACSM Payment may be deferred until such time as the Market Disruption Event, in the opinion of the Issuer, no longer exists.

Any such deferred ACSM Payment will be satisfied as soon as practicable following such time as the Market Disruption Event no longer exists. Interest shall not accrue on such deferred ACSM Payment, unless, as a consequence of the existence of the relevant Market Disruption Event, the Issuer does not satisfy the relevant ACSM Payment for a period of 14 London Business Days or more after the due date therefor, in which case interest shall accrue on such deferred ACSM Payment from (and including) the date on which the relevant ACSM Payment was due to be made to (but excluding) the date on which such ACSM Payment is made. Any such interest shall accrue at a rate determined in accordance with Condition 5 and shall be satisfied only in accordance with this Condition 5D.08, as soon as reasonably practicable after the relevant deferred ACSM Payment is made. No liability shall attach to the Trustee or its agent if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 5D.08(iii).

(vii) Listing

The Issuer shall ensure (to the extent possible) that, at the time when any Ordinary Shares are issued and/or transferred pursuant to this Condition 5D.08, such Ordinary Shares are admitted to listing on the Official List and are admitted to trading on the Market (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

As used in Condition 5D.08 above:

**“Accrued Interest Payment”** means, at any given time, where these Conditions provide that interest shall continue to accrue after an Interest Payment Date in respect of an Instrument, the amount of interest accrued thereon at that time in accordance with Conditions 5D.05 or 5D.08(vi);

**“ACSM”** means the Alternative Coupon Satisfaction Mechanism as set out in Condition 5D.08;

**“ACSM Calculation Agency Agreement”** means any agreement entered into by the Issuer, the Trustee and the ACSM Calculation Agent in respect of the appointment of the ACSM Calculation Agent to perform the functions expressed to be performed by the ACSM Calculation Agent under these Conditions;

**“ACSM Calculation Agent”** means the independent investment bank or financial institution, appointed on the terms of an ACSM Calculation Agency Agreement, selected by the Issuer and



approved by the Trustee, for the purposes of performing the functions expressed to be performed by it under these Conditions;

**“ACSM Payment”** means any Deferred Interest Payment pursuant to Condition 3C.03(iv), Condition 5D.08(vi) any Accrued Interest Payment pursuant to Condition 5D.05 or 5D.08 (vi) and any other Interest Payment in respect of which the Issuer has at its option notified the Trustee, the Agent and the Calculation Agent not less than 16 London Business Days prior to the relevant Interest Payment Date that such Interest Payment is to be satisfied in accordance with Condition 5D.08 on such Interest Payment Date which will thereby become an ACSM Payment Date;

**“ACSM Payment Date”** means the date on which an ACSM Payment is due to be satisfied pursuant to these Conditions provided that where the provisions of Condition 5D.08(vi) cause an ACSM Payment to be deferred, references therein to **“ACSM Payment Date”** shall be to the date on which such ACSM Payment would otherwise have been due to be satisfied had such ACSM Payment not been deferred pursuant to Condition 5D.08(vi);

**“Market Disruption Event”** means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movement in price exceeding limits permitted by any stock exchange on which the Ordinary Shares are for the time being listed) or on settlement procedures for transactions in the Ordinary Shares on any stock exchange on which the Ordinary Shares are for the time being listed if, in any such case, that suspension or limitation is, in the determination of the ACSM Calculation Agent, material in the context of the sale of the Ordinary Shares, or (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the Payment Ordinary Shares, or (iii) where, pursuant to these Conditions, monies are required to be converted from one currency into another currency in respect of any ACSM Payment, the occurrence of any event that makes it impracticable to effect such conversion.

The following paragraph 5D.09 shall apply to Tier 1 Instruments only:

### ***Suspension***

#### **5D.09**

If, following any takeover offer made under the City Code on Takeovers and Mergers or any reorganisation, restructuring or scheme of arrangement, the Issuer ceases to be the Ultimate Owner (as defined below), then the Issuer shall as soon as practicable give notice to the Instrumentholders in accordance with Condition 15, the Trustee, the Agent and the ACSM Calculation Agent (if any), whereupon the operation of the ACSM shall be suspended (such event being a **“Suspension”**). In such event, unless a Permitted Restructuring Arrangement (as defined below) shall be put in place within six months of the occurrence of a Permitted Restructuring (as defined below) (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank or financial institution appointed by the Issuer (at the Issuer’s expense) and approved by the Trustee shall determine, subject to the requirements that: (i) the Issuer shall not be obliged to reduce its net assets; (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the Instruments for regulatory capital and solvency purposes unless the Issuer has given at least one month’s prior written notice to, and received no objection from, or obtained the consent of, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that such notice and/or consent is required to be given); and (iii) no such amendment may be made which would, in the Trustee’s opinion, impose

more onerous obligations on it or reduce its protections without its consent, what amendments (if any) to these Conditions, the Trust Deed and any other relevant documents are appropriate in order (aa) to preserve substantially the economic effect, for the Instrumentholders, of a holding of the Instruments prior to the Suspension and (bb) to replicate the ACSM in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank or financial institution, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without any requirement for the consent or the approval of the Instrumentholders or Couponholders, effect any necessary consequential changes to these Conditions and the Trust Deed and any other relevant documents, whereupon the satisfaction of any ACSM Payment (when due) by the method contemplated in Condition 5D.08 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank or financial institution is unable to formulate such amendments, it shall so notify the Issuer, the previous Ultimate Owner (if not the Issuer), the new Ultimate Owner, the Trustee, the Agent and the ACSM Calculation Agent (if any) and the Instruments shall (subject in each case to the Issuer giving at least one month's prior written notice to, and receiving no objection, or the obtaining of consent, from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that such notice is required to be given) and with the prior agreement of the new Ultimate Owner) at the option of the Issuer (subject to the provisions of Condition 3C.02 and Condition 6.14) either be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or be redeemed, in each case as described below.

If the Instruments are to be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, the Issuer shall give not less than 30 nor more than 60 days' notice to the Trustee, the Agent, the ACSM Calculation Agent (if any) and, in accordance with Condition 15, the Instrumentholders (which notice shall be irrevocable) and all (but not some only) of the Instruments will be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the two authorised signatories referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities and subject further to the receipt by it of the notification of the relevant investment bank or financial institution referred to above) agree to such substitution or variation. In connection therewith, all Deferred Interest Payments (if any) will either (at the option of the Issuer) (x) be carried over such that the rights of the Instrumentholders with respect thereto are preserved in the new Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, as the case may be, or (y) be satisfied (unless otherwise agreed by the Issuer and the Trustee) by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue Ultimate Owner Ordinary Shares so as to enable it to satisfy the amount of such Deferred Interest Payments in accordance, *mutatis mutandis*, with Conditions 5D.08(iii), 5D.08(iv), 5D.08(v) and 5D.08(vi) (with references to the Payment Ordinary Shares being construed as references to such Ultimate Owner Ordinary Shares which, when sold, provide a net cash amount (converted into the currency of payment, if necessary) of not less than the amount of such Deferred Interest Payments which fall to be satisfied by the Issuer). The Trustee shall (at the expense of the Issuer) use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Instrument for, or the variation of the terms of the Instruments so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, as the case may be, provided that the Trustee shall not be obliged to participate in or assist with any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such

substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or reduce its protections. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the FSA objects or (if consent is required) does not consent to such substitution or variation or it is otherwise not practicable for the Instruments to be substituted or varied as described above, the Issuer may, subject to the provisions of Condition 6.14, elect to redeem the Instrument as provided in this Condition 5D.09.

In connection with any substitution or variation in accordance with this Condition 5D.09, the Issuer shall comply with the rules of any stock exchange on which the Instruments are for the time being listed or admitted to trading.

If the Instruments are to be redeemed by the Issuer in accordance with this Condition 5D.09, the Issuer shall give notice thereof to the Trustee, the Agent, the ACSM Calculation Agent (if any) and, in accordance with Condition 15, the Instrumentholders (which notice shall be irrevocable and which shall expire as soon as practicable after confirmation of no objection, or the obtaining of consent, from the FSA in each case to the extent required) and all (but not some only) of the Instruments will be redeemed at (in the case of any redemption prior to the first Optional Redemption Date) their Early Redemption Amount (as determined in accordance with Condition 6.02 or Condition 6.03 below) or (on or after the first Optional Redemption Date) their Optional Redemption Amount(s) unless otherwise specified in the Final Terms, together in each case with any Outstanding interest, not later than the 60th London Business Day following the giving of such notice by the Issuer to the Instrumentholders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue Ultimate Owner Ordinary Shares so as to enable it to satisfy such redemption amount in accordance, *mutatis mutandis*, with Conditions 5D.08(iii), 5D.08(iv), 5D.08(v) and 5D.08(vi) (with references to the Payment Ordinary Shares being considered as references to such Ultimate Owner Ordinary Shares which, when sold, provide a net cash amount (converted into the currency of payment, if necessary) of not less than the redemption amount which falls to be satisfied by the Issuer).

As used in Condition 5D.09 above:

**"Eligible Company"** means a company incorporated in a member state of the European Union or in the United States of America by or on behalf of the Issuer whose ordinary shares are listed (i) on the Official List and are admitted to trading on the Market or (ii) on such other stock exchange as is a Recognised Stock Exchange at the time and as the Trustee may approve, such approval not to be unreasonably withheld, conditioned or delayed;

**"New Holding Company"** means an Eligible Company that becomes the Ultimate Owner following a Permitted Restructuring;

**"Outstanding"**, in relation to any Interest Amount, Accrued Interest Payment, Deferred Interest Payment or interest not falling within the definition of Interest Amount, means that such payment (a) has either become due and payable or would have become due and payable except for the non-satisfaction on the relevant date of the condition to payment set out in Condition 3C.02 or the deferral, postponement or suspension of such payment in accordance with any of Condition 3C.03, 5D.08(v) or 5D.08(vi) in any such case has not been satisfied and, in relation to any Accrued Interest Payment, means any amount thereof which has not been satisfied whether or not payment has become due;

**"Permitted Restructuring"** means the completion of (i) an offer made by or on behalf of an Eligible Company to all (or as nearly as may be practicable all) shareholders of the Issuer (or, if the Issuer is

not the Ultimate Owner, the then Ultimate Owner) to acquire the whole (or as nearly as may be practicable the whole) of the issued ordinary share capital of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) other than that which is already held by or on behalf of such Eligible Company or (ii) a reorganisation or restructuring whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) other than that which is already held by such Eligible Company or pursuant to which all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) not held by the New Holding Company is cancelled;

**“Permitted Restructuring Arrangement”** means, in relation to a Permitted Restructuring, an arrangement whereby the following conditions are satisfied: (a) the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure that (i) the ACSM as described in Condition 5D.08, the Trust Deed and any ACSM Calculation Agency Agreement operates so that Ordinary Shares may be exchanged for Ultimate Owner Ordinary Shares issued by the New Holding Company in such a manner that ensures that upon the sale of such Ultimate Owner Ordinary Shares the holder of each Instrument then outstanding will receive, in the event of a payment to be satisfied pursuant to Condition 5D.08, an amount not less than that which would have been receivable had such a Permitted Restructuring not taken place and (ii) the economic effect, for the Instrumentholders, of a holding of the Instruments prior to the Permitted Restructuring is substantially preserved; and (b) the Trustee is satisfied that the credit ratings that would be assigned to the Instruments by the Rating Agencies following any such Permitted Restructuring, shall not be lower than those assigned to the Instruments immediately prior to such Permitted Restructuring taking place (if any) as confirmed by such Rating Agency in writing;

**“Qualifying Tier 1 Securities”** means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor than the terms of the Instruments (as reasonably determined by the Issuer, and provided that a certification to such effect of two authorised signatories of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that they shall (1) contain terms which comply with the then current requirements of the FSA in relation to Tier 1 Capital; (2) include terms which provide for at least the same interest rate from time to time applying to the Instruments; (3) rank at least *pari passu* with the Instruments; and (4) preserve any existing rights under these Terms and Conditions to any Accrued Interest Payment or any other accrued interest which has not been satisfied, except that such securities need not necessarily include provisions analogous to the provisions of Condition 5D.08; and
- (b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld, conditioned or delayed;

**“Qualifying Upper Tier 2 Securities”** means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor than the terms of the Instruments (as reasonably determined by the Issuer, and provided that a certification to such effect of two authorised signatories of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that they shall (1) contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital; (2) include terms

which provide for the same interest rate from time to time applying to the Instruments; (3) rank senior to, or pari passu with, the Instruments; and (4) preserve any existing rights under these Terms and Conditions to any Accrued Interest Payment or any other accrued interest which has not been satisfied, except that such securities need not include provisions analogous to the provisions of Condition 5D.08; and

- (b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld, conditioned or delayed;

**“Rating Agencies”** means Fitch Ratings Ltd., Moody’s Investors Service, Inc. or Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc., or their respective successors;

**“Recognised Stock Exchange”** means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time;

**“Tier 1 Capital”** has the meaning given to it from time to time by the FSA;

**“Tier 2 Capital”** has the meaning given to it from time to time by the FSA;

**“Ultimate Owner”** means, any given time, the ultimate holding company of the HBOS Group at that time;

**“Ultimate Owner Ordinary Shares”** means securities issued by the Ultimate Owner, the terms of which are *mutatis mutandis* substantially the same as those of the Ordinary Shares;

**“Upper Tier 2 Capital”** has the meaning given to it from time to time by the FSA.

## **5E. Interest – Definitions**

In these Conditions, unless the context otherwise requires the following defined terms shall have the meanings set out below:

**“Business Day”** means a day:

- in relation to Instruments payable in Euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is operating (a **“TARGET Settlement Day”**);
- in relation to Instruments payable in any other currency, on which commercial banks are open for business and foreign exchange markets settle payments in the Relevant Financial Centre in respect of the relevant Instruments; and
- on which commercial banks are open for business and foreign exchange markets settle payments in any place specified in the relevant Final Terms; and as the same may be modified in the relevant Final Terms.

**“Day Count Fraction”** means, in respect of the calculation of an amount of interest on any Instrument for any Interest Period, such day count fraction as may be specified in the Final Terms and;

if **“Actual/Actual (Bond)”** is specified in the relevant Final Terms as applying in relation to Condition 5A and interest is scheduled to be paid only in respect of regular Interest Periods, on the

basis of the number of days in the period of less than one year divided by the product of (A) the number of days in the relevant Interest Period and (B) the number of Interest Payment Dates in any period of one year;

if “**Actual/Actual**” or “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

if “**Actual/Actual (ICMA)**” is so specified:

- (a) if the Interest Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Interest Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Interest Period is longer than one Determination Period, the sum of:
  - (I) the number of days in such Interest Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
  - (II) the number of days in such Interest Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date or, in respect of the first Determination Period, the Interest Commencement Date.

if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Interest Period divided by 365;

if “**Actual/360**” is so specified, means the actual number of days in the Interest Period divided by 360;

if “**30/360**” is so specified, means the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

(i) 
$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;



“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30

- (ii) if “**30E/360**” or “**Eurobond Basis**” is so specified, means the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30

- (ii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30

if “**RBA Bond Basis**” or “**Australian Bond Basis**” is specified in the Final Terms, one divided by the number of Interest Payment Dates in a year (or where the Determination Period does not constitute an Interest Period, “Actual/365” as defined in paragraph (ii) above).

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Period and which, in the case of Fixed Rate Instruments and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Settlement Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Payment Dates**” means the dates specified as such hereon.

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified hereon.

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended and updated as at the date of issue of the Instruments as specified in the Final Terms, unless otherwise specified hereon.

“**London Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

**“Margin”** means the margin specified as such hereon.

**“Rate of Interest”** means the rate of interest payable from time to time in respect of this Instrument and that is either specified or calculated in accordance with the provisions hereon.

**“Reference Banks”** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Determination Agent or as specified hereon.

**“Reference Rate”** means the rate specified as such hereon.

**“Relevant Financial Centre”** means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of **“Business Day”** in the ISDA Definitions, as the same may be modified in the relevant Final Terms.

**“Relevant Screen Page”** means such page, section, caption, column or other part of a particular information service as may be specified hereon.

**“Specified Currency”** means the currency specified as such hereon or, if none is specified, the currency in which the Instruments are denominated.

#### **5F. Business Day Conventions**

Unless otherwise specified in the relevant Final Terms, if any Interest Payment Date (or other date) which is specified in the applicable Final Terms to be subject to adjustment in accordance with a business day convention would otherwise fall on a date which is not a Business Day (as defined in Condition 5E), then, if the business day convention specified is:

the **“Following Business Day Convention”**, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day; or

the **“Modified Following Business Day Convention”**, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date (or other date) shall be brought forward to the immediately preceding day which is a Business Day; or

the **“Preceding Business Day Convention”**, such Interest Payment Date (or other date) shall be brought forward to the immediately preceding day which is a Business Day.

#### **5G. Interest -Index Linked**

Where **“Index Linked Interest”** is specified as the basis of calculating interest in the relevant Final Terms, Condition 5C.01 (*Rate of Interest for Index Linked Interest Instruments*) shall be replaced with Condition 5G (and the definitions included therein shall be in addition to those set out in Condition 5E.)

##### **5G.01 Definitions**

**“Base Index Figure”** means (subject to Condition 5G.03(i)) the base index figure as specified in the relevant Final Terms;

**“Index”** or **“Index Figure”** means, subject as provided in Condition 5G.03(i):

where “**UK RPI**” is specified as being the Index in the relevant Final Terms, the UK Retail Price Index (RPI) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure which is specified in the relevant Final Terms as:

- (a) applicable to a particular month, shall, subject as provided in Conditions 5G.03 and 5G.05, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication; or
- (b) applicable to the first calendar day of any month shall, subject as provided in Conditions 5G.03 and 5G.05, be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or
- (c) applicable to any other day in any month shall, subject as provided in Conditions 5G.03 and 5G.05, be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (b) above and (y) the Index Figure applicable to the first calendar day of the month following, calculated as specified in sub-paragraph (b) above and rounded to the nearest fifth decimal place; or
- (d) such other index or formula as specified in the relevant Final Terms.

If the Index is replaced, the Issuer will give notice of the replacement Index to the Instrumentholders in respect of the relevant Series;

“**Index Commencement Date**” means (i) where “**UK RPI**” is specified as being the Index in the relevant Final Terms, January 1987; or (ii) such other index commencement date as specified in the relevant Final Terms;

“**Index Ratio**” applicable to any month or date, as the case may be, means the Index Figure applicable to such month or date, as the case may be, divided by the Base Index Figure and rounded to the nearest fifth decimal place;

“**Indexation Adviser**” means a gilt-edged market maker or other indexation adviser selected by the Issuer;

“**Limited Index Linked Instruments**” means Index Linked Instruments to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

“**Limited Index Ratio**” means (a) in respect of any month or date, as the case may be, prior to the relevant Issue Date, the Index Ratio for that month or date, as the case may be, (b) in respect of any Limited Indexation Date after the relevant Issue Date, the product of the Limited Indexation Factor for that month or date, as the case may be, and the Limited Index Ratio as previously calculated in respect of the month or date, as the case may be, twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

“**Limited Indexation Date**” means any date falling during the period specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

“**Limited Indexation Factor**” means, in respect of a Limited Indexation Month or Limited Indexation Date, as the case may be, the ratio of the Index Figure applicable to that month or date,

as the case may be, divided by the Index Figure applicable to the month or date, as the case may be, twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

**“Limited Indexation Month”** means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

**“Reference Gilt”** means the reference gilt specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such index-linked reference gilt determined to be appropriate by an Indexation Adviser; and

**“Substitute Index Figure”** means (i) where **“UK RPI”** is specified as being the Index in the relevant Final Terms, such substitute index figure published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock; or (ii) such other substitute index figure as specified in the relevant Final Terms.

## **5G.02 Application of the Index Ratio**

Each payment of interest in respect of the Instruments shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Index Linked Instruments applicable to the month or date, as the case may be, on which such payment falls to be made and rounded in accordance with Condition 5D.07.

## **5G.03 Changes in Circumstances Affecting the Index**

- (i) **Change in base:** If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the month from and including that in which such substitution takes effect or the first date from and including that on which such substitution takes effect, as the case may be, (1) the definition of **“Index”** and **“Index Figure”** in Condition 5G.01 shall be deemed to refer to the new date or month in substitution for the Index Commencement Date (or, as the case may be, to such other date or month as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure for the date on which such substitution takes effect, divided by the Index Figure for the date immediately preceding the date on which such substitution takes effect.
- (ii) **Delay in publication of Index:** If the Index Figure relating to any month (the **“calculation month”**) which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the fourteenth business day before the date on which such payment is due (the **“date for payment”**), the Index Figure applicable for the relevant calculation month shall be (1) such Substitute Index Figure selected by an Indexation Adviser (and approved by the Trustee) or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 5G.03(i)) before the date for payment.

#### **5G.04 Application of Changes**

Where the provisions of Condition 5G.03(ii) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls or the date for payment, as the case may be, shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 5G.03(ii)(2), the Index Figure relating to the relevant calculation month is subsequently published while an Instrument is still outstanding, then:

- (i) in relation to a payment of interest in respect of such Instrument other than upon final redemption of such Instrument, the interest next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 5G.03 (ii)(2) below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and
- (ii) in relation to a payment of interest upon final redemption, no subsequent adjustment to amounts paid will be made.

#### **5G.05 Cessation of or Fundamental Changes to the Index**

- (i) If (1) the Trustee has been notified by the Determination Agent that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of (A) the Issuer be materially prejudicial to the interests of the Issuer, or (B) the Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Instrumentholders, the Trustee will give written notice of such occurrence to the Issuer in the case of (B), and the Issuer and the Trustee together shall seek to agree for the purpose of the Instruments one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Issuer and the Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the 20 day period referred to above, by the Trustee (in each case, such bank or other person so appointed being referred to as the “**Expert**”), to determine for the purpose of the Instruments one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer.

The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such



manner as the Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Trustee and the Instrumentholders and the Issuer shall give notice to the Instrumentholders in accordance with Condition 15 of such amendments as promptly as practicable following such notification.

## **6 Redemption and Purchase**

### ***Redemption at Maturity***

6.01 This Condition 6.01 is applicable to all Instruments other than Undated Instruments. Unless previously redeemed, or purchased and cancelled, Instruments shall be redeemed at their principal amount (or at such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) (the “**Final Redemption Amount**”) (or, in the case of Instalment Instruments, in such number of instalments and in such amounts as may be specified in the relevant Final Terms) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the relevant Final Terms.

Where “**Index Linked Redemption**” is specified as the basis of calculating the Final Redemption Amount in the relevant Final Terms it shall be calculated using the terms specified in the relevant Final Terms as defined in Condition 5G.01. Conditions 5G.02 and 5G.04 shall apply as if references therein to “interest” were to “principal”.

### ***Early Redemption***

6.02 Non Interest Bearing Instruments:

- (i) The Early Redemption Amount payable in respect of any Non Interest Bearing Instruments, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Instrument pursuant to Condition 6.05 or upon it becoming due and payable as provided in Condition 7 shall be the Amortised Face Amount (calculated as provided below) of such Instrument unless otherwise specified hereon.
- (ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Instrument shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.
- (iii) If the Early Redemption Amount payable in respect of any such Instrument upon its redemption pursuant to Condition 6.05 or upon it becoming due and payable as provided in Condition 7 is not paid when due, the Early Redemption Amount due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the date on which the Instrument becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after

the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 5C.02.

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon or, if no Day Count Fraction is specified, on the basis of a Day Count Fraction of 30/360 as defined in Condition 5E.

**6.03 *Other Instruments:***

The Early Redemption Amount payable in respect of any Instrument (other than Instruments described in 6.02 above), upon redemption of such Instrument pursuant to Condition 6.05 or upon it becoming due and payable as provided in Condition 7, shall be the Final Redemption Amount unless otherwise specified hereon.

***No Fixed Maturity***

- 6.04 This Condition 6.04 is applicable to Undated Instruments. There is no fixed redemption date for the Instruments and the Issuer shall (subject to the provisions of Condition 3C.02 and without prejudice to the provisions of Condition 7) only have the right to repay them in accordance with such provisions of this Condition 6 as are specified in the relevant Final Terms as being applicable to such Undated Instruments.

***Optional Tax Redemption***

- 6.05 If, in relation to any Series of Instruments, immediately prior to the giving of the notice referred to below, the Issuer or any Guarantor satisfies the Trustee that, as a result of a change in or amendment to the laws of the country of incorporation of the Issuer or of the Guarantor, and/or where the Issuer is Bank of Scotland, acting through its Australia branch, Australia and/or, if different, the country of tax residence of the Issuer or of any Guarantor or, in each case, of any political subdivision or taxing authority thereof or therein affecting taxation, or a change in an official application or interpretation of such law, which change, amendment, application or interpretation becomes effective on or after the date of issue of such Instruments or any earlier date specified in the relevant Final Terms: (i) on the occasion of the next payment due in respect of such Instruments the Issuer would, for reasons outside its control (after using such endeavours as the Trustee shall consider reasonable), be unable to make such payment without being required to pay additional amounts as provided in Condition 8 or any Guarantor would, for reasons outside its control (after using such endeavours as the Trustee shall consider reasonable to avoid being required to pay additional amounts as referred to below) and being unable to procure the Issuer duly to make any payment due in respect of the Instruments, be required to make payment in respect of interest under the Guarantee, and, on the occasion of the next payment due in respect of the Instruments, would be required to pay additional amounts as provided in Condition 8, (ii) any tax would be imposed (whether by way of deduction or withholding or otherwise) or relief from tax would be withdrawn by the country of incorporation of the Issuer or of the Guarantor, and/or where the Issuer is Bank of Scotland, acting through its Australia branch, Australia and/or if different, the country of tax residence of the Issuer or of any Guarantor or, in each case, of any political subdivision or taxing authority thereof or therein, upon or with respect to any payment in respect of interest received or receivable or deemed to be received or receivable by the Issuer from any Guarantor under the Guarantee and both the Guarantor and the Issuer would not be entitled to any tax relief in respect of the interest to

which such payment under the Guarantee relates, or (iii) in the case of Tier 1 Instruments, any payment of any amount in respect of interest, including, for the avoidance of doubt, the issue of Ordinary Shares pursuant to Condition 5D.08, may be treated as a “distribution” for United Kingdom tax purposes or may otherwise not give rise to relief from United Kingdom corporation tax for the Issuer or the Guarantor and such requirement or circumstance cannot be avoided by the Issuer or the Guarantor taking such reasonable measures as it (acting in good faith) deems appropriate, (iv) in the case of Tier 1 Instruments, in respect of an obligation of the Issuer or the Guarantor to make any payment of any amount in respect of interest, including, for the avoidance of doubt, the issue of Ordinary Shares pursuant to Condition 5D.08, on the next following Optional Interest Payment Date: (x) the Issuer or the Guarantor would not to a more than de minimis extent be entitled to have any attributable loss or non-trading deficit set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date on which agreement is reached to issue the first Series of Instruments or any similar system or systems having like effect as may from time to time exist) or (y) the Issuer or the Guarantor would otherwise suffer any material adverse tax consequence, or (v) based upon an opinion of legal advisers to the Issuer or any Guarantor, as the case may be, as a result of any action taken by any taxing authority of, or any action brought in a court of competent jurisdiction in the country of incorporation of the Issuer or of the Guarantor, and/or where the Issuer is Bank of Scotland, acting through its Australia branch, Australia and/or if different, the country of tax residence of the Issuer or of any Guarantor or, in each case, any political subdivision thereof (whether or not such action was taken or brought with respect to the Issuer or any Guarantor), which action is taken or brought on or after the date of issue of such Instruments or any earlier date specified in the relevant Final Terms, there is a substantial probability that the circumstances described in clause (i), (ii), (iii) or (iv) would exist, then, in each case, the Issuer may, at its option, subject, in the case of Dated Subordinated Instruments and Undated Instruments, to the provisions of Condition 6.14 below and applicable provisions of the Capital Regulations and, in the case of subordinated Undated Instruments, to the provisions of Condition 3C.02, having given no less than thirty nor more than sixty days’ notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable and, if so specified in the relevant Final Terms, ending not earlier than such date as may be specified in the relevant Final Terms) to the Instrumentholders in accordance with Condition 15 (which notice shall be irrevocable) redeem all (but not some only) of the Instruments comprising the relevant Series at their principal amount (or at such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption, together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed) and, in the case of Undated Instruments, Arrears of Interest (if any) in respect thereof and, in the case of Tier 1 Instruments, such redemption amounts to be payable in cash in accordance with Condition 5, save for any Accrued Interest Payment and any Deferred Interest Payment which will be satisfied by the operation of Condition 5D.08 as any other amount in respect of interest which may at the option of the Issuer be satisfied by the operation of Condition 5D.08 provided, however, (and except in the case of Instruments which bear interest at a floating rate) that no such notice of redemption may be given earlier than 90 days prior to the earliest date on which (in the case of (i)) the Issuer or any Guarantor would be obliged to pay such additional amounts or (in the case of (ii)) the Issuer would be required to make a payment of tax by reason of the

relevant imposition of tax or withdrawal of relief; in each case were a payment in respect of the Instruments then due.

***Optional Early Redemption (Call)***

- 6.06 If this Condition 6.06 is specified in the relevant Final Terms as being applicable, then the Issuer may, subject, in the case of Dated Subordinated Instruments and Undated Instruments, to Condition 6.14 below and applicable provisions of the Capital Regulations and, in the case of Undated Instruments, to the provisions of Condition 3C.02, at its option, upon the expiry of the appropriate notice period and subject to such conditions as may be specified in the relevant Final Terms, redeem all (but not, unless and to the extent that the relevant Final Terms specify otherwise, some only) of the Instruments of the relevant Series at their principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed) and, in the case of Undated Instruments, Arrears of Interest (if any) in respect thereof and, in the case of Tier 1 Instruments, such redemption amounts to be payable in cash in accordance with Condition 5, save for any Deferred Interest Payments which will be satisfied by the operation of Condition 5D.08 and any other amount in respect of interest which may at the option of the Issuer be satisfied by the operation of Condition 5D.08.
- 6.07 The appropriate notice referred to in Condition 6.06 is a notice given by the Issuer to the Trustee, the Principal Paying Agent and the Instrumentholders of the relevant Series, and which shall specify:
- the Series of Instruments subject to redemption;
  - whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of the Instruments of the relevant Series which are to be redeemed;
  - the due date for such redemption which is not less than thirty days (or such lesser period as may be specified in the relevant Final Terms) after the date on which such notice is validly given and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable and which is, if so specified in the relevant Final Terms, not earlier than such date as may be specified in the relevant Final Terms; and
  - the amount at which such Instruments are to be redeemed, which shall be their principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed) and, in the case of Undated Instruments, Arrears of Interest (if any) in respect thereof and, in the case of Tier 1 Instruments, such redemption amounts to be payable in cash in accordance with Condition 9, save for any Deferred Interest

Payments which will be satisfied by the operation of Condition 5D.08 and any other amount in respect of interest which may at the option of the Issuer be satisfied by the operation of Condition 5D.08.

Any such notice shall be irrevocable, and the delivery thereof shall, subject in the case of Undated Instruments, to the provisions of Condition 3C.02, oblige the Issuer to make the redemption therein specified.

***Partial Redemption\****

- 6.08 If some only of the Instruments of a Series are to be redeemed on any date in accordance with the provisions of Condition 6.06, the Instruments to be redeemed shall be drawn by lot in such European city as the Trustee may specify or identified in such other manner or in such other place as the Trustee may approve and deem appropriate and fair subject always to compliance with all applicable laws, the requirements of any stock exchange on which the relevant Instruments may be listed and, if applicable, the rules of Euroclear and Clearstream, Luxembourg.

***Optional Early Redemption (Put)\****

- 6.09 If this Condition 6.09 is specified in the relevant Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by any Instrumentholder of the relevant Series, redeem such Instrument on the date or the next of the dates specified in the relevant Final Terms at its principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption, together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed). In order to exercise such option, the Instrumentholder must, not less than forty-five days and not more than 60 days before the date so specified (or such other period as may be specified in the relevant Final Terms), deposit the relevant Instrument (together, in the case of an interest-bearing Definitive Instrument, with any unmatured Coupons appertaining thereto) with any Paying Agent, or (in the case of Registered Instruments (other than Australian Domestic Instruments)) the Certificate representing such Instrument(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed redemption notice (“**Exercise Notice**”) in the form which is available from the specified office of any of the Paying Agents, the Registrar or any Transfer Agent.

***Redemption due to Regulatory Event***

- 6.10 The Instruments of any Series which constitutes Tier 1 Capital may (subject to the provisions of Condition 3C.02 and Condition 6.14) be redeemed at the option of the Issuer in whole, but not in part, at any time (if and so long as the Instrument is a Fixed Rate Instrument) or only on an Interest Payment Date (if and so long as the Instrument is a Floating Rate Instrument) on giving not less than 30 nor more than 60 days notice to the Trustee, the ACSM Calculation Agent (if any) and the Agent and, in accordance with Condition 15, the Instrumentholders (which notice shall be irrevocable), at their Early Redemption Amount, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that a

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\* Not applicable to Dated Subordinated Instruments or Undated Instruments.

Regulatory Event has occurred and is continuing. Upon the expiration of such notice, the Issuer shall be bound to redeem such Instruments at their Early Redemption Amount.

“**Regulatory Event**” means the FSA has determined that such Instruments no longer qualify as Tier 1 Capital, either at that time or at some point in the future.

#### ***Substitution or Variation Instead of Redemption***

- 6.11 If an event or circumstance giving rise to a right of the Issuer to redeem Tier 1 Instruments or Undated Tier 2 Instruments under Condition 6.05 or 6.10 above has occurred and is continuing, then the Issuer may instead of giving notice to redeem, subject to the provisions of Condition 3C.02 and Condition 6.14 and having given not less than 30 nor more than 60 days’ notice to the Trustee, the Agent, the ACSM Calculation Agent (if any) and, in accordance with Condition 15, the Instrumentholders (which notice shall be irrevocable), substitute at any time all (but not some only) of the Instruments for, or vary the terms of the Instruments so that they remain, Qualifying Tier 1 Securities or become Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the two authorised signatories referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation.

If the Instruments are to be substituted for preference shares, the provisions specified in Condition 6.15 will apply *mutatis mutandis* to such substitution.

In connection therewith, all Deferred Interest Payments (if any) will be satisfied by the operation of Condition 5D.08. The Trustee shall (at the expense of the Issuer) use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Instruments for, or the variation of the terms of the Instruments so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities (as the case may be), provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities (as the case may be) or the participation in or assistance with such substitution or variation would impose, in the Trustee’s opinion, more onerous obligations upon it or reduce its protections. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided herein, redeem the Instruments as provided above.

Upon expiry of such notice, the Issuer shall vary the terms of or substitute the Instruments in accordance with this Condition 6.11, as the case may be.

In connection with any substitution or variation in accordance with this Condition 6.11 the Issuer shall comply with the rules of any stock exchange on which the Instruments are for the time being listed or admitted to trading.

#### ***Purchase of Instruments***

- 6.12 The Issuer or any Guarantor or any Subsidiary (as defined in the Trust Deed) of any Guarantor may (subject, in the case of Dated Subordinated Instruments and Undated Instruments, to the prior consent of, or notification to (and no objection being raised by), the FSA, in each case solely to the extent then required) at any time purchase Instruments in the open market or otherwise and at any price provided that, in the case of interest-bearing



Definitive Instruments, any unmatured Coupons appertaining thereto are purchased therewith.

***Cancellation of Redeemed and Purchased Instruments***

- 6.13 All unmatured Instruments redeemed or purchased in accordance with this Condition 6 and, in the case of interest-bearing Definitive Instruments, any unmatured Coupons attached thereto or surrendered or purchased therewith may be cancelled, reissued or resold by, in the case of Bearer Instruments, surrendering each such Instrument together with all unmatured Coupons and all unexchanged Talons to the Principal Paying Agent and, in the case of Registered Instruments (other than Australian Domestic Instruments), by surrendering the Certificate representing such Instruments to the Registrar.

***Financial Services Authority Consent***

- 6.14 Undated Instruments and (in the case only of redemption prior to the relevant final date for maturity) Dated Subordinated Instruments may only be redeemed, substituted or varied by the relevant Issuer pursuant to Condition 5D.09, 6.05, 6.06, 6.10, 6.11 or 6.15 provided that:
- (i) the Issuer has notified the FSA of its intention to do so at least one month (or such other period, longer or shorter, as the FSA may then require or accept) prior to the date scheduled for redemption and no objection thereto has been raised by the FSA or (if required) the FSA has provided its consent thereto;
  - (ii) the Issuer has satisfied both the Trustee and the FSA that, both at the time when the notice of redemption is given and immediately following such redemption, the Issuer is or will be (as the case may be) in compliance with its capital adequacy requirements as provided in the Capital Regulations (except to the extent that the FSA no longer so requires);
  - (iii) the Issuer has available for, and the directors have the corresponding authority to, issue such number of Payment Ordinary Shares as are required to be issued in accordance with Condition 5D.08 for the purposes of satisfying in full, in accordance with Condition 5D.08 any ACSM Payment required to be satisfied in connection with the redemption of the Instruments of the relevant series; and
  - (iv) where Interest Payments are due to be satisfied by the ACSM, and except in the case of redemption pursuant to Condition 5D.09, the terms of Condition 5D.08(v) have been satisfied prior thereto and all Accrued Interest Payments and Deferred Interest Payments (if any) have been satisfied in full by the operation of Condition 5D.08 and the ACSM Calculation Agency Agreement on or prior to the date hereof, and in the case of redemption pursuant to Condition 5D.09, all Deferred Interest Payments and Accrued Interest Payments (if any) have been satisfied in full by the operation of Condition 5D.09,

and as otherwise specified in the relevant Final Terms.

There is no fixed redemption date for Undated Instruments and the Issuer shall (subject to the provisions of Conditions 5D.09, 6.05, 6.06, 6.10, 6.11, 6.15 this Condition 6.14 and Condition 7) only have the right to repay them in accordance with such provisions as may be specified in the applicable Final Terms.

### *Substitution for Substituted Preference Shares*

#### 6.15

- (i) At any time a Capital Breach Event has occurred and is continuing, the Issuer may, subject to the provisions of Condition 3C.02 and Condition 6.14 and having given not less than 30 nor more than 60 days' notice to the Trustee, the Agent, the ACSM Calculation Agent (if any) and, in accordance with the Condition 15, the Instrumentholders (which notice shall be irrevocable) of its intention to effect a Preference Share Substitution (as defined below) ("**Substitution Notice**"), cause the substitution in accordance with this Condition 6.15 of all (but not some only) of the Instruments of the relevant Series for fully paid non-cumulative perpetual preference shares issued directly by the Issuer (the "**Substituted Preference Shares**") (such substitution being referred to herein as a "**Preference Share Substitution**") on the expiry of such notice (the "**Substitution Date**").

The Issuer may only effect a Preference Share Substitution if, prior to the delivery of the relevant Substitution Notice, it has created (and is then maintaining) a sufficient number of authorised (but unissued) Substituted Preference Shares to effect the Preference Share Substitution in accordance with this Condition 6.15 and has obtained (and is then maintaining) the corporate authorisations necessary to effect the substitution of the Instruments of the relevant Series for the Substituted Preference Share (including, but not limited to, the necessary resolutions of the shareholders of the Issuer to authorise the directors of the Issuer to issue and allot the Substituted Preference Shares).

The terms of the Substituted Preference Shares shall provide that (x) the Substituted Preference Shares may only be redeemed on the same date as any Optional Redemption Date specified in the applicable Final Terms (save for any redemption, substitution or variation on terms analogous to the terms of Condition 6.10 or Condition 6.11 (to the extent that it relates to a Capital Disqualification Event) and subject to the same conditions as those set out in Condition 6.14(i) and (ii)); (y) that the Issuer has the right to choose whether or not to pay any dividend on the Substituted Preference Shares; and (z) that any dividend payable on the Substituted Preference Shares shall be non-cumulative (and accordingly there shall be no provision analogous to the ACSM incorporated in the terms of the Substituted Preference Shares), and otherwise shall in all material commercial respects provide the holders thereof with at least the same economic rights and benefits (including those relating to non-cumulative (except as aforesaid) distributions and ranking) as are attached to the Instruments and the Coupons taken together (save that the terms of the Substituted Preference Shares shall neither include any obligation on the Issuer to pay additional amounts on terms analogous with Condition 8 nor any right of the Issuer to redeem the Substituted Preference Shares on terms analogous with Condition 6.05 and, if relevant, need not contain a step up in the dividend rate) (such terms to be as reasonably determined by the Issuer, and in connection therewith a certificate signed by two authorised signatories of the Issuer to the effect that the terms of the Substituted Preference Shares comply with the foregoing shall be delivered to the Trustee prior to the Issuer being able to effect such Preference Share Substitution and the Trustee shall be entitled to accept the certificate as sufficient evidence of such compliance in which event it shall be conclusive and binding on the Instrumentholders and the Couponholders).

- (ii) In connection with any Preference Share Substitution in accordance with this Condition 6.15, all Deferred Interest Payments and Accrued Interest Payments (if any) will be satisfied on the Substitution Date by the operation of Condition 5D.08.

- (iii) The Substitution Notice shall attach, or refer to the availability of, a substitution confirmation (the “**Substitution Confirmation**”) which each Instrumentholder will be required to complete, and which shall require each Instrumentholder to provide to the Issuer such information as the Issuer may reasonably require to be able to effect a Preference Share Substitution in accordance with this Condition 6.15. The form of such Substitution Confirmation shall also be made available at the specified office of each Paying Agent. To receive Substituted Preference Shares in respect of its holding of the Instruments, each holder of definitive Instruments must deliver to a Paying Agent a duly completed Substitution Confirmation together with all relevant Instruments held by it on the London Business Day prior to the Substitution Date. Where Instruments of any Series are represented by a permanent global Instrument and the permanent global Instrument is held on behalf of one or more clearing system, a holder of a particular principal amount of such Instruments represented by such permanent global Instrument may receive Substituted Preference Shares in accordance with the provisions of this Condition 6.15 by giving a Substitution Confirmation to a Paying Agent in accordance with the standard procedures of the relevant clearing system. Such procedures may include the giving of a confirmation to the relevant Paying Agent by electronic means by the relevant clearing systems or any common depository for the relevant clearing system (on the instruction of such holder) and at the same time presentation or procurement of the presentation of the permanent global Instrument to the Agent for notation accordingly within the time limits set forth in this Condition 6.15. Any Preference Share Substitution shall be effected subject in each case to any fiscal laws or other laws and regulations applicable thereto. Certificates (if any) for Substituted Preference Shares issued on a Preference Share Substitution will be despatched by or on behalf of the Issuer by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month of the later of the Substitution Date and receipt of a duly completed Substitution Confirmation. Instrumentholders will continue to be entitled to receive payments in respect of the Instruments until the Substitution Date (provided that the Substituted Preference Shares are available for issue as aforesaid from the Substitution Date and the Issuer makes the payment referred to in Condition 6.15(ii)) and thereafter Instrumentholders will have no further rights, title or interest in or to their Instruments except to have them substituted in the manner described in this Condition 6.15. Each Substituted Preference Share allotted will rank for any dividend from the Substitution Date and will, without prejudice to Condition 6.15(ii), have no entitlement to any Accrued Interest Payment or any other payment on the Instruments.
- (iv) The Issuer will pay any stamp duty reserve taxes or capital duties or stamp duties or similar taxes payable in the United Kingdom arising on the allotment and issue of the Substituted Preference Shares. None of the Issuer, the Trustee and any of the Agents will be obliged to pay, and each Instrumentholder delivering Instruments and a duly completed Substitution Confirmation to a Paying Agent must pay, any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on the relevant Preference Share Substitution. None of the Issuer, the Trustee and any of the Agents will be obliged to pay, and each Instrumentholder must pay, all, if any, taxes arising by reference to any disposal or deemed disposal of a Note in connection with such Preference Share Substitution. If it would have an adverse effect on the stamp duty, stamp duty reserve tax or other documentary or registration tax or duty position of the Instrumentholders or the Couponholders (or of any purchaser of the Substituted Preference Shares in respect of the purchase from the person to whom the Substituted Preference Shares are originally allotted) for the Substituted Preference Shares not to be deposited on issue with a common depository on behalf of Euroclear or Clearstream, Luxembourg, the Issuer shall use all reasonable endeavours to

procure that the Substituted Preference Shares are so deposited and that no election is made in respect of the Substituted Preference Shares in accordance with section 97A of the Finance Act 1986.

- (v) Prior to the publication of a Substitution Notice, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer stating that a Capital Breach Event has occurred and is continuing as at the date of the certificate, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the occurrence and continuation of such Capital Breach Event in which event it shall be conclusive and binding on the Instrumentholders and the Couponholders.
- (vi) Following delivery by the Issuer of a Substitution Notice, the Issuer shall use all reasonable endeavours to obtain and maintain a listing of the Substituted Preference Shares on a Recognised Stock Exchange (as defined in Condition 5D).
- (vii) In connection with any Preference Share Substitution, the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.
- (viii) The provisions of this Condition 6.15 will apply *mutatis mutandis* to Condition 6.11 in the event that the Qualifying Tier 1 Securities for which the Instruments may be substituted in accordance with Condition 6.11 comprise Substituted Preference Shares.
- (ix) Notwithstanding any other provision of this Condition 6.15 but without prejudice to the obligation of the Issuer set out in (iv) above, the Issuer shall be entitled to take such steps as it may determine to be necessary or desirable to avoid or mitigate any stamp duty, stamp duty reserve tax or other tax consequences arising in relation to the issue of Substituted Preference Shares, and its obligations under this Condition 6.15 in respect of a Preference Share Substitution shall be satisfied if there shall be issued and delivered to the Instrumentholders perpetual non-cumulative securities issued by another entity and secured on Substituted Preference Shares and representing and/or passing through to Instrumentholders the economic effect of such Substituted Preference Shares and in particular with provisions relating to payments which match those in relation to the Substituted Preference Shares (as to timing and amount, and as to waiver and subordination) and provided that:
  - (a) if at the relevant time the Substituted Preference Shares are rated by one or more Rating Agencies (as defined in Condition 5D), each such Rating Agency shall assign the same rating to such perpetual non-cumulative securities as it has assigned to the Substituted Preference Shares; or
  - (b) if at the relevant time the Substituted Preference Shares are not rated by any Rating Agency, an independent investment bank of international repute, selected by the Issuer and approved by the Trustee, shall have confirmed to the Issuer that in its opinion, if a rating were to be given to the Substituted Preference Shares at such time by a Rating Agency, such Rating Agency would be likely to assign at least the same rating to such perpetual non-cumulative securities.

**“Capital Breach Event”** means the occurrence of a breach by the Issuer or the HBOS Group or any member of the HBOS Group of the United Kingdom capital adequacy requirements, guidelines or measures or any other regulatory capital requirements, guidelines or measures applicable to the Issuer or the HBOS Group or any member of the HBOS Group, as the case may be (whether or not such requirements, guidelines or measures have the force of law and whether they are applied

generally or specifically to the Issuer or the HBOS Group or any member of the HBOS Group, as the case may be).

## **7 Default and Enforcement**

*Notwithstanding any of the provisions below in this Condition 7, in respect of Undated Instruments the right to institute winding up proceedings is limited to circumstances where payment has become due. No principal, premium, interest or any other amount will be due in respect of Undated Instruments unless the condition to payment set out in Condition 3C.02 is satisfied. Also, in the case of any Interest Payment in respect of Undated Instruments, such payment will not be due if the Issuer has elected to defer that payment pursuant to Condition 3C.03 or if the circumstances referred to in any of Conditions 5D.08(v), 5D.08(vi) or 5D.09 then apply.*

### ***Defaults***

- 7.01 Unless otherwise specified in the relevant Final Terms, in relation to the Instruments of a Series specified in the Final Terms as being subordinated or as being guaranteed on a subordinated basis, only the events (a “**Default**”) specified in paragraph (i) below shall be defaults in relation to the Instruments of such Series and, in relation to each other Series of Instruments, the following events (“**Defaults**”) shall be defaults in relation to the Instruments of such Series, namely:
- (i) a default is made in the payment of any principal or redemption amount due on any Instruments or for thirty days or more in the payment of any interest due in respect of any Instruments. For the purpose of this paragraph, and for the avoidance of doubt, the exercise by the Issuer of its right, pursuant to Condition 3C.03, to defer any payment(s) of interest shall not constitute failure to make payment of interest; or
  - (ii) a default is made in the performance by the Issuer or Bank of Scotland or HBOS of any obligation (other than any obligation for the payment of principal, redemption amount or interest in respect of the Instruments) under the provisions of such Instruments or the Trust Deed (other than a provision expressly included in the Trust Deed solely for the benefit of the Instruments of any other Series) which (unless certified by the Trustee, in its opinion, to be incapable of remedy) shall continue for more than 30 days after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given by certified or registered mail to the Issuer and Bank of Scotland and HBOS by the Trustee; or
  - (iii) an order is made or an effective resolution passed for the bankruptcy or liquidation or winding up or dissolution of the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary (as defined below), as the case may be, (except a bankruptcy, liquidation, winding up or dissolution for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Instrumentholders of the relevant Series); or
  - (iv) the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary ceases or threatens to cease to carry on its business or substantially all its business (except a cessation or threatened cessation for the purpose of a reconstruction or amalgamation the

terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series); or

- (v) proceedings shall be initiated against the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of the assets of any of them or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of the assets of the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary and, in any of the foregoing cases, it shall not be discharged within thirty days; or if the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series) or shall make a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (vii) the Guarantee of Bank of Scotland or HBOS is not, or is claimed by the relevant Guarantor not to be, in full force and effect.

For the purpose of this Condition 7.01, a “**Principal Subsidiary**” at any time means any Subsidiary (as defined in the Trust Deed) of Bank of Scotland or HBOS (a) whose total net assets or total net profits (after deducting all charges except taxation and excluding extraordinary items) (where the Subsidiary in question itself has subsidiaries, calculated on a consolidated basis) represent not less than 10 per cent. of the total consolidated net assets or the total consolidated net profits (after deducting all charges except taxation and excluding extraordinary items) of Bank of Scotland or HBOS, all as calculated by reference to the then latest audited accounts of each Subsidiary (and of its subsidiaries) and the then latest audited consolidated accounts of Bank of Scotland or HBOS; or (b) to which is transferred the whole or substantially the whole of the assets and undertaking of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary. A report by the Auditors of Bank of Scotland or HBOS that, in their opinion, a Subsidiary is or is not a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, Bank of Scotland, HBOS, the Trustee, Instrumentholders and Couponholders.

### ***Unsubordinated Instruments***

- 7.02 This Condition 7.02 is applicable to Instruments other than Instruments specified in the relevant Final Terms as being subordinated or as being guaranteed on a subordinated basis.



If any Default shall occur in relation to any Series of Instruments to which this Condition 7.02 applies, the Trustee may, at its discretion, and shall (subject to its rights under the Trust Deed to be indemnified to its satisfaction) if so requested by the Instrumentholder or Instrumentholders representing not less than twenty-five per cent. in aggregate principal amount outstanding of the Instruments of the relevant Series then outstanding (as defined in the Trust Deed) or if directed by an Extraordinary Resolution of the Instrumentholders of the relevant Series (but, in the case of the happening of any of the events mentioned in subparagraph (ii) of Condition 7.01 or, except in relation to Bank of Scotland or HBOS as Guarantor, paragraphs (iii) to (vi) of Condition 7.01 (or any other event specified as a Default in the relevant Final Terms to which such requirement applies), only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Instrumentholders of the relevant Series), but subject always to the final sentence of this paragraph, give notice to the Issuer and Bank of Scotland and HBOS that such Instruments and (if the Instruments are interest-bearing) all interest then accrued on such Instruments to be forthwith due and payable, whereupon the same shall become immediately due and payable at their principal amount (or at such other amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption plus (if the Instruments are interest-bearing) accrued interest thereon (calculated as provided in these Conditions and in the Trust Deed) without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments or the Trust Deed to the contrary notwithstanding. The right of the Trustee to give written notice to the Issuer and Bank of Scotland and HBOS as aforesaid shall terminate if all the Defaults giving rise to such right have been cured to the satisfaction of the Trustee before such right is exercised.

At any time after the Instruments of any Series shall have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer and/or Bank of Scotland and/or HBOS as it may think fit to enforce repayment of the principal amount of such Instruments (or such other amount as may be specified in or determined in accordance with the relevant Final Terms) (less, in the case of any Instalment Instrument, as aforesaid) together with (if the Instruments are interest-bearing) accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed) and to enforce the provisions of the Trust Deed Provided that it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the Instrumentholder or Instrumentholders representing not less than twenty-five per cent. in aggregate principal amount outstanding of the Instruments of such Series then outstanding or if so directed by an Extraordinary Resolution of the Instrumentholders of such Series and (b) it shall have been indemnified to its satisfaction as provided in the Trust Deed.

#### ***Subordinated Instruments – guaranteed***

- 7.03 This Condition 7.03 is applicable to Instruments which are specified in the relevant Final Terms as being guaranteed on a subordinated basis.

Upon the occurrence of certain events of bankruptcy, insolvency or reorganisation of the Issuer (as set out in the Trust Deed), where the Issuer is Bank of Scotland, HBOS shall, immediately and without further formality, assume the obligations of the Issuer as principal debtor under the Trust Deed in respect of the Instruments of any Series to which this

Condition 7.03 applies (with its obligations subordinated, as provided in the Trust Deed, to the same extent and on the same basis as its obligations under the Guarantee in respect of such Instruments were subordinated) in place of the Issuer, and the Guarantee given by HBOS in respect of such Instruments shall cease to be of effect and the Trustee and the Instrumentholders (and the Couponholders, if any) shall thereupon cease to have any rights or claims whatsoever against the Issuer in respect thereof (but without prejudice to their rights or claims against HBOS where it assumes the obligations of the Issuer as principal debtor, as aforesaid), provided that (i) no Instrumentholder or Couponholder shall, in connection with any change in principal debtor pursuant to this Condition 7.03, be entitled to claim from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such change upon individual Instrumentholders or Couponholders except to the extent already provided for in Condition 8 or any undertaking given in addition to or in substitution for it pursuant to the Trust Deed and (ii) HBOS shall not be obliged by virtue of such assumption, but without prejudice to the provisions of Condition 7.08 if specified in the relevant Final Terms as applicable to Instruments of the relevant Series, to pay any sum or sums sooner than the same would have been payable by the Issuer pursuant to these Conditions if no such event had occurred.

- 7.04 This Condition 7.04 is applicable to Instruments which are specified in the relevant Final Terms as being guaranteed on a subordinated basis.

If a Default shall occur in relation to the Instruments of any Series to which this Condition 7.04 applies, the Trustee may, at its discretion, and shall (if Condition 7.10 is satisfied) petition for, or prove for the debt in, the liquidation, bankruptcy or winding up (as the case may be) of the Issuer and/or, where the Issuer is Bank of Scotland, HBOS but no other remedy shall be available to the Trustee or (subject to the provisions of Condition 7.11) Instrumentholders or Couponholders. In particular, subject to applicable law, no Instrumentholder or Couponholder nor the Trustee shall, following a Default or a Potential Default (as defined in the Trust Deed) or at any other time whatsoever, be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owing by the Issuer or the Guarantor in respect of any Instrument or Coupon. The Trust Deed further provides that if, whether by operation of law or otherwise, at any time any of the rights or claims of an Instrumentholder or Couponholder or the Trustee is discharged by set-off, the relevant Instrumentholder or Couponholder or the Trustee (as the case may be) shall immediately pay an amount equal to the amount of the discharge to the Issuer or the Guarantor or, as the case may be, its receiver in bankruptcy or its liquidator or trustee to be held on trust for the unsubordinated creditors of the Issuer or the Guarantor, all as more fully provided in the Trust Deed.

***Subordinated Instruments – not guaranteed***

- 7.05 This Condition 7.05 is applicable to Instruments which are specified in the relevant Final Terms as being subordinated but which are not guaranteed.

If a Default shall occur in relation to the Instruments of any Series to which this Condition 7.05 applies, the Trustee may, at its discretion, and shall (if Condition 7.10 is satisfied) petition for, or prove for the debt in, the liquidation or winding up of the Issuer but no other remedy shall be available to the Trustee or (subject to the provisions of Condition 7.11) the Instrumentholders or Couponholders. In particular, subject to applicable law, no Instrumentholder or Couponholder nor the Trustee shall, following a Default or a Potential Default (as defined in the Trust Deed), or at any other time whatsoever, be entitled to

exercise any right of set-off or counterclaim which may be available to it against amounts owing by the Issuer in respect of any Instrument or Coupon. The Trust Deed further provides that if, whether by operation of law or otherwise, any of the rights or claims of an Instrumentholder or Couponholder or the Trustee is discharged by set-off, the relevant Instrumentholder or Couponholder or the Trustee (as the case may be) shall immediately pay an amount equal to the amount of the discharge to the Issuer or, as the case may be, its liquidator to be held on trust for the unsubordinated creditors of the Issuer, all as more fully provided in the Trust Deed.

***Subordinated Instruments (other than Undated Instruments) – not guaranteed***

- 7.06 This Condition 7.06 is applicable to Instruments (other than Undated Instruments) which are specified in the relevant Final Terms as being subordinated but which are not guaranteed.

If, otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series, an order is made or an effective resolution is passed for the liquidation or winding up of the Issuer, the Trustee may, at its discretion, and shall (if Condition 7.09 is satisfied) give notice to the Issuer that the Instruments of any Series to which this Condition 7.06 applies are, and they shall accordingly immediately become, due and repayable at their principal amount (or at such other amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date upon which the Instruments become due and payable pursuant to this Condition 7.06 plus (if the Instruments are interest-bearing) accrued interest thereon (calculated as provided in these Conditions and in the Trust Deed).

***Subordinated Instruments – guaranteed***

- 7.07 This Condition 7.07 is applicable to Instruments (other than Undated Instruments) which are specified in the relevant Final Terms as being guaranteed on a subordinated basis.

If, otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series, an order is made or an effective resolution is passed for the liquidation or winding up of, where the Issuer is Bank of Scotland, HBOS, the Trustee may, at its discretion, and shall (if Condition 7.09 is satisfied) give notice to Bank of Scotland and HBOS that the Instruments of any Series to which this Condition 7.07 applies are, and they shall accordingly immediately become, due and repayable at their principal amount (or at such other amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date upon which the Instruments become due and payable pursuant to this Condition 7.07 plus (if the Instruments are interest-bearing) accrued interest thereon (calculated as provided in these Conditions and in the Trust Deed).

- 7.08 This Condition 7.08 is applicable to Dated Subordinated Instruments and Undated Instruments, whether specified in the relevant Final Terms to be guaranteed or not.

Without prejudice to any other provision of this Condition 7, if the relevant Issuer or (where applicable) Guarantor breaches any of its obligations under the provisions of the Trust Deed

or the Dated Subordinated Instruments or the Undated Instruments (as the case may be) of the relevant Series (other than any obligation for the payment of principal, redemption amount or interest on such Instruments), which failure (unless certified by the Trustee, in its opinion, to be incapable of remedy) continues for more than 30 days after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied have been given by certified or registered mail to the Issuer and (where applicable) Guarantor by the Trustee, then the Trustee may, subject as provided in Condition 7.09 below, at its discretion and without further notice, bring such proceedings as it may think fit to enforce the obligation in question provided that the relevant Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay any sum representing or measured by reference to principal, premium, interest or any other amount on such Series of Dated Subordinated Instruments or Undated Instruments, sooner than the same would otherwise have been payable by it.

### ***General***

- 7.09 Notwithstanding any of the foregoing provisions, in respect of Undated Instruments the right to institute relevant insolvency proceedings is limited to circumstances where the relevant payment of principal or interest (as the case may be) has become due. No principal, premium, interest or any other amount will be due in respect of Undated instruments unless the condition to payment set out in Condition 3C.02 is satisfied. Also, in the case of any payment of interest, such payment will not be due if the Issuer has elected to defer that payment pursuant to Condition 3C.03.
- 7.10 The Trustee shall not be bound to take any of the actions referred to in Conditions 7.04, 7.05, 7.06, 7.07 or 7.08, as the case may be, above unless, (a) it shall have been so directed by the Instrumentholder or Instrumentholders representing not less than twenty-five per cent. in aggregate principal amount outstanding of the Instruments of the relevant Series then outstanding and (b) it shall have been indemnified to its satisfaction as provided in the Trust Deed.
- 7.11 No Instrumentholder or Couponholder shall be entitled to take any of the actions referred to in Conditions 7.02, 7.04, 7.05, 7.06, 7.07 or 7.08, as the case may be, except that if the Trustee, having become bound to take such action, fails to do so within a reasonable period and such failure shall be continuing, then any Instrumentholder or Couponholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself take such action to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do.
- 7.12 **Dated Subordinated Instruments**
- No remedy against the relevant Issuer, other than as specifically referred to in this Condition 7, shall be available to the Trustee or any Instrumentholder or Couponholder in respect of Instruments (other than Undated Instruments) which are specified in the relevant Final Terms as being subordinated, (i) for the recovery of amounts owing in respect of or arising under the Trust Deed, such Instruments or the related Coupons or (ii) in respect of the breach of any other term or condition or other obligation binding on the Issuer under or in respect of the Trust Deed, such Instruments or the related Coupons.

### 7.13 Undated Instruments

No remedy against the relevant Issuer, other than as specifically referred to in this Condition 7, shall be available to the Trustee or any Instrumentholder or Couponholder in respect of Undated Instruments which are specified in the relevant Final Terms as being subordinated, (i) for the recovery of amounts owing in respect of or arising under the Trust Deed, such Undated Instruments or the relative Coupons or (ii) in respect of the breach of any other term or condition or other obligation binding on the Issuer under or in respect of the Trust Deed, such Undated Instruments or the related Coupons.

## 8 Taxation

8.01 All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Instruments will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the country of incorporation of the Issuer or of the relevant Guarantor(s) and/or, where the Issuer is Bank of Scotland, acting through its Australia branch, Australia and/or, if different, the country of tax residence of the Issuer or of the relevant Guarantor(s) (in the case of the Issuer, the “**Issuer Taxing Jurisdiction**” and, in the case of the Guarantor, the “**Guarantor Taxing Jurisdiction**”) or, in each case, any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or by the administration or official interpretation thereof. In that event, the Issuer or the relevant Guarantor(s), as the case may be, will pay such additional amounts as may be necessary in order that the net amounts receivable by the Instrumentholders or, as the case may be, Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in the absence of such withholding or deduction; except that no such additional amounts shall be payable in respect of any Instrument or Coupon:

- (i) to, or to a third party on behalf of, the Instrumentholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with, in the case of payment being made by the Issuer, the Issuer Taxing Jurisdiction or, in the case of payment being made by the Guarantor, the Guarantor Taxing Jurisdiction or, in each case, any political subdivision thereof, other than the mere holding of such Instrument or Coupon;
- (ii) which would not be payable or due but for the failure to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with, in the case of payment by the Issuer, the Issuer Taxing Jurisdiction or, in the case of payment by the Guarantor, the Guarantor Taxing Jurisdiction, or, in each case, any political subdivision thereof required by any statute or regulation or by practice of the Issuer Taxing Jurisdiction or, as the case may be, the Guarantor Taxing Jurisdiction or, in each case, such political subdivision as a condition to or requirement of relief or exemption from such tax, duty, assessment or governmental charge, if compliance is possible pursuant to the provisions of any statute or regulation or by practice of the Issuer Taxing Jurisdiction or, as the case may be, the Guarantor Taxing Jurisdiction or, in each case, such political subdivision as a condition to or requirement of relief or exemption from such tax, duty, assessment or governmental charge;

- (iii) where such withholding or deduction is imposed on a payment to an individual and is 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;
  - (iv) (except in the case of Registered Instruments) presented for payment by or on behalf of an Instrumentholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Instrument or Coupon to another Paying Agent in a Member State of the European Union;
  - (v) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Instrumentholder or Couponholder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days;
  - (vi) where the Issuer is Bank of Scotland, acting through its Australia branch, to, or to a third party on behalf of, the Instrumentholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of the Instrumentholder or Couponholder being an associate of the kind described for the purposes of section 128F(6) of the Income Tax Assessment Act 1936 of Australia; or
  - (vii) where the Issuer is Bank of Scotland, acting through its Australia branch, in such other circumstance as may be specified in the Final Terms.
- 8.02 For the purposes of these Conditions, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Trustee or the Principal Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to the Instrumentholders and Couponholders, if any, notice to that effect shall have been duly given to the Instrumentholders of the relevant Series in accordance with Condition 15.
- 8.03 Any reference in these Conditions to principal, redemption amount, Arrears of Interest and/or interest in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.
- 8.04 If while any of the Instruments remain outstanding the Issuer or the Guarantor becomes subject to any taxing jurisdiction other than the Issuer Taxing Jurisdiction or the Guarantor Taxing Jurisdiction respectively, references in these Conditions to the Issuer Taxing Jurisdiction or the Guarantor Taxing Jurisdiction shall be construed as references to the Issuer Taxing Jurisdiction or (as the case may be) the Guarantor Taxing Jurisdiction and/or such other jurisdiction.
- 8.05 The relevant Final Terms may set forth certain additional tax consequences to Instrumentholders or Couponholders of a particular Series.



## 9 Payments

- 9.01 Payment of amounts (including accrued interest other than interest due against surrender of matured Coupons) due in respect of Bearer Instruments will, subject, in the case of Undated Instruments, to the provisions of Condition 3C.02 and 3C.03, be made against presentation and (save in the case of a partial redemption which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment) surrender of the relevant Instruments at the specified office of any of the Paying Agents.
- 9.02 Unless Condition 9.01 applies, payment of amounts due in respect of interest on the Bearer Instruments will, subject, in the case of Undated Instruments, to the provisions of Condition 3C.02 and 3C.03, be made:
- (i) in the case of Temporary Global Instruments or Permanent Global Instruments, against presentation of the relevant Temporary Global Instrument or Permanent Global Instrument at the specified office of any of the Paying Agents and, in the case of a Temporary Global Instrument, upon due certification as required therein;
  - (ii) in the case of Definitive Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Definitive Instruments at the specified office of any of the Paying Agents outside the United States; and
  - (iii) in the case of Definitive Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons at the specified office of any of the Paying Agents outside the United States.
- 9.03 This Condition 9.03 does not apply to Australian Domestic Instruments. Payments of principal in respect of Registered Instruments (which for the purposes of this Condition shall include final instalment but not other Instalment Amounts) shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar.
- 9.04 This Condition 9.04 does not apply to Australian Domestic Instruments. Interest in respect of Registered Instruments which for the purpose of this Condition shall include all Instalment Amounts other than final instalment shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”).
- 9.05 Conditions 9.01 and 9.02 notwithstanding, payments of amounts due in respect of interest on Bearer Instruments will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due at all the specified offices of the Paying Agents outside of the United States is illegal or effectively precluded by exchange controls or other similar restrictions, and (b) such payment is permitted by applicable United States law. If payment of interest is so illegal or precluded but permitted by applicable United States law, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.
- 9.06 (i) If the business day convention specified hereon is other than the Modified Following Business Day Convention, and the due date for payment of any amount due (whether in respect of principal, redemption amount, interest or otherwise) in respect of any Instrument is not a Business Day, then the Instrumentholder in respect thereof will not be entitled to payment thereof until the next day which is a Business Day (including, if such payment is

to be made by transfer to a designated account rather than by cheque in the place where the relevant designated account is located) and no further payment shall be due in respect of such delay save in the event that there is a subsequent failure to pay in accordance with these Conditions; (ii) If the due date for payment of any amount due (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Instruments is not a Business Day, then the Instrumentholder in respect thereof will not be entitled to payment thereof until the next day which is a Business Day (including, in respect of any payment which is to be made by transfer to a designated account rather than by cheque, in the place where the relevant designated account is located), unless the date for such payment would thereby fall into the next calendar month, in which event such date for payment shall be brought forward to the immediately preceding Business Day, and no further payment shall be due in respect of such delay as is referred to above save in the event that there is a subsequent failure to pay in accordance with these Conditions.

- 9.07 Each Definitive Instrument initially delivered with Coupons attached thereto should be presented and (save in the case of partial payment which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment), surrendered for final redemption together with all unmatured Coupons appertaining thereto, failing which:
- (i) in the case of Definitive Instruments which bear interest at a fixed rate or rates, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the redemption amount paid bears to the total redemption amount due) (excluding, for this purpose, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time prior to the fifth anniversary of the Relevant Date (as defined in Condition 8) for the payment of such Coupon;
  - (ii) in the case of Definitive Instruments which bear interest at, or at a margin above or below, a floating rate, all unmatured Coupons (excluding, for this purpose, Talons) relating to such Definitive Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them; and
  - (iii) in the case of Definitive Undated Instruments or long dated Instruments to which a Talon was attached upon issue, all unmatured Talons shall become void and no exchange for Coupons shall be made thereafter in respect of them.
- 9.08 In relation to Undated Instruments or long dated Instruments to which a Talon was attached upon issue, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the due date for the payment of interest on which the final Coupon comprised in the relative Coupon sheet matures.
- 9.09 Payments of amounts due (whether in respect of principal, redemption amount, interest or otherwise) in respect of Instruments will be made by cheque or by transfer in the relevant currency to an account specified by the payee. Payments will, without prejudice to the

provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

- 9.10 The Australian Paying Agent will act as paying agent for Australian Domestic Instruments pursuant to the Australian Paying Agency Agreement. For the purposes of this Condition 9.10, in relation to Australian Domestic Instruments, “Business Day” has the meaning given in the Australian Paying Agency Agreement.

Payments of principal and interest will be made in Sydney in Australian dollars to the persons registered in the Australian Register on the relevant Record Date (as defined below) as the holders of such Australian Domestic Instruments. Payments in respect of each Australian Domestic Instrument will be made:

- (i) if the Australian Domestic Instrument is in the Austraclear System, by crediting on the relevant Interest Payment Date, Maturity Date or other date on which payment is due the amount then due to the account of the Instrumentholders in accordance with the Austraclear Regulations; and
- (ii) if the Australian Domestic Instrument is not in the Austraclear System, by crediting on the Interest Payment Date, Maturity Date or other date on which payment is due, the amount then due to an account in Australia previously notified by the Instrumentholder(s) of the Australian Domestic Instrument to the Issuer and the Australian Paying Agent.

Payments will for all purposes be taken to be made when the Australian Paying Agent gives irrevocable instructions in Sydney for the making of the relevant payment by electronic transfer, being instructions which would be reasonably expected to result, in the ordinary course of banking business, in the funds transferred reaching the account of the Instrumentholder on the same day as the day on which the instructions are given.

If a payment is due under an Australian Domestic Instrument on a day which is not a Business Day, the date for payment will be adjusted according to the Business Day Convention applicable to that Australian Domestic Instrument. If payment is to be made to an account on a Business Day on which banks are not open for general banking business in the city in which the account is located, the Instrumentholder is not entitled to payment of such amount until the next Business Day on which banks in such city are open for general banking business and is not entitled to any interest or other payment in respect of any such delay.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto. Neither the Issuer, the Australian Registrar nor the Australian Paying Agent shall be liable to any Instrumentholder or other person for any commissions, costs, losses or expenses in relation to or resulting from such payments.

In this Condition 9.10 in relation to Australian Domestic Instruments, “**Record Date**” means, in the case of payments of principal or interest, the date falling 7 calendar days prior to each Interest Payment Date.

## **9A. Redenomination**

- 9A.1 Where Redenomination is specified in the relevant Final Terms as being applicable, the Issuer, without the consent of the Instrumentholders or the Couponholders, on giving at least

30 days' prior notice to the Instrumentholders (in accordance with Condition 15) and to the Principal Paying Agent and, in the case of a Temporary Global Instrument or a Permanent Global Instrument, to Euroclear or Clearstream, Luxembourg or, as the case may be, any other relevant clearing system which is so specified in the applicable Final Terms, may elect that, with effect from the Redenomination Date (as defined below) specified in the notice, the Instruments shall be redenominated in Euro.

**9A.2 The election will have effect as follows:**

each Specified Denomination (as defined below) and, in the case of Fixed Rate Instruments, each amount specified on the Coupons will be deemed to be denominated in such amount of Euro as is equivalent to its denomination or the amount of interest so specified in the Specified Currency (as defined below) at the Established Rate (as defined below), rounded down to the nearest Euro 0.01;

after the Redenomination Date (as defined below), all payments in respect of the Instruments and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Instruments to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee, or at the option of the payee, by a Euro cheque;

if the Instruments are Fixed Rate Instruments and interest for any period ending on or after the Redenomination Date is required to be calculated for a period of less than one year, it will be calculated on the basis described as "**Actual/Actual (Bond)**" in the definition of Day Count Fraction in Condition 5E;

if the Instruments are Floating Rate Instruments the relevant Final Terms will specify any relevant changes to the provisions relating to interest; and

such other changes shall be made to these Conditions as the Issuer may decide, with the agreement of the Trustee, and as may be specified in the notice, to conform them to conventions then applicable to Instruments denominated in Euro or to enable the Instruments to be consolidated with Other Instruments (as defined below) whether or not originally denominated in the Specified Currency or Euro. Any such other changes will not take effect until after they have been notified to the Instrumentholders in accordance with Condition 15.

Neither the Issuer nor any Paying Agent will be liable to any Instrumentholder or Couponholder or other person for any commissions, costs, losses or expenses in relation to or resulting from the credit or transfer of Euro or any currency conversion or rounding effected in connection therewith.

**9B. Exchangeability**

Where Exchangeability is specified in the relevant Final Terms as being applicable, the Issuer may without the consent of the Instrumentholders or the Couponholders, on giving at least 30 days' prior notice to the Instrumentholders in accordance with Condition 15, elect that, with effect from the Redenomination Date or such later date for payment of interest under the Instruments as it may specify in the notice, the Instruments shall be exchangeable for Instruments expressed to be denominated in Euro in accordance with such agreements as the Issuer may decide, with the approval of the Trustee and as may be specified in the notice, including arrangements under which Coupons unmatured at the date so specified become void.

## 9C. Definitions

In these Conditions, the following expressions have the following meanings:

**“Established Rate”** means the rate for conversion of the Specified Currency (including compliance with rules relating to rounding in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 1091(4) of the Treaty establishing the European Community;

**“Other Instruments”** means, at any time, any one or more Series of other Instruments of the Issuer which have the same or substantially the same Conditions (as then in effect and which have not lapsed and/or the rights in respect of which have not been exercised) as the Instruments (other than in relation to the currency of original denomination and/or denomination and/or the Conditions relating to business days or interest accrual bases and/or the listing authority, the stock exchange(s) and/or quotation system(s), if any, on which such Instruments are listed, traded and/or quoted and/or the clearing system(s) on which such Instruments are cleared and settled and/or Redenomination into Euro and/or notices);

**“Redenomination Date”** means (in the case of interest bearing Instruments) any date for payment of interest under the Instruments or (in the case of non-interest bearing Coupon Instruments) any date, in each case specified by the Issuer in the notice given to the Instrumentholders pursuant to Clause 9A.1 or Clause 9B above and which falls on or after such date as when the country of the Specified Currency participates in the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community;

**“Specified Denomination”** means the denomination specified in the relevant Final Terms.

## 10 Prescription

10.01 Subject as provided in Condition 9.06(i), claims against the Issuer and/or the Guarantor in respect of Instruments or Coupons will be prescribed unless the relevant Instrument or Coupon is presented for payment or claim made within ten years (or, in the case of claims in respect of interest, five years) after the Relevant Date (as defined in Condition 8.02) for payment thereof.

10.02 In relation to Undated Instruments or long dated Instruments to which a Talon was attached upon issue, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9.05 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10.

## 11 The Paying Agents

The initial Paying Agents, Registrar, the Australian Registrar, the Australian Paying Agent and Transfer Agents and their initial specified offices are specified below. HBOS as Guarantor (on behalf of itself, Bank of Scotland as Guarantor and the Issuers) reserves the right at any time to vary or, with the prior approval of the Trustee, terminate the appointment of any Paying Agent (including the Principal Paying Agent), the Registrar, the Australian Registrar, Australian Paying Agent or any Transfer Agent and to appoint additional or other Paying Agents, Transfer Agents, an Australian Registrar, Australian Paying Agent or a Registrar and each of the Paying Agents, the Registrar, the Australian Registrar, the Australian Paying Agent or any Transfer Agent may at any time resign from office provided that the Issuers will at all times maintain (i) a Principal Paying Agent (ii) a Paying Agent with a specified office outside the UK (iii) a Registrar in

relation to Registered Instruments or, in the case of Australian Domestic Instruments, an Australian Registrar (iv) a Transfer Agent in relation to Registered Instruments (other than an Australian Domestic Instrument) (v) so long as any Instruments are listed on the Official List of the UK Listing Authority and/or admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market and/or any other listing authority, stock exchange and/or quotation system, a Paying Agent with a specified office in London and/or in such other place as may be required by such other listing authority, stock exchange and/or quotation system (vi) in the circumstances described in Condition 9.03, a Paying Agent with a specified office in New York City, and (vii) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

The Paying Agents reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Paying Agents will be notified promptly to the Instrumentholders.

## **12 Replacement of Instruments**

This Condition 12 does not apply to Australian Domestic Instruments. If any Instrument or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, (in the case of Bearer Instruments, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Instrumentholders subject to all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the relevant Instruments are listed, traded and/or quoted upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Principal Paying Agent may require. Mutilated or defaced Instruments and Coupons must be surrendered before replacements will be delivered.

## **13 Meetings of Instrumentholders; Modification; Waiver and Substitution of Debtor**

- 13.01 The Trust Deed contains provisions, including quorum requirements, for convening meetings of the Instrumentholders (other than holders of Australian Domestic Instruments, as to which see Condition 13.02 below) of any Series to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification or waiver of any provision of these Conditions applicable to any Series of Instruments (other than Australian Domestic Instruments) or of the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Instrumentholders (other than holders of Australian Domestic Instruments) of more than one Series where the Trustee so decides.
- 13.02 The Trustee may (subject to certain exceptions) without the consent of the Instrumentholders or Couponholders of any Series (i) agree to any modification of these Conditions or of the Trust Deed which, in any case, in the opinion of the Trustee, is not materially prejudicial to the interests of such Instrumentholders or is of a formal, minor or technical nature or which is made to correct a manifest error; or (ii) waive or authorise any breach or proposed breach by the Issuer or any Guarantor of any of the provisions of these Conditions applicable to such Instruments or the Trust Deed or determine that any event which is, or with the giving of notice and/or the lapse of time and/or the issuing of any certificate and/or the fulfilment of any other requirement could be, a Default shall not be treated as such provided that, in the Trustee's opinion, the interests of such Instrumentholders will not be materially prejudiced thereby. Any such modification, waiver, authorisation or determination shall be binding on such Instrumentholders and of the related Couponholders and, unless the Trustee agrees



otherwise, shall be notified to such Instrumentholders as soon as practicable thereafter. No modification of these Conditions or the Trust Deed insofar as it relates to the Conditions of any Series of Dated Subordinated Instruments or Undated Instruments or to any provision of the Trust Deed applicable thereto, shall be effected unless the Issuer has notified the FSA of its intention to do so at least one month (or such other period, longer or shorter, as the FSA may then require or accept) prior to the date scheduled therefor and no objection thereto has been raised by the FSA or (if required) the FSA has provided its consent thereto.

- 13.03 If, in relation to any Series of Instruments, so requested by the Issuer and the Guarantor, the Trustee shall, provided that:
- (i) immediately after giving effect to such transaction it shall be satisfied that no Default and no event which, with the giving of notice and/or the lapse of time and/or the issuing of any certificate and/or the fulfilment of any other requirement, could be a Default shall have happened and be continuing;
  - (ii) at the time of any such transaction such Series of Instruments thereupon becomes or remains, as the case may be, unconditionally and irrevocably guaranteed jointly and severally by HBOS (except where HBOS is the new principal debtor in which case no Guarantee shall apply) and Bank of Scotland (except where Bank of Scotland is the new principal debtor in which case only the HBOS Guarantee shall apply) on a basis (subordinated or unsubordinated) which is the same as that of the Series of Instruments or, if such Series of Instruments is guaranteed, of the Guarantee thereof;
  - (iii) certain other conditions are satisfied; and
  - (iv) subject to such amendment of the Trust Deed and the execution of such documents as the Trustee may require, but without the consent of the Instrumentholders or Couponholders of the relevant Series, agree to:
    - (I) the assumption by a Guarantor of the obligations of the Issuer as principal debtor under the Trust Deed in respect of any Series of Instruments (and, in relation to Instruments which are guaranteed on a subordinated basis, those obligations shall be assumed by such Guarantor on a subordinated basis which is equivalent to that of the Guarantee of such Instruments); or
    - (II) the assumption by a Subsidiary or another Subsidiary (as defined in the Trust Deed) of HBOS of the obligations of the Issuer as principal debtor under the Trust Deed in respect of such Instruments.

The Trust Deed provides that any such assumption shall be notified to such Instrumentholders in accordance with Condition 15. No such assumption or substitution shall be effected in relation to any Series of Dated Subordinated Instruments or Undated Instruments, unless the Issuer has notified the FSA of its intention to do so at least one month (or such other period, longer or shorter, as the FSA may then require or accept) prior to the date scheduled therefor and no objection thereto has been raised by the FSA or (if required) the FSA has provided its consent thereto.

The Issuer and the Guarantor may, without the consent of the Instrumentholders or Couponholders of any Series, consolidate with, merge or amalgamate into or transfer their respective assets substantially as an entirety to, any corporation organised, in the case of the Issuer, under the laws of the country of incorporation of the Issuer and, in the case of a Guarantor, under the laws of the UK, or, in either case, any political subdivision thereof,

provided that (i) immediately after giving effect to such transaction no Default and no event which, with the giving of notice and/or the lapse of time and/or the issuing of any certificate and/or the fulfilment of any other requirement, could be a Default shall have happened and be continuing and (ii) unless the Issuer or the relevant Guarantor, as the case may be, is the surviving entity, the Issuer or, as the case may be, the relevant Guarantor shall procure that the surviving or transferee company assumes its obligations as Issuer or, as the case may be, Guarantor under the Trust Deed and all of the Instruments of the relevant Series, in place of the Issuer or, as the case may be, the relevant Guarantor (iii) in the case of an assumption of the obligations of the Issuer by a successor or transferee company, the guarantee of the relevant Guarantor is fully effective on the same basis in relation to the obligations of such successor or transferee company and (iv) certain other conditions are met. Upon the assumption of the obligations of the Issuer or the relevant Guarantor by such surviving or transferee company, the predecessor Issuer or Guarantor, as the case may be, shall (subject to the provisions of the Trust Deed) have no further liabilities under or in respect of the Trust Deed or the Instruments of the relevant Series or any Coupons appertaining thereto. Any such assumption shall be subject to the relevant provisions of the Trust Deed and to such amendment thereof and such other conditions as the Trustee may require. The Trust Deed provides that any such assumption shall be notified to such Instrumentholders in accordance with Condition 15.

- 13.04 In connection with the exercise of its powers, trusts, authorities or discretions (including, but not limited to, those in relation to any proposed modification, waiver, authorisation, determination or assumption as aforesaid) in relation to any Series of Instruments, the Trustee shall have regard to the interests of such Instrumentholders as a class and, in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequences of such exercise for individual Instrumentholders or Couponholders resulting from their being, for any purpose, domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Instrumentholder or Couponholder shall, in connection with any such assumption as aforesaid, be entitled to claim from the Issuer or any Guarantor any indemnification or payment in respect of any tax consequence of any such substitution upon individual Instrumentholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- 13.05 In the case of Australian Domestic Instruments each Deed Poll contains provisions for convening meetings of the Instrumentholders of the relevant Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Australian Domestic Instruments to which that Deed Poll relates or certain provisions of the Australian Registry Services Agreement, the Australian Paying Agency Agreement or the relevant Final Terms. The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with a Deed Poll, if to do so could not reasonably be expected to be prejudicial to the interests of the Instrumentholders or pursuant to an Extraordinary Resolution.

## **14 The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from instituting proceedings against the Issuer and the Guarantor unless indemnified to its satisfaction.

## **15 Notices to Instrumentholders**

Notices to the Instrumentholders of Registered Instruments shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, notices regarding Australian Domestic Instruments shall also be published in a leading daily newspaper of general circulation in Australia. It is expected that such notices will normally be published in *The Australian Financial Review*. Any such notice will be deemed to have been given on the date of such publication. Notices to Instrumentholders of Bearer Instruments will, save where another means of effective communication has been specified in the relevant Final Terms, be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, if published in a leading English-language newspaper having general circulation in Europe (or, if permitted by the relevant stock exchange, in the case of a Temporary Global Instrument or Permanent Global Instrument, if delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, any other relevant clearing system which is so specified in the applicable Final Terms, for communication by them to the persons shown in their respective records as having interests therein). In any event, a copy of each notice given to Instrumentholders in accordance with this Condition 15 should also be sent to Euroclear, Clearstream, Luxembourg and any other relevant clearing system which is so specified in the applicable Final Terms for their information. The Issuer shall also ensure that notices are duly published in compliance with the requirements of the listing authority, stock exchange and/or quotation system on which the Instruments are listed. Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the date of first such publication) or, as the case may be, on the fourth Business Day after the date of such delivery.

## **16 Further Issues and Joining and Releasing of Issuers**

- 16.01 The Issuer may, from time to time without the consent of the Instrumentholders or Couponholders of any Series, create and issue further instruments having terms and conditions the same as those of the Instruments of such Series or the same except for the amount of the first payment of interest (if any) and/or the denomination thereof and (where applicable) having the benefit of the Guarantee, which may be consolidated and form a single Series with the outstanding Instruments of such Series.
- 16.02 HBOS may designate any Subsidiary (as defined in the Trust Deed) of itself to become an Issuer of Instruments under the Trust Deed (or the Issuer of Australian Domestic Instruments under the Deed Poll). As provided in the Trust Deed or the Deed Poll, as the case may be, a Subsidiary of HBOS which is to become an Issuer of Instruments shall become such under the terms of a supplemental deed in or substantially in the form scheduled to the Trust Deed or the Deed Poll, as the case may be, (or in such other form as may be approved by the Trustee) (which shall take effect in accordance with its terms) whereby such Subsidiary agrees to be bound as an Issuer under each of the Trust Deed, the Deed Poll, the Paying Agency Agreement, the Australian Registry Services Agreement and the Australian Paying Agency Agreement as the case may be, all as more fully provided in the Trust Deed or the Deed Poll, as the case may be.
- 16.03 Any Issuer may cease to be a party to the Trust Deed as such (under the terms of appropriate release documentation to that effect as provided in the Trust Deed) Provided that (i) a Guarantor or another Subsidiary of HBOS assumes the obligations of such Issuer in respect of any Instruments issued by it and then outstanding pursuant to the provisions of the Trust Deed described in Condition 13.03; and (ii) the Trustee does not have actual knowledge or express notice that a Default, or any event which, with the giving of notice and/or lapse of

time and/or the issuing of a certificate and/or the fulfilment of any other requirement, could be a Default, has occurred and is continuing.

## 17 Law and Jurisdiction

- 17.01 The Instruments (other than Australian Domestic Instruments), the Trust Deed and the Paying Agency Agreement are governed by, and shall be construed in accordance with, English law.
- 17.02 Each of the Issuers and the Guarantors has, in the Trust Deed, (i) agreed, for the benefit of the Trustee, the Instrumentholders and the Couponholders, that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Trust Deed or the Instruments or Coupons (respectively, “Proceedings” and “Disputes”) and, for such purposes, irrevocably submitted to the jurisdiction of such courts, (ii) waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and (iii) agreed not to claim that any such court is not a convenient or appropriate forum. Each of HBOS, BOSIF and Bank of Scotland has, in the Trust Deed, agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Bank of Scotland plc, 33 Old Broad Street, London EC2N 1HZ, Attention: Legal Department. Nothing contained herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law. The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Trustee, the Instrumentholders or the Couponholders, or any of them, to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.
- 17.03 The Australian Domestic Instruments, the Deed Poll, the Australian Registry Services Agreement and the Australian Paying Agency Agreement will be governed by, and construed in accordance with, the laws in force in New South Wales, Australia, except in relation to Australian Domestic Instruments, the provisions of these Conditions governing subordination (including Condition 3) and the provisions of the Trust Deed governing subordination (including Clause 5 (Subordination) thereof), which shall be governed by, and construed in accordance with, English law. In the case of Australian Domestic Instruments, the Issuers and the Guarantors have irrevocably agreed for the benefit of Instrumentholders that the courts of New South Wales, Australia and courts of appeal from them are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Australian Domestic Instruments, the Deed Poll, the Australian Registry Services Agreement or the Australian Paying Agency Agreement and that accordingly any suit, action or proceedings arising out of or in connection with the Australian Domestic Instruments, the Deed Poll, Australian Registry Services Agreement or the Australian Paying Agency Agreement (together referred to as “**Australian Proceedings**”) may be brought in such courts.

The Issuers and the Guarantors have each irrevocably waived any objection which it may have now or hereafter to the laying of the venue of any Australian Proceedings in any such court and any claim that any such Australian Proceedings have been brought in an inconvenient forum and has further irrevocably agreed that a judgment in any such Australian Proceedings brought in the courts of New South Wales and courts of appeal from them shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

For so long as any Australian Domestic Instruments are outstanding, the relevant Issuer and the relevant Guarantor(s) (if any) will appoint an agent to accept service of process on its behalf in New South Wales in respect of any legal action or proceedings as may be brought in the courts of New South Wales, Australia or the federal courts of Australia, such agent being as specified in the relevant Final Terms. In the event of such agent ceasing to act, the relevant Issuer or Guarantor(s) will immediately appoint another agent in Sydney.

## USE OF PROCEEDS

The net proceeds from the issuance of unsubordinated Instruments will be used for the general funding purposes of HBOS together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 1985) (the “**HBOS Group**”). The net proceeds from the issuance of subordinated Instruments will be used to strengthen the capital base of the HBOS Group and to support the continuing growth of its business. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.



## RECENT DEVELOPMENTS

On 29 April 2008, HBOS announced a fully underwritten rights issue of ordinary shares to raise £4.0 billion on the basis of two new ordinary shares for every five existing ordinary shares held at a subscription price of 275p per share. The rights issue is conditional, amongst other things, upon the passing of necessary shareholder resolutions at an Extraordinary General Meeting of HBOS proposed to be held in late June 2008, the final day for acceptance and payment of the rights issue being no later than 7 August 2008 and the underwriting arrangements in respect of the rights issue becoming unconditional and not having been terminated in accordance with their terms. The Directors have established a new target Tier 1 Capital ratio of between 8.0% and 9.0% and a new target core Tier 1 Capital ratio of between 6.0 per cent. and 7.0 per cent.

HBOS also made a trading update announcement in accordance with the rules of the London Stock Exchange on 29 April 2008. HBOS maintains a portfolio of debt securities as part of its treasury operations and in respect of which there have been no credit impairments to date. In accordance with its valuation procedures for these treasury assets HBOS has taken additional mark-downs for certain parts of its portfolio reflecting the illiquidity of relevant markets. Accordingly, the Group has made a number of fair value adjustments, relating primarily to its holdings of asset backed securities and floating rate notes. These adjustments are £970,000,000 in respect of the Trading Book and £1,874,000,000 post-tax in respect of the Banking Book. The fair value adjustments in the Banking Book have no impact on reported profits or regulatory capital strength.

## HBOS

### Introduction

HBOS plc (“**HBOS**”) was incorporated and registered in Scotland in the Register of Companies on 3 May 2001, with registered number SC218813, as a public limited company under the Companies Act 1985. HBOS together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 1985) is collectively referred to as the “HBOS Group”.

As a consequence of the approval of schemes of arrangement for Bank of Scotland and Halifax plc, which became effective in 2001, HBOS became the holding company of the HBOS Group. The principal legislation under which HBOS operates is the Companies Act 1985. The registered office and head office of HBOS in the United Kingdom is The Mound, Edinburgh EH1 1YZ, telephone number +44 (0) 870 600 5000.

On 17 September 2007, in accordance with the provisions of the HBOS Group Reorganisation Act 2006 (the “**Act**”), The Governor and Company of the Bank of Scotland was registered as a public limited company under the Companies Act 1985 and changed its name to Bank of Scotland plc (“**Bank of Scotland**”), with registered number SC327000. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of Capital Bank plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland. HBOS has three principal directly held subsidiaries remaining: Bank of Scotland, HBOS Insurance & Investment Group Limited and Halifax Share Dealing Limited. Bank of Scotland is among the largest commercial banks in the UK.

The HBOS Group is a diversified financial services group engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the UK and internationally.

### Strategy

HBOS’s strategy focuses on five key elements:

- growing the UK franchise;
- targeted international growth;
- cost leadership;
- capital discipline; and
- colleague development.

### *Growing the UK Franchise*

Growing its UK businesses remains the HBOS Group’s number one priority. The HBOS Group’s Retail business has around 23 million customers to whom it provides a wide range of financial services. The HBOS Group operates with several brands in the savings, mortgage and unsecured credit markets, which allows it to segment and manage more effectively the risk reward potential of individual customer groupings. The HBOS Group aims to secure, over time, market shares across its products within a 15-20 per cent. range and consolidate its leadership positions in residential mortgages and in savings. The actual market shares achieved in any operating period are, however, governed by the sustainability of returns. This will see the HBOS Group take more or less market share than its central assumptions, as competitive conditions dictate the right action for the creation of enduring value for shareholders.

In its Corporate business, the HBOS Group is pursuing measured and selective high value growth by concentrating on markets where it has expertise and can generate superior returns. Through a focus on the individual risk reward characteristics of alternative asset classes, the HBOS Group aims to bring a clear value-enhancing specialisation to its customer relationships. Assets are originated on the basis that they will be held on the balance sheet in their entirety even if subsequently a proportion of debt or equity positions are sold down to other market participants. This discipline ensures there is no disconnect between a decision to lend and the potential availability of higher returns through sell-down activity when market conditions are supportive.

In its Insurance & Investment businesses, the HBOS Group believes it is uniquely well-placed to benefit from opportunities from being the largest provider of UK liquid savings. This, together with ongoing supportive demographics, gives it a real opportunity to capture a strong share of the sector growth in investment sales. In General Insurance, the HBOS Group offers a range of insurance services from household to motor cover. The HBOS Group targets growth by aligning its insurance offerings to existing HBOS Group customers with other products and in the wider market to new customers, both via multi-brand propositions.

### ***Targeted International Growth***

Internationally, the HBOS Group continues to grow its businesses by taking the formula that has served it well in the UK to other markets that it understands. In Australia, where the HBOS Group has been operating for over 10 years, it is expanding on its strong West Coast presence and is now establishing its Commercial and Retail banking capability in eastern Australia.

In Ireland, the HBOS Group is in its second full year of expansion into the provision of retail banking facilities through the now almost complete establishment of a branch network. In Europe and North America, the HBOS Group has increased its distribution capability in its European Financial Services operations and is expanding its corporate banking activities in the US and Canada.

### ***Cost Leadership***

The HBOS Group's cost leadership ambition (relative to its major competitors) is based on an understanding that this is a source of a sustainable competitive advantage. Cost leadership can provide pricing power and the ability to offer customers the same products or services for a lower price. It can also offer the opportunity to capture market share from competitors without any erosion of credit quality, thereby increasing sustainable revenues. Cost leadership at the HBOS Group does not mean reduced investment in its businesses, but it does mean a cultural focus on taking out the least productive costs and reinvesting these savings in growing value for its shareholders.

### ***Capital Discipline***

The HBOS Group accepts that capital is owned by its shareholders who expect it to treat it as a scarce resource, deploying it to achieve sustainable returns throughout the economic cycle. As the recent dislocation in financial markets has shown, capital strength is also required to cushion against the shocks that are a periodic feature of banking. During 2007, the FSA approved the HBOS Group's "Advanced Measurement Approach" to operational risk and "Advanced Internal Ratings Based Approach" to credit risk and, as from 1 January 2008, the HBOS Group is now operating under the Basel II capital ratio regime. This advanced capital regime has redefined both the size and nature of the capital resources available to the HBOS Group as well as the level of risk weighted assets. It has not however changed the HBOS Group's approach to capital management. On 29 April 2008, the HBOS Group announced a rights issue to strengthen the Group's capital base. See "Recent Developments".

## ***Colleague Development***

As the HBOS Group faces the unprecedented financial turmoil in global markets, its focus on colleague development has never been more important. The HBOS Group's ability to execute its strategy relies on engaging with, and motivating, all of its colleagues to consistently deliver outstanding performance. The HBOS Group's colleague strategy is therefore very clear. It aims to have the strongest leadership teams in the sector and it is very clear about the high expectations of both what its leaders deliver and how they do this. The HBOS Group provides colleagues with ongoing opportunities to learn and to develop their careers and it constantly evaluates its efforts to create a positive working environment that reflects the diversity of its colleagues. The HBOS Group keeps all aspects of its reward systems under continuous review to ensure they deliver the right reinforcement in respect of recruitment, retention and motivation. Through the HBOS Group's "Colleague Opinion Survey", it tracks its leadership and capability indices as well as employer and product advocacy.

## **Business**

The HBOS Group's products and services can be categorised into the following business divisions:

- Retail;
- Corporate;
- Insurance & Investment;
- International; and
- Treasury & Asset Management.

## ***Retail***

The Retail division provides financial services to approximately 23 million customers through a broad distribution base (ranging from branches to direct mail, telephone and internet services). Its range of multi-branded products includes personal and business banking services providing mortgages, savings, bank accounts, personal loans and credit cards.

As at 31 December 2007, the HBOS Group was the largest retail mortgage provider in the UK<sup>1</sup>, with a market share of residential mortgages of 20 per cent., with balances of approximately £235 billion and customer deposits of more than £158 billion. Mortgages in the UK are currently provided by the Retail division under five mortgage brands: Halifax; Bank of Scotland; Intelligent Finance; Birmingham Midshires; and The Mortgage Business.

Savings products are offered through four brands: Halifax; Bank of Scotland; Birmingham Midshires; and Intelligent Finance, catering for all segments of the savings market, including children's accounts, tax-free, fixed rate and regular savings accounts. The HBOS Group is the current market leader for liquid savings, with a 16 per cent. market share. Bank accounts offered by the HBOS Group range from full facilities current accounts to basic social banking facilities.

Personal loans and credit cards are offered through the HBOS Group's Halifax, Bank of Scotland and Intelligent Finance brands. Credit cards are also provided through a number of affinity brands such as charity cards, where a proportion of income earned is donated to the charity. The Retail division also distributes the

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<sup>1</sup> Based on a comparison of HBOS Group's UK residential mortgage book as against market size information taken from Bank of England statistics.

HBOS Group's insurance and investment products on behalf of the Insurance & Investment division and participates in a number of joint ventures, such as Sainsbury's Bank.

The Retail division's long-term strategy is to continue to grow its market share of major retail products such that each falls within the 15-20 per cent. range. The division intends to implement this strategy by attracting new customers with innovative and value-adding products, and maintaining long-term relationships with customers and meet a greater share of their financial needs. The division intends to achieve this by providing excellent service, offering additional products that are more effectively targeted to meeting customers needs and providing extra value that recognises the customer relationship. In addition to growing its market share, the Retail division aims to continue to target growth that achieves the right balance between risk and reward and keeps tight control of costs.

### *Corporate*

The Corporate division provides a range of banking services to the corporate business sector. Its principal market is UK and European based businesses with a turnover in excess of £1 million (or its currency equivalent). The division comprises a number of relationship banking and specialist lending teams. Their responsibilities include the provision of term loans, asset finance, motor finance, multi-currency loans and deposits, mezzanine funding, equity investment, fund investment, joint venture partnerships, working capital finance, project and specialist finance, acquisition finance and syndicated lending. The key objective of these teams is to expand and strengthen the HBOS Group's corporate market share by pursuing a relationship and partnership driven asset class approach and delivering specialist services to existing and new customers.

The Corporate division's real estate teams have experience in commercial property finance and offer a range of funding options. The Corporate division's commercial bank is a diverse business focusing on the needs of UK businesses with a turnover in excess of £1 million (or its currency equivalent). The integrated, structured and acquisition finance teams operate in the leveraged buy-out market, providing a range of financing vehicles to their customers. The private equity business has a reputation for innovative deal making and additionally invests in a number of private equity funds. The motor business finances car fleets, vans and buses. The asset finance teams cover a diverse market sector and are engaged in financing or owning tangible assets ranging from oil tankers, trains and aeroplanes to photocopiers, IT and vending machines. The energy and environmental team focuses on supplying funding to the renewable power generation sector, primarily across Europe. The oil and gas team delivers upstream funding for independent oil companies together with niche downstream project financing. The infrastructure and housing finance teams provide debt funding solutions and risk capital investments in economic and social infrastructure projects via government PFI and PPP projects. The telecoms and media team is dedicated to the provision of funding to corporate entities and financial sponsors across Europe.

The Corporate division's strategy is asset class management, which is applied to establish selective asset growth while preserving strong margins and exercising vigilant credit risk management. To this end, the Corporate division continues to seek quality opportunities at the right price and with the right partners, concentrating on returns rather than volumes. In addition, recognising that its success is dependent upon the success and prosperity of the communities and the society in which it operates, the Corporate division aims to maintain a leading role in the corporate and social responsibility area. Finally, the Corporate division aims to exercise cost discipline by driving value for money from all expenditure. The Corporate division thus continues to challenge how it can deliver a superior service, from innovation and delivery of differentiating strategic projects, while driving value for money from all expenditure and minimising costs.

## ***Insurance & Investment***

The HBOS Group's Insurance & Investment division is one of the UK's largest providers of general insurance and investment products, offering multi-brand life, pensions, mutual funds and general insurance products. The division uses a multi-channel, multi-brand operating model which it believes allows it to maximise both distribution reach and product and pricing flexibility. While low-cost access to the large Retail division customer base is a core strength, the division also benefits from solid third party distribution relationships with partners and intermediaries. Products offered by the Insurance & Investment division include savings, investments and pensions, life, household, repayment and motor insurance. Products are distributed through a number of different channels, including branches, independent financial advisers, a dedicated high net worth sales force, telephone and internet sales, and partnerships and joint ventures with third parties.

The Investment businesses focus on manufacturing and distributing investment funds, bond, pension and protection products. This business mix covers over 80 per cent. of the UK life, pensions and investment market. The Insurance & Investment division has chosen not to actively market annuities given the longevity risk and capital requirements of such products, and instead offers its customers access to products from other providers via an in-house independent annuity service. The Investment businesses have three distinct distribution channels: Bancassurance, Intermediary and Wealth Management. In Bancassurance, Halifax-branded business is distributed principally through branch-based personal finance advisers with mass affluent and high net worth business sold under the Bank of Scotland Investment Service brand. Clerical Medical-branded products are distributed through the Intermediary channel and, in Wealth Management, HBOS owns a 60 per cent. stake in St. James's Place, a leader in the wealth management market.

The General Insurance business focuses on household, repayment and motor insurance. The Retail division's distribution network serves as the Insurance & Investment division's core distribution channel for household insurance. However, sales of household insurance are also made direct to customers via e-commerce and telephone channels and through partners and intermediaries. Repayment insurance products are also distributed through the Retail division's network as well as a number of large third-party relationships.

The esure joint venture manufactures and distributes all of the motor insurance under the esure, Sheilas' Wheels, First Alternative, Halifax and Sainsbury's Bank brands. Distribution takes place largely through esure's direct channels as well as in Sainsbury's supermarkets and the Retail branch network.

The goal of the Insurance & Investment division is to be the UK's leading insurance and investment group, acting through its multi-channel, multi-brand operating model and accessing the HBOS Group's significant customer base to grow a profitable market share. Specifically, to implement this strategy, the Insurance & Investment division seeks to grow the market share of personal insurance lines, recognising that there are significant opportunities through the Retail division's network, intermediaries and joint ventures to grow market share, with a particular focus on using the HBOS Group's leading position in mortgages to grow market share in household insurance. The UK Competition Commission's investigation of payment protection (also known as repayment insurance) could affect the distribution and pricing of this product across the industry. The HBOS Group considers repayment insurance to be an important and valuable product for its customers. The Insurance & Investment division aims to grow its market share of investment products, using its place as part of the UK's largest liquid savings provider to benefit from higher savings ratios, supporting demographics and what the Insurance & Investment division believes is the increasing recognition by individuals that they will need to save for their retirement themselves. Finally, the Insurance & Investment division intends to place an emphasis on increasing customer satisfaction and maintaining cost leadership through maximum efficiency.



## ***International***

The International division is responsible for the development of the HBOS Group's strategic direction (including mergers and acquisitions activity) and has divisional responsibility for its main overseas interests in Australia, Ireland and Europe and North America ("ENA"). It consists of the following teams: (i) Group Strategy, which assists the HBOS Group's executive in the development of HBOS Group strategy in the UK and overseas and oversees the implementation of strategic initiatives that are controlled at HBOS Group level; (ii) International Operations, which oversees credit risk across the International division; (iii) Bank of Scotland (Ireland) which focuses on providing banking solutions to small and medium-sized enterprises in Ireland and has recently moved into full service retail banking; (iv) HBOS Australia, a full service offering in Australia; (v) ENA, which encompasses the HBOS Group's businesses in Europe and North America; and (vi) Public Policy, which manages the HBOS Group's interface with external policy and regulatory bodies.

The International division consists of three distinct businesses in Australia, Ireland and ENA. In Australia, the division's retail and business operations fall under the BankWest brand, with a 100 year old presence in Western Australia and a growing presence nationally. The division's insurance and investment businesses operate under the St Andrew's and Whittaker Macnaught brand and the corporate banking business, based in Sydney, operates under the BOS International brand. Principally, this provides mergers and acquisition finance, real estate lending and infrastructure/project finance. The division's asset finance business operates under the Capital Finance brand.

In Ireland, the International division has become established in the business banking and intermediary markets, operating under the Bank of Scotland (Ireland) brand. The division has targeted establishing a full-service bank in Ireland and, to that end, it is in the process of developing a nationwide branch network that will support the delivery of a more complete range of retail banking products including current accounts. Using the Halifax name, the HBOS Group expects the bank will offer simple, value-for-money products aimed at overcoming customer inertia and creating clear differentiation from competitor offerings.

In ENA, Corporate North America focuses on sectors in which the HBOS Group has experience, including oil and gas, gaming and real estate. The retail activities consist of Banco Halifax Hispania, an expanding branch network in Spain, and an online and intermediary mortgage business, BOS Netherlands. The Investment business provides life insurance and pensions, predominantly to the German investment market through the Clerical Medical Europe and Heidelberger Leben brands.

Public Policy seeks to identify the agenda of public policy decision makers wherever in the world the HBOS Group has business interests and develop an internal understanding of these agendas, facilitate the HBOS Group's positioning on policy developments and engage and support senior executives in public policy formation and influencing.

Seeking to apply to certain targeted areas the same approach that HBOS considers to have been successful in the UK, the International division's ongoing strategies include growing nationally across Australia, creating a full service bank in Ireland as discussed above, growing products and sector specialisms in ENA and maintaining overall cost leadership.

## ***Treasury & Asset Management***

Bank of Scotland Treasury is the centralised treasury for the HBOS Group and provides and manages prudential and regulatory liquidity and wholesale multi-currency funding for the HBOS Group. It arranges the HBOS Group's debt capital issuance and asset securitisation programmes and offers a range of treasury services to HBOS Group customers from its offices in London and its branches in Glasgow, Grand Cayman, New York and Sydney. Bank of Scotland Treasury also has management responsibility for the treasury activities of Bank of Scotland (Ireland) Limited.

Asset Management, comprising Insight Investment Management Limited (“**Insight**”) and Invista Real Estate Investment Management plc (“**Invista**”) and their respective subsidiary companies, is the investment management business within the HBOS Group. It provides investment management services, investment advisory services and is also a retailer of shares in open-ended investment companies and other investment vehicles.

Insight is one of the largest UK fund managers, with funds under management of £109.1 billion. It operates a multi-channel business, managing money for the HBOS Group, retail investors, pension funds, insurance groups and other institutions. Insight’s strategic product lines are Fixed Income, Cash, Liability Driven Investment, Equities and Absolute Return.

Invista was formed following the initial public offering of the real estate division of Insight and is the largest UK-listed real estate fund manager, with funds under management of £8.7 billion. Invista currently manages 21 real estate funds spread across the UK and continental Europe. This includes seven funds managed on behalf of the HBOS Group as well as other funds managed on behalf of third party clients.

The Treasury & Asset Management strategy involves the provision and management of the HBOS Group’s funding and liquidity requirements to ensure it has sufficient financial resources to deliver its strategy, including maintaining a balance of short and medium-term funding. In addition, the division seeks to deliver top quality service to the HBOS Group and its customers supported by the appropriate level of investment in systems and infrastructure. The division intends to maximise cross-selling opportunities with HBOS Group customers, leveraging its product innovation and capability in the market to drive sales levels. With respect to Asset Management, HBOS is of the view that investment performance is at the heart of asset management, and accordingly the division will focus on the delivery of superior investment returns by focusing on those products that have a proven track record of exceptional performance.

#### ***Principal HBOS Group Subsidiaries***

HBOS is the holding company of the HBOS Group. The following table shows the principal direct and indirect subsidiary undertakings of HBOS as at 31 December 2007 which HBOS believes are likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the HBOS Group and HBOS’s percentage interest in those companies. Under the Act (and with effect from 17 September 2007), all assets and liabilities in respect of three former principal subsidiaries of HBOS (HBOS Treasury Services plc, Capital Bank plc and Halifax plc) were assumed by Bank of Scotland.

Bank of Scotland plc .....	Banking, financial and related services	100	Scotland	The Mound Edinburgh EH1 1YZ
Bank of Scotland (Ireland) Limited .....	Banking	100	Ireland	Bank of Scotland House 124-127 St. Stephen's Green Dublin 2 Ireland
HBOS Covered Bonds LLP ..	Residential mortgage funding	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
HBOS Australia Pty Limited	Banking	100	Australia	BankWest Tower 108 St George's Terrace Perth Australia WA 6000
Bank of Western Australia Limited .....	Banking	100	Australia	BankWest Tower 108 St George's Terrace Perth Australia WA 6000
Halifax Share Dealing Limited .....	Execution only stockbroking	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
HBOS Insurance & Investment Group Limited ....	Investment holding	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Halifax General Insurance Services Limited .....	General insurance brokerage	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
St Andrew's Insurance plc ....	General insurance	100	England and Wales	St Andrew's House Portsmouth Road Esher Surrey KT10 9SA
Clerical Medical Investment Group Limited .....	Life assurance	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Clerical Medical Managed Funds Limited.....	Life assurance	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Halifax Life Limited.....	Life assurance	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
Halifax Investment Fund Managers Limited.....	OEIC management	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
Insight Investment Management Limited .....	Investment management	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Invista Real Estate Investment Management Holdings plc .....	Property investment	55	England and Wales	Exchequer Court 33 St. Mary Axe London EC3A 8AA
St. James's Place plc.....	Financial services	60	England and Wales	St. James's Place House Dollar Street Cirencester GL7 2AQ
St Andrew's Life Assurance plc .....	Pensions	100	England and Wales	St Andrew's House Portsmouth Road Esher Surrey KT10 9SA

## **Employees**

The HBOS Group employed on average 57,129 people on a full-time basis and 16,958 people on a part-time basis during the year ended 31 December 2007. Certain of the HBOS Group's employees in the UK are members of the unions UNITE and ACCORD, both of which are recognised by the HBOS Group as representing the interests of such employees. The HBOS Group considers its relations with its employees to be satisfactory.

## **Properties**

As at 31 December 2007, the HBOS Group operated throughout the world, principally in the UK, from both freehold and leasehold properties.

## **Competition**

### ***UK***

The banking market in the UK is characterised by continuing structural change that has increased competition in recent years from a variety of sources, including merged banks, demutualised life insurers and building societies and diversified consumer services companies. Increased regulatory intervention has also influenced the UK banking market.

As at 31 December 2007, the HBOS Group had 985 branches in the UK (excluding Jersey and the Isle of Man), of which 850 were full branches and 135 were sub-branches through which banking services are offered. The HBOS Group competes with UK clearing banks, through which other major international banks are also represented, with UK building societies and with other financial services providers.

The UK markets for the HBOS Group's activities are characterised by competition putting pressure on new business lending margins. The HBOS Group has pursued a strategy based on delivering value and simplicity to customers combined with a disciplined approach to cost management, which, together with distribution power and efficiency gains, has achieved asset growth and increased net income.

### ***Australia***

The Australian market is dominated by four major trading banks, who also hold significant positions in the wealth management and insurance markets. Competition in the market continues to increase, as international banks increasingly take a more significant interest in the market, and a number of smaller regional banks seek to expand outside their traditional geographies. Consolidation among building societies and the smaller regional banks continues to be a feature of the market.

In Australia, the HBOS Group's Retail and Business Divisions, trading under the BankWest brand, have more than 110 branches, mostly in the state of Western Australia (which represents approximately 10 per cent of the total market), although approximately 35 business branches have opened in metropolitan and regional areas of the eastern states, where the Business Division continues to expand its operations. BankWest has announced plans to increase the stock of retail and business branches to 160 across the eastern seaboard in the next three to four years.

The HBOS Group continues its strategy to grow its Retail, Corporate and Insurance and Investment businesses in the more populous eastern states via cost-effective distribution, both direct- to customers and via third-party channels such as finance brokers.

## ***Ireland***

The Irish market is dominated by two major trading banks. However, regulatory initiatives are opening up the market, and several international players have recently entered or extended their position in the market. For example, the HBOS Group, under the Bank of Scotland (Ireland) brand, is developing a more complete range of retail banking products and will continue the process of developing a full branch network during 2008.

## ***Other International***

The HBOS Group has other less significant overseas operations conducted through branches and subsidiaries in the United States, Canada and various European jurisdictions. In these locations, the HBOS Group competes with a wide variety of large domestic and international financial services companies.

## **Bank Charges Test Case**

On 27 July 2007 it was announced that members of the HBOS Group, along with seven other major UK current account providers, had reached agreement with the Office of Fair Trading (“OFT”) to start legal proceedings in the High Court of England and Wales for a declaration (or declarations) to resolve legal uncertainties concerning the fairness and lawfulness of unarranged overdraft charges (the “**Test Case**”). It was also announced that the HBOS Group and those other providers will seek a stay of all current and potential future Court proceedings which are brought against them in the UK concerning these charges and have obtained the consent of the Financial Services Ombudsman not to proceed with consideration of the merits of any complaints concerning these changes that are referred to him prior to the resolution of the Test Case. By virtue of a waiver granted by the Financial Services Authority of its complaints handling rules, HBOS Group (and other banks, including the banks party to the Test Case) will not be dealing with or resolving customer complaints on unarranged overdraft charges while the test case is running.

The first step in the Test Case was a trial of certain ‘preliminary’ issues concerning the legal status and enforceability of contractual terms relating to unarranged overdraft charges.

This preliminary trial concluded on 8 February 2008 and the judgment was handed down on 24 April 2008. The judgment held that the contractual terms relating to unarranged overdraft charges used by HBOS Group (i) are not unenforceable as penalties, but (ii) are not exempt from assessment for fairness under the Unfair Terms in Consumer Contract Regulations 1999.

HBOS Group is considering whether to appeal any of the rulings contained in the judgment. A court hearing has been arranged for 22 May 2008 at which the OFT, HBOS Group and the other Test Case banks are expected to make submissions to the Court in relation to whether they wish to appeal the judgment, the implications of the judgment in the Test Case and arrangements for any remaining issues relevant to the customer claims and complaints to be determined in the Test Case in due course.

A definitive outcome of the Test Case is unlikely to be known for at least 12 months.

Given the early stage of these proceedings and the uncertainty as to their outcome, it is not practicable at this time to estimate any potential financial effect. Consistent with HBOS’s obligations as a company with securities admitted to the Official List, HBOS will give further details in relation to the OFT litigation, if material, when they become available, including its potential impact on the HBOS Group.

## MANAGEMENT OF HBOS

### Board of Directors of HBOS

<b>Name</b>	<b>Position in HBOS</b>	<b>Principal outside activity (if any) of significance to HBOS</b>
Lord Stevenson of Coddendam.....	Chairman Non-executive Director	—
Sir Ronald Garrick .....	Deputy Chairman Non-executive Director	—
Andy Hornby .....	Chief Executive	—
Phillip Gore-Randall .....	Chief Operating Officer	—
Mike Ellis .....	Group Finance Director	—
Peter Cummings .....	Chief Executive – Corporate	—
Jo Dawson .....	Chief Executive – Retail Distribution and Insurance & Investment	—
Colin Matthew.....	Chief Executive, Strategy, International and Treasury & Asset Management	—
Dan Watkins .....	Chief Executive – Retail Products	—
Richard Cousins .....	Non-executive Director	Compass Group plc
Tony Hobson .....	Non-executive Director	—
Karen Jones .....	Non-executive Director	Food & Fuel Limited
John E. Mack .....	Non-executive Director	—
Coline McConville .....	Non-executive Director	—
Kate Nealon .....	Non-executive Director	—

The business address for the Board is The Mound, Edinburgh EH1 1YZ.

### *Conflicts of Interest*

No potential conflicts of interest exist at the date of this Prospectus between the duties of the Directors to HBOS and their private interests or other duties.

### *Audit Committee*

Without diminishing its own accountability, the board of directors of HBOS (the “**Board**”) has delegated certain responsibilities to the Audit Committee, including ensuring that there is regular review of the adequacy and effectiveness of the internal control procedures. This role provides independent and objective assurance that there is an appropriate control structure throughout the HBOS Group.



## Membership

The members of the Audit Committee are Tony Hobson (Chair), Coline McConville, John E. Mack, Kate Nealon and John Ormerod. The Audit Committee comprises four independent Non-executive Directors and one additional member, John Ormerod, who is neither a Director of HBOS nor an employee of the HBOS Group. John brings industry-specific expertise and additional experience, resource and perspective to its deliberations.

## Attendance at meetings

In 2007 the Audit Committee met on seven occasions. The Audit Committee invites the Chief Executive, senior executives from the Finance and Risk functions, the Head of Group Internal Audit and the external auditors to attend all of its meetings. Other senior management attend as requested by the Audit Committee to enable it to discharge its duties.

## Principal activities and duties

The Audit Committee's activities include receiving and challenging reports from senior management and both the internal and external auditors. The Audit Committee assists the Board in relation to the HBOS Group's external financial and regulatory reporting requirements, its risk and internal control environment and the HBOS Group's compliance with the Combined Code. In particular, in 2007 the Audit Committee:

- considered and approved the accounting policies, principles and practices as presented in the HBOS Group's accounts;
- assessed significant accounting and reporting issues and the key accounting and audit judgements;
- monitored the relationship of the HBOS Group with its regulators;
- reviewed and advised the Board on the HBOS Group's interim and annual financial statements, the control of financial and business risks (including whistleblowing arrangements), the nature and scope of the work performed by internal and external auditors, the results of this audit work and the responses of management;
- assessed the resources, organisational structure and operational effectiveness of the HBOS Group Internal Audit function together with management's response to the findings;
- reviewed the effectiveness of the HBOS Group's system of internal control, including financial, operational, compliance and risk management on an on-going basis;
- made a recommendation to the Board (for shareholder approval) in relation to the re-appointment of the external auditors and considered the terms of their engagement;
- reviewed other services provided to the HBOS Group by the external auditors, and monitored their independence, concluding that they had maintained their independence throughout the year;
- reviewed management procedures for identifying business risks and controlling their financial impact; preventing or detecting fraud; ensuring compliance with regulatory and legal requirements and monitoring the operational effectiveness of policies and systems; and
- considered the activities of the divisional Risk Control Committees.

The Audit Committee also held private meetings on a regular basis with the external auditors, the Head of HBOS Group Internal Audit, the HBOS Group Risk Director, the HBOS Group Finance Director and other key members of senior management as part of the Audit Committee's work on the effectiveness of the HBOS Group's risk management policies and procedures. The Group Risk Director and the Head of Group Internal Audit also have the right of direct access to the Chairman of the Audit Committee. The Chairman of the Audit Committee reports on the activities and recommendations of the Audit Committee at the Board meeting subsequent to each Audit Committee meeting.

#### Risk Control Committees

The Audit Committee is supported by divisional Risk Control Committees ("**RCCs**"), which act under delegated authority from the Audit Committee, under detailed terms of reference. Each divisional RCC reviews, on behalf of the Audit Committee, the adequacy of that division's system of internal control and risk management, the significant risks facing that business and how they are investigated and the techniques used to identify, assess and manage those risks particular to the business of the division. The RCCs also review divisional input to HBOS Group financial reports. At each of its meetings, the Audit Committee reviews the minutes and work of the RCCs.

#### Internal Audit

Group Internal Audit supports the Audit Committee, divisional RCCs and senior executives by reviewing independently and objectively the effectiveness of the controls and risk environment.

#### Compliance with Combined Code

HBOS considers that it has complied throughout the year with all of the provisions within section 1 of the Combined Code Principles of Good Governance and Code of Best Practice (the "**Combined Code**"), other than provision C.3.1 of the Combined Code which recommends that the Audit Committee should comprise solely independent non executive Directors. Audit Committee membership includes John Ormerod, who is neither an HBOS Director nor an employee of the HBOS Group. He brings an entirely independent and experienced additional resource to the Audit Committee's deliberations which, HBOS believes, exceeds the spirit of the Combined Code, and is entirely consistent with the Combined Code's aim of protecting the independence of the Audit Committee.

#### *Meetings of the Board*

The Board meets regularly (at least nine times per year) to determine the strategic direction of the HBOS Group and review its performance against its plans. The Board has a formal schedule of matters specifically reserved to it, which can only be amended by the Board itself.

#### *Terms of Office of Directors*

At every Annual General Meeting of HBOS, one-third of the current Directors must retire as Directors. All Directors are required to submit themselves for re-election every three years in accordance with HBOS's Articles of Association.

#### *Remuneration of Directors*

The aggregate remuneration paid to the Directors by members of the HBOS Group for the year ended 31 December 2007 was £17.5 million, including bonuses, taxable benefits in kind, total potential pre-tax gains on share options exercised and the total value of shares vested under the long-term incentive scheme.

***Advances to Key Management Personnel***

As at 31 December 2007, there were loans (including credit card accounts) by the HBOS Group outstanding to seven Directors and other key management personnel then in office in the aggregate principal amount of £1.827 million.

## **SELECTED ANNUAL CONSOLIDATED FINANCIAL INFORMATION OF HBOS**

The statutory financial information set out on the following pages as at the end of and for each of the two years ended 31 December 2007 and 2006 has been extracted without material adjustment from the audited consolidated financial statements and notes thereto of the HBOS Group for the year ended 31 December 2007. The statutory consolidated financial statements and notes thereto have been placed on display at the specified office of the Principal Paying Agent and at the offices of Shepherd and Wedderburn LLP, Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET for the life of the Programme. The consolidated financial statements and notes thereto have been audited by KPMG Audit Plc, independent auditors.

KPMG Audit Plc is a firm of chartered accountants and registered auditors.

### ***2007 financial information***

The 2007 financial information has been prepared on the basis of the accounting policies adopted in the 2007 IFRS Financial Statements. These are described in pages 160 to 169 of the HBOS plc Annual Report and Accounts 2007 that contain the 2007 IFRS Financial Statements, and there are no significant changes to the accounting policies adopted for the 2006 financial information.

### ***2006 financial information***

The 2006 financial information has been prepared on the basis of the accounting policies adopted in the 2006 IFRS Financial Statements for the year ended 31 December 2006.

## SUMMARY ANNUAL CONSOLIDATED PROFIT AND LOSS ACCOUNT OF HBOS

	Year ended 31 December	
	2007	2006
	(in £ millions, except per share)	
Net interest income.....	7,304	7,400
Non-interest income .....	13,987	15,314
Net operating income (continuing operations).....	21,291	22,714
Operating expenses.....	(14,070)	(15,571)
Impairment losses on loans and advances .....	(2,012)	(1,742)
Impairment on investment securities .....	(60)	(71)
Operating profit (continuing operations) .....	5,149	5,330
Share of profits of jointly controlled entities .....	234	112
Share of profits of associates .....		14
Non-operating income .....	91	250
Profit before taxation .....	5,474	5,706
Tax on profit .....	(1,365)	(1,772)
Profit after taxation.....	4,109	3,934
Profit of disposal group .....	4	5
Profit for the year .....	4,113	3,939
Attributable to:		
Parent company shareholders .....	4,045	3,879
Minority Interests .....	68	60
	4,113	3,939
Pence per share		
Basic earnings per share – continuing operations .....	106.2p	100.5p
Basic earnings per share – disposal group .....	—p	0.1p
Basic earnings per share – total .....	106.2p	100.6p
Diluted earnings per share – continuing operations.....	105.5p	99.4p
Diluted earnings per share – disposal group .....	—p	0.1p
Diluted earnings per share – total .....	105.5p	99.5p

## SUMMARY ANNUAL CONSOLIDATED BALANCE SHEET OF HBOS

	Year ended 31 December	
	2007	2006
	(in £ millions, except per share)	
Shareholders' Equity		
Issued share capital and share premium.....	4,128	3,995
Reserves .....	17,721	16,690
Shareholders' equity (excluding minority interests) .....	21,849	20,685
Minority interests (equity) .....	385	486
Shareholders' equity (including minority interests).....	22,234	21,171
Other borrowed funds.....	24,253	19,692
Deposits by banks, customer accounts and debt securities in issue .....	491,254	426,064
Loans and advances to banks and customers .....	438,063	388,401
Impairment losses on loans and advances .....	3,373	3,089
Total assets .....	666,947	591,813
Net assets per share .....	551p	516p



## OTHER ANNUAL FINANCIAL DATA OF HBOS

	Year ended 31 December	
	2007	2006
Group post-tax return on mean equity <sup>(1) (2)</sup> .....	19.7%	20.8%
Group net interest margin <sup>(2)</sup> .....	1.63%	1.72%
Cost: income ratio <sup>(2) (3)</sup> .....	40.9%	41.0%
<i>Capital Adequacy (Basel I)</i>		
Tier 1 capital.....	7.4%	8.1%
Total capital .....	11.1%	12.0%
<i>Capital Adequacy (Basel II)</i>		
Tier 1 capital.....	7.7%	
Total capital .....	11.0%	
Total impairment provisions as a percentage of closing advances .....	0.78%	0.82%

- (1) Post tax return on mean equity is calculated by dividing underlying profit attributable to ordinary shareholders by the monthly average of ordinary shareholders' funds.
- (2) The 2006 figures exclude the impact of the sale of the Group's investment in Drive Financial Services ("Drive"), a sub prime auto finance receivables business based in Texas.
- (3) The cost: income ratio is calculated on an underlying basis as follows:

	Year ended 31 December	
	2007	2006
	(in £ millions)	
Operating expenses.....	14,070	15,571
Regulatory provisions charge .....	(122)	(95)
Goodwill impairment .....	(5)	(55)
Drive .....		(43)
	13,943	15,378
Operating lease depreciation .....	(985)	(812)
Change in investment contract liabilities .....	(2,538)	(2,910)
Net claims paid on insurance contracts .....	(2,952)	(2,328)
Net change in insurance contract liabilities .....	(2,244)	(3,894)
Change in unallocated surplus .....	50	(569)
Underlying operating expenses .....	5,274	4,865
Net operating income .....	21,291	22,714
Gross up for policyholder tax.....	(18)	(220)
Short term fluctuations .....	115	81
Impact of the 2008 change in corporation tax rate on the value of leasing assets	10	
Drive .....		(253)
	21,398	22,322
Impairment on investment securities .....	(60)	(71)
Operating lease depreciation .....	(985)	(812)
Change in investment contract liabilities .....	(2,538)	(2,910)
Net claims incurred on insurance contracts .....	(2,952)	(2,328)
Net change in insurance contract liabilities .....	(2,244)	(3,894)
Change in unallocated surplus .....	50	(569)
Share of profits of associates and jointly controlled entities .....	234	126
Underlying net operating income.....	12,903	11,864

## CAPITALISATION AND INDEBTEDNESS OF HBOS

The following table and the notes thereto show the capitalisation and indebtedness of the HBOS Group as at the date set out below

	As at 31 December 2007  (£ millions)
<b>Authorised capital</b>	
6.0884% Non-cumulative Preference Shares (of £1 each) .....	1
6.475% Non-cumulative Preference Shares (of £1 each) .....	198
6.125% Non-cumulative Redeemable Preference Shares (of £1 each) .....	200
Sterling Preference Shares (of £1 each) .....	2,597
8.117% Non-cumulative Perpetual Preference Shares Class "A" (of £10 each) .....	3
7.754% Non-cumulative Perpetual Preference Shares Class "B" (of £10 each) .....	1
Ordinary Shares (of 25p each) .....	1,185
9¼% Non-cumulative Irredeemable Preference Shares (of £1 each) .....	375
9¼% Non-cumulative Irredeemable Preference Shares (of £1 each) .....	125
	<b>4,685</b>
	As at 31 December 2007  (€ millions)
Euro Preference Shares (of €1 each) .....	3,000
	<b>3,000</b>
	As at 31 December 2007  (U.S.\$ millions)
U.S.\$ Preference Shares (of U.S.\$1 each) .....	4,998
6.413% preference shares series "A" (of U.S.\$1 each) .....	1
5.92% preference shares series "B" (of U.S.\$1 each) .....	1
6.657% preference shares (of U.S.\$1 each) .....	1
	<b>5,001</b>
	As at 31 December 2007  (Aus\$ millions)
Aus\$ Preference Shares (of Aus\$1 each) .....	1,000
	<b>1,000</b>

	As at 31 December 2007
	(Can\$ millions)
Can\$ Preference Shares (of Can\$1 each) .....	1,000
	<b>1,000</b>
	As at 31 December 2007
6.475% Non-cumulative Preference Shares (of £1 each) .....	198
Ordinary Shares (of 25p each).....	933
Allotted, called up and fully paid share capital .....	1,131
Reserves .....	20,718
Shareholders' Equity (excluding minority interests) .....	21,849
Minority interests .....	385
Total Shareholders' Equity .....	22,234
Deposits by banks .....	41,513
Customer accounts .....	243,221
Financial liabilities held for trading.....	22,705
Derivative liabilities .....	12,311
Notes in circulation .....	881
Insurance contract liabilities .....	26,864
Investment contract liabilities .....	52,828
Unallocated surplus .....	1,493
Net post retirement liabilities.....	347
Current tax and deferred tax liabilities .....	2,900
Other liabilities.....	5,072
Accruals and deferred income .....	3,630
Other provisions .....	175
Debt securities in issue .....	206,520
Other borrowed funds <sup>(1)</sup> .....	24,253
Total Indebtedness .....	644,713
<b>Total Capitalisation and Indebtedness.....</b>	<b>666,947</b>

Note:

- (1) Other borrowed funds also include those preference shares which are defined as liabilities: £300 million of 9% per cent. Non-cumulative Irredeemable Preference Shares, £100 million of 9% per cent. Non-cumulative Irredeemable Preference Shares U.S.\$750 million of 6.413 per cent. Fixed to Floating Rate U.S.\$ Preference Shares Series "A", U.S.\$750 million of 5.92 per cent. Fixed to Floating Rate U.S.\$ Preference Shares Series "B" and U.S.\$750 million 6.657 per cent. Fixed to Floating Rate U.S.\$ Preference Shares.

Save for £7,009 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on advances to customers and certain other assets of the HBOS Group and £50,707 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on asset backed securities of the HBOS Group, none of the other borrowings, at 31 December 2006, are secured or guaranteed. As at 31

December 2007, the HBOS Group had contingent liabilities (including guarantees) of £6,934 million. No account has been taken of intra group guarantees.

On 19 March 2008 HBOS Capital Funding No. 4 L.P. issued £750,000,000 of Fixed to Floating Rate Non-voting Non-cumulative Perpetual Preferred Securities which are guaranteed on a subordinated basis by HBOS plc.

There have been no material changes in the capitalisation, indebtedness and contingent liabilities (including guarantees) of HBOS Group since 31 December 2007.

## **BANK OF SCOTLAND**

### **Introduction**

Bank of Scotland plc (Bank of Scotland) was originally established in 1695 as The Governor and Company of the Bank of Scotland by an Act of the Parliament of Scotland. On 17 September 2007, in accordance with the provisions of the HBOS Group Reorganisation Act 2006 (the “**Act**”), The Governor and Company of the Bank of Scotland was registered as a public limited company under the Companies Act 1985 and changed its name to Bank of Scotland plc (“**Bank of Scotland**”), with registered number SC327000. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of CAPITAL BANK plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland. Bank of Scotland together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 2006) are collectively referred to below as the “**Bank of Scotland group**”. The registered office of Bank of Scotland is located at The Mound, Edinburgh EH1 1YZ, Scotland, with telephone number +44 (0)870 600 5000.

Bank of Scotland is a United Kingdom clearing bank with its headquarters in Edinburgh and is an “authorised person” under the Financial Services and Markets Act 2000. The Bank of Scotland group is engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the UK and internationally. As at 31 December 2007, it operated from branch outlets in Scotland and England, overseas branches in Amsterdam, Frankfurt, Grand Cayman, Hong Kong, Madrid, New York City, Paris, Stockholm and Sydney and representative offices in Boston, Chicago, Dallas, Houston, Los Angeles, Miami, Minneapolis and Seattle. It is a member of the British Bankers’ Association and the Committee of Scottish Clearing Bankers. The Bank Notes (Scotland) Act 1845 confirmed Bank of Scotland’s right to issue bank notes in Scotland. At 31 December 2007, circulation of such notes was approximately £881 million.

Bank of Scotland is a wholly owned subsidiary of HBOS plc.

### **Strategy**

Bank of Scotland pursues a strategy that is an integral part of the overall HBOS Group Strategy described elsewhere in the Prospectus. See “HBOS – Strategy” above.

### **Business**

The Bank of Scotland Group is engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the UK and internationally.

The Bank of Scotland Group’s products and services can be categorised into the following business divisions:

- Retail;
- Corporate;
- International; and
- Treasury.



## ***Retail***

The Retail division of the Bank of Scotland group provides financial services to 23 million customers through a broad distribution base (ranging from branches to direct mail, telephone and internet services). Its range of multi-branded products includes personal and business banking services providing mortgages, savings, bank accounts, personal loans and credit cards.

Mortgages are provided by Bank of Scotland under the Halifax, Intelligent Finance, Birmingham Midshires and Bank of Scotland brands and mortgages provided under The Mortgage Business brand name will be provided by The Mortgage Business plc, a subsidiary of Bank of Scotland.

Bank of Scotland offers savings products through the Halifax, Bank of Scotland, Birmingham, Midshires and Intelligent Finance brands catering for all segments of the savings market, including children's accounts, tax-free, fixed rate and regular savings accounts. Bank accounts range from full facilities current accounts to basic social banking facilities.

Bank of Scotland offers personal loans and credit cards through the Halifax and Bank of Scotland brands. Credit cards are also provided through a number of affinity brands such as charity cards, where a proportion of income earned is donated to the charity. The Retail division of Bank of Scotland also distributes HBOS Group's insurance and investment products on behalf of the HBOS Group's Insurance & Investment division and participates in a number of joint ventures, such as Sainsbury's Bank.

## ***Corporate***

The Bank of Scotland Group provides a range of banking services to the corporate business sector. Its principal market is UK and European based businesses with a turnover in excess of £1 million (or its currency equivalent). The division comprises a number of relationship banking and specialist lending teams. Their responsibilities include the provision of term loans, asset finance, motor finance, multi-currency loans and deposits, mezzanine funding, equity investment, fund investment, joint venture partnerships, working capital finance, project and specialist finance, acquisition finance and syndicated lending. The key objective of these teams is to expand and strengthen the HBOS Group's corporate market share by pursuing a relationship and partnership driven asset class approach and delivering specialist services to existing and new customers.

The Corporate division's real estate teams have experience in commercial property finance and offer a range of funding options. The Corporate division's commercial bank is a diverse business focusing on the needs of UK businesses with a turnover in excess of £1 million (or its currency equivalent). The integrated, structured and acquisition finance teams operate in the leveraged buy-out market, providing a range of financing vehicles to their customers. The private equity business has a reputation for innovative deal making and additionally invests in a number of private equity funds. The motor business finances car fleets, vans and buses. The asset finance teams cover a diverse market sector and are engaged in financing or owning tangible assets ranging from oil tankers, trains and airplanes to photocopiers, IT and vending machines. The energy and environmental team focuses on supplying funding to the renewable power generation sector primarily across Europe. The oil and gas team deliver upstream funding for independent oil companies together with niche downstream project financing. The infrastructure and housing finance teams provide debt funding solutions and risk capital investments in economic and social infrastructure projects via government PFI and PPP projects. The telecoms and media team is dedicated to the provision of funding to corporate entities and financial sponsors across Europe.

## ***International***

The International operations division of the Bank of Scotland group consists of three operating divisions in Ireland, Australia and Europe and North America (“**ENA**”). Bank of Scotland (Ireland) Limited focuses on providing banking solutions to small and medium-sized enterprises in Ireland and has recently begun to roll out its full service retail offering. HBOS Australia Pty Limited operates in Australia under the four separate brands of BankWest, Capital Finance, St Andrew’s and BOS International, to offer a full range of financial solutions to retail and corporate customers.

ENA encompasses the group’s interests in North America and covers a range of financial services. The division operates through a range of businesses, which include: EUBOS (Netherlands) an online and intermediary mortgage business; and retail activities consisting of Banco Halifax Hispania, an expanding branch network in Spain.

The Bank of Scotland group operates principally within the United Kingdom, Ireland and Australia.

## **Treasury**

The Treasury division provides centralised wholesale multi-currency funding, liquidity management and treasury services to HBOS and its subsidiary undertakings in the United Kingdom, Australia, Ireland, and the United States. It manages the market risk arising from the HBOS Group’s Retail and Corporate Divisions. It operates in the world’s foreign exchange and money markets and also provides a range of treasury services to certain of the HBOS Group’s customers from its office in London and its branches in Glasgow, Grand Cayman, New York and Sydney.

Treasury division’s Grand Cayman branch operates under licence from the Cayman Islands Monetary Authority. Treasury division’s New York branch operates under the supervision of the Office of the Comptroller of the Currency and oversight of the Board of Governors of the Federal Reserve System. Bank of Scotland is registered as a foreign company in Australia and carries on banking business in Australia pursuant to an authority issued by the Australian Prudential Regulation Authority. In addition, the Australia branch also holds an Australian Financial Services Licence which enables the Australia branch to conduct its treasury activities within the Australian jurisdiction.

Trading transactions are undertaken to accommodate customer and HBOS Group requirements, whilst proprietary activity is maintained within approved limits. The Treasury division manages the treasury investment portfolio for the HBOS Group and leads the debt capital issuance and asset securitisation activities of the HBOS Group.

## **Principal Bank of Scotland Subsidiaries**

The following table shows the principal direct and indirect subsidiary undertakings of Bank of Scotland which Bank of Scotland believes are likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Bank of Scotland Group and Bank of Scotland’s percentage interest in those companies:

<b>Company</b>	<b>Activity</b>	<b>Total % of ordinary share capital held (directly or indirectly) by Bank of Scotland</b>	<b>Country of incorporation or registration</b>	<b>Registered office/head office</b>
Bank of Scotland (Ireland) Ltd	Banking	100	Ireland	Bank of Scotland 124-127 St. Stephen's Green Dublin 2 Ireland
HBOS Australia Pty Ltd and subsidiaries, including Bank of Western Australia Ltd	Retail and commercial banking	100	Australia	BankWest Tower 108 St George's Terrace Perth Australia WA 6000
Banco Halifax Hispania SA	Retail and commercial banking	100	Spain	PO Box: Ps de la Castellana 86, Pl.5 Dcha. Madrid-28046 Spain
Halifax Estate Agencies Ltd	Estate agency and financial services	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 LRG
HBOS Covered Bonds LLP	Residential Mortgage Loans	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 LRG
Uberior Investments plc	Investment holding	100	Scotland	Level 1 Citymark 150 Fountainbridge Edinburgh EH3 9PE

## MANAGEMENT OF BANK OF SCOTLAND

### Board of Directors of Bank of Scotland

Name	Position in Bank of Scotland	Principal outside activities (if any) of significance to the Bank of Scotland
Lord Stevenson of Coddendam	Chairman	Chairman of HBOS plc
Colin Matthew	Executive Director	Chief Executive – Strategy & International and Treasury & Asset Management, HBOS plc
Peter Cummings	Executive Director	Chief Executive Corporate, HBOS plc
Jo Dawson	Executive Director	Chief Executive Insurance & Investment and Retail Distribution, HBOS plc
Mike Ellis	Executive Director	Group Finance Director, HBOS plc
Andy Hornby	Executive Director	Chief Executive, HBOS plc
Phillip Gore-Randall	Executive Director	Chief Operating Officer, HBOS plc
Dan Watkins	Executive Director	Chief Executive Retail Products, HBOS plc
Richard Cousins	Non-executive Director	Non-Executive Director of HBOS plc
Sir Ronald Garrick	Non-executive Director	Non-executive Director and Deputy Chairman of HBOS plc
Tony Hobson	Non-executive Director	Non-executive Director of HBOS plc
Karen Jones	Non-executive Director	Non-executive Director of HBOS plc
John E. Mack	Non-executive Director	Non-executive Director of HBOS plc
Coline McConville	Non-executive Director	Non-executive Director of HBOS plc
Kate Nealon	Non-executive Director	Non-executive Director of HBOS plc

The business address for the Board is The Mound, Edinburgh EH1 1YZ.

### Conflicts of Interest

No potential conflicts of interest exist at the date of this Prospectus between the duties of the Directors to Bank of Scotland and their private interests or other duties.

## **BOS (IRELAND) FUNDING PLC**

BOS (Ireland) Funding plc (“**BOSIF**”) was incorporated as a limited liability company in Ireland with registered number 18686 on 10 February 1961 under the Irish Companies Acts 1908 to 1959 and is an indirect wholly owned subsidiary of HBOS plc.

BOSIF was first incorporated under the name of Shipping Finance Corporation Limited. On 30 October 1992 the name was changed to ICC Investment Bank Limited, on 25 March 2002 the name was changed to ICC Investment Services Limited, on 12 November 2007 the name was changed to BOS (Ireland) Funding Limited and on 19 December 2007 the name was changed to BOS (Ireland) Funding plc.

BOSIF has an issued share capital of €2,518,246.17 divided into 1,982,871 ordinary shares of €1.27 each fully paid.

The objects of BOSIF include issuing Instruments and using the proceeds thereof to provide funding to Bank of Scotland (Ireland) Limited, (“**BOSI**”) its parent company as set out in Clause 2 of its Memorandum of Association. The financial obligations of BOSIF under the Programme are unconditionally and irrevocably guaranteed by Bank of Scotland plc.

BOSI is engaged in a range of retail and business banking activities throughout Ireland. BOSI is regulated by the Irish Financial Regulator.

BOSIF’s registered office is Bank of Scotland House, 124-127 St. Stephen’s Green, Dublin 2, Ireland, telephone number +353 1 267 4000.

The directors of BOSIF, their positions and their principal activities of significance outside BOSIF are as follows:

<b>Name</b>	<b>Position in BOSIF</b>	<b>Principal outside activity (if any) of significance to BOSIF</b>
Jim Brindley	Director	Head of Taxation and Operations, Bank of Scotland (Ireland) Limited
Tom FitzGerald	Director	Chief Financial Officer, Bank of Scotland (Ireland) Limited
Noel Griffin	Director	Head of Group Deposits, Bank of Scotland (Ireland) Limited
John A. Staunton	Director	Treasury Director, Bank of Scotland (Ireland) Limited

The business address for each of the directors is Bank of Scotland House, 124-127 St. Stephen’s Green, Dublin 2.

No potential conflicts of interest exist at the date of this Prospectus between the duties of the directors to BOSIF and their private interests or other duties.

BOSIF complies with the laws and regulations of Ireland regarding corporate governance.

## TAXATION

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

### European Union Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in and certain other specified types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system (unless, during such period, they elect otherwise), in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

In addition, the Member States have entered into provision of information arrangements, in certain cases on a reciprocal basis, or transitional withholding arrangements with certain dependent or associated territories of certain Member States in relation to payments of interest or similar income made by a person in a Member State to, or collected by such a person for, an individual resident, and/or certain other specified types of entities established, in one of those territories.

If payment were to be made or collected through a Member State or a relevant non-EU country or territory which has opted for a withholding system pursuant to EC Council Directive 2003/48/EC and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuers, Guarantors nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. The Issuers will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

### United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Instruments and of the United Kingdom stamp duty and stamp duty reserve tax treatment as at the date hereof in relation to the issue and transfer of the Instruments. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Instruments. The comments relate only to the position of persons who are absolute beneficial owners of the Instruments and may not apply to certain classes of persons such as dealers or certain professional investors. Prospective Instrumentholders should be aware that the particular terms of issue of any series of Instruments as specified in the relevant Final Terms may affect the tax treatment of that and other series of Instruments. The following is a general guide and should be treated with appropriate caution. **Instrumentholders who are in any doubt as to their tax position should consult their professional advisers.**

Instrumentholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Instruments are particularly advised to consult their



professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Instruments. In particular, Instrumentholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Instruments even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

## **A. United Kingdom withholding tax on United Kingdom source interest**

### **A.1 *United Kingdom Instruments listed on a recognised stock exchange***

The Instruments issued by HBOS and Bank of Scotland (the “**UK Issuers**”) which carry a right to interest (“**UK Instruments**”) will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 as long as they are and continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Income Tax Act 2007. Her Majesty’s Revenue and Customs (“**HMRC**”) have confirmed that the London Stock Exchange has been designated as a recognised stock exchange. In the case of Instruments to be traded on the London Stock Exchange, the Instruments will be treated as “listed” on a recognised stock exchange if the Instruments are included in the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange. In the case of Instruments to be traded on any other exchange, such Instruments will be regarded as “listed” on a recognised stock exchange if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by HMRC and are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange. The UK Issuers’ understanding of HMRC practice is that since the merger of the Australian Stock Exchange with the Sydney Futures Exchange to form the Australian Securities Exchange (the “**ASX**”), only part of the merged exchange (the part that can be recognised as the former Australian Stock Exchange) is designated as a recognised stock exchange. In the case of Instruments to be traded on that part of the ASX, the Instruments will be treated as “listed” on a recognised stock exchange if (and only if) they are admitted to trading on that part of the exchange and they are officially listed, in Australia, in accordance with provisions corresponding to those generally applicable in European Economic Area states. Whilst the UK Instruments are and continue to be quoted Eurobonds, payments of interest on the UK Instruments may be made without withholding or deduction for or on account of United Kingdom income tax.

### **A.2 *UK Instruments issued by a “bank”***

In addition to the exemption set out in A.1 above, interest on the UK Instruments may be paid without withholding or deduction for or on account of United Kingdom income tax if and for so long as the UK Issuer is a “bank” for the purposes of Section 878 of the Income Tax Act 2007 and the interest is paid by such Issuer in the ordinary course of its business. The definition of “bank” for the purposes of Section 878 is contained in Section 991 of the Income Tax Act 2007. In order to qualify, a person must satisfy certain conditions, including having permission under Part 4 of the FSMA to accept deposits. Currently, Bank of Scotland fulfils this requirement but HBOS does not.

In accordance with the published practice of HMRC, such payments of interest will be accepted as being made by the relevant “bank” Issuer in the ordinary course of its business unless either:

- (i) the borrowing in question conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the Financial Services Authority whether or not it actually counts towards tier 1, 2 or 3 capital for regulatory purposes; or

- (ii) the characteristics of the transaction giving rise to the interest are primarily attributable to an intention to avoid United Kingdom tax.

### *A.3 All other cases*

In all cases falling outside the exemptions described in A.1 and A.2 above, interest on the UK Instruments will generally be paid under deduction of United Kingdom income tax at the savings rate (currently 20 per cent.) (however, if the draft United Kingdom Finance Bill 2008 is enacted in its current form, when the Finance Bill 2008 receives Royal Assent, the rate of withholding for the tax year 2008/2009 will be the basic rate (currently 20 per cent.)) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. However, this withholding will not apply if the relevant interest is paid on Instruments with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Instruments part of a borrowing with a total term of a year or more.

### **B. Payments by HBOS and Bank of Scotland under guarantee**

If HBOS and/or Bank of Scotland makes any payments in respect of interest on the Instruments (or other amounts due under the Instruments other than the repayment of amounts subscribed for the Instruments) under any guarantee given by it in respect of the obligations of an Issuer, such payments may be subject to United Kingdom withholding tax at a rate of 20 per cent. for the tax year 2008/2009 (on the basis that the draft Finance Bill 2008 is enacted in its current form) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by HBOS and/or Bank of Scotland may not be eligible for the exemptions described in A above.

### **C. Provision of information**

Instrumentholders should note that persons in the United Kingdom (for example any UK Issuer or any paying agent or collecting agent in the United Kingdom) paying interest to an Instrumentholder or receiving interest on behalf of an Instrumentholder (other than solely by clearing or arranging the clearing of a cheque), may, in certain circumstances, be required to supply to HMRC details of the payment and certain details relating to the Instrumentholder (including the Instrumentholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Instrumentholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HMRC may be passed by HMRC to the tax authorities of certain other jurisdictions.

For the above purposes, "interest" should be taken, for practical purposes, as including payments made by a guarantor in respect of interest on Instruments.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Instruments which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 (broadly, where the amount payable on redemption is greater than the issue price of the Instruments). However, in relation to amounts payable on the redemption of such Instruments, HMRC published practice indicates that HMRC will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2009.

Information may also be required to be reported in accordance with the regulations made pursuant to the EU Savings Directive (see above).

#### **D. Other rules relating to United Kingdom withholding tax**

Instruments may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Instruments will not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in A above, but may be subject to reporting requirements as outlined in C above.

Where Instruments are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Instrumentholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to “interest” in A to C above mean “interest” as understood in United Kingdom tax law. The statements in A to C above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the Instruments or any related documentation.

Instrumentholders should seek their own professional advice as regards the withholding tax treatment of any payment on the Instruments which does not constitute “interest” or “principal” as those terms are understood in United Kingdom tax law.

The above description of the United Kingdom withholding tax position assumes that there will be no addition or substitution of an Issuer (pursuant to Condition 13.03 of the Instruments or otherwise) and does not consider the tax consequences of any such addition or substitution.

#### **E. United Kingdom stamp duty and stamp duty reserve tax**

There is a wide-ranging exemption from stamp duty and stamp duty reserve tax in relation to certain types of “loan capital”. Where that exemption applies, no stamp duty or stamp duty reserve tax is payable on the issue of the relevant Instruments or any transfer of, or on an agreement to transfer, full legal and beneficial ownership of such Instruments. However, the terms of certain Instruments, specified in the applicable Final Terms, may prevent them from qualifying for that exemption. This may occur, in particular, if (a) any Instruments bear interest at more than a reasonable commercial rate on the nominal amount of the capital of such Instruments, (b) a premium is payable on redemption of any Instruments, (c) the amount of interest payable on any Instruments depends to any extent on the results of any business or the value of any property, or (d) any Instruments carry a right of conversion into shares or other securities, or to the acquisition of shares or other securities, including “loan capital” of the same description or (e) the terms of the Instruments are such that they do not constitute “loan capital” for these purposes. Where there is no exemption there may be a charge to stamp duty and/or stamp duty reserve tax in respect of issues or transfers or agreements to transfer such Instruments. Persons who are in any doubt regarding the application of the “loan capital” exemption to any Instruments should seek appropriate professional advice.

### **Australian Taxation**

#### **A. Instruments issued by Bank of Scotland, acting through its Australia branch**

The following is a summary of the Australian taxation treatment at the date of this Prospectus of payments of interest (as defined in the Income Tax Assessment Acts of 1936 and 1997 of Australia (together, “**Australian Tax Act**”)) on those Instruments issued by Bank of Scotland, acting through its Australia branch

and certain other matters. It is not exhaustive and, in particular, does not deal with the position of certain classes of Instrumentholders (such as dealers in securities, custodians or other third parties who hold Instruments on behalf of other persons). Prospective Instrumentholders should be aware that particular terms of issue of any Series of Instruments may affect the tax treatment of that and other Series of Instruments. The following is a general guide and should be treated with appropriate caution. Prospective Instrumentholders should consult their professional advisers on the tax implications of an investment in the Instruments for their particular circumstances.

#### **A-1. Interest Withholding Tax**

An exemption from Australian interest withholding tax imposed under Division 11A of Part III of the Australian Tax Act (“**Australian IWT**”) is available in respect of the Instruments issued by Bank of Scotland, acting through its Australia branch under section 128F of the Australian Tax Act if the following conditions are met:

- (a) Bank of Scotland, acting through its Australia branch is a non-resident carrying on business at or through a permanent establishment in Australia when it issues the Instruments and when interest (as defined in section 128A(1AB) of the Australian Tax Act) is paid. Interest is defined to include amounts in the nature of, or in substitution for, interest and certain other amounts;
- (b) the Instruments are issued in a manner which satisfies the public offer test (as defined in section 128F(3) of the Australian Tax Act). There are five principal methods of satisfying the public offer test, the purpose of which is to ensure that lenders in capital markets are aware that Bank of Scotland, acting through its Australia branch is offering those Instruments for issue. In summary, the five methods are:
  - (i) offers to 10 or more unrelated financiers or securities dealers;
  - (ii) offers to 100 or more investors;
  - (iii) offers of listed Instruments;
  - (iv) offers via publicly available information sources; and
  - (v) offers to a dealer, manager or underwriter who offer to sell the Instruments within 30 days by one of the preceding methods.

In addition, the issue of any of those Instruments (whether in global form or otherwise) by Bank of Scotland, acting through its Australia branch and the offering of interests in any of those Instruments by one of these methods should satisfy the public offer test;

- (c) Bank of Scotland does not know, or have reasonable grounds to suspect, that at the time of issue, the Instruments or interests in those Instruments were being, or would later be, acquired directly or indirectly, by an “associate” of Bank of Scotland except as permitted by Section 128F(5) of the Australian Tax Act; and
- (d) at the time of the payment of interest, Bank of Scotland does not know, or have reasonable grounds to suspect, the payee is an “associate” of Bank of Scotland except as permitted by Section 128F(6) of the Australian Tax Act.

Bank of Scotland, acting through its Australia branch proposes to issue Instruments in a manner which will satisfy the requirements of section 128F of the Australian Tax Act.

### *Associates*

An “associate” of Bank of Scotland for the purposes of section 128F of the Australian Tax Act is defined in section 128F(9) of that Act and includes (i) a person or entity which holds a majority of the voting interest in, or otherwise controls, Bank of Scotland, (ii) an entity in which a majority of the voting interest are held by, or which is otherwise controlled by, Bank of Scotland, (iii) a trustee of a trust where Bank of Scotland is capable of benefiting (whether directly or indirectly) under that trust, and (iv) a person or entity which is an “associate” of another person or company which is an “associate” of Bank of Scotland under any of the foregoing.

However, for the purposes of sections 128F(5) and (6) of the Australian Tax Act (see paragraphs (c) and (d) above), “associate” does not include:

- (A) onshore associates (i.e. Australian resident associates who do not hold the Instruments in the course of carrying on business at or through a permanent establishment outside Australia and non-resident associates who hold the Instruments in the course of carrying on business at or through a permanent establishment in Australia); or
- (B) offshore associates (i.e. Australian resident associates who hold the Instruments in the course of carrying on business at or through a permanent establishment outside Australia and non-resident associates who do not hold the Instruments in the course of carrying on business at or through a permanent establishment in Australia) who are acting in the capacity of:
  - (i) in the case of section 128F(5), a dealer, manager or underwriter in relation to the placement of the relevant Instruments or a clearing house, custodian, funds manager or responsible entity of a registered managed investment scheme; or
  - (ii) in the case of section 128F(6), a clearing house, paying agent, custodian, funds manager or responsible entity of a registered managed investment scheme (within the meaning of the Corporations Act 2001 of Australia).

### *Exemptions under recent tax treaties*

The Australian government has signed new or amended double tax conventions (“**New Treaties**”) with the United States, the United Kingdom, Finland and Norway respectively (each a “**Specified Country**”).

In broad terms, the New Treaties prevent Australian IWT being imposed on interest derived by either:

- governments of the relevant Specified Country and certain governmental authorities and agencies in a Specified Country; and
- a “financial institution” which is a resident of a Specified Country and which is unrelated to and dealing wholly independently with Bank of Scotland, acting through its Australia branch. The term “financial institution” refers to either a bank or any other form of enterprise which substantially derives its profits by carrying on a business of raising and providing finance. (However, interest under a back to back loan or economically equivalent arrangement will not qualify for this exemption).

Also new double tax conventions have been negotiated by Australia with each of France, Japan and South Africa. These new conventions contain Australian IWT exemptions similar to those in the New Treaties. The new conventions with France, Japan and South Africa have not yet entered into force

(although, in the case of new Treaty with France, Australian domestic legislation has been passed), nor has a date for their commencement been announced.

#### *Section 126 of the Australian Tax Act*

Section 126 of the Australian Tax Act imposes a type of withholding tax at the rate of 45 per cent. on the payment of interest on bearer Instruments (other than certain promissory notes) if Bank of Scotland, acting through its Australia branch fails to disclose the names and addresses of the holders to the Australian Taxation Office. Section 126 does not apply to the payment of interest on Instruments held by non-residents who do not carry on business at or through a permanent establishment in Australia where the issue of those Instruments satisfied the requirements of section 128F of the Australian Tax Act or interest withholding tax is payable. The Australian Taxation Office has clarified in a public ruling that the “holder” of a bearer Instrument for the purposes of section 126 means the person or entity in possession of the Instrument. Accordingly, whilst a bearer global Instrument is held by a common depository for Euroclear and Clearstream, Luxembourg, the holders of that bearer Instrument will be Euroclear and Clearstream, Luxembourg for section 126 purposes.

As set out in more detail in the Conditions of the Instruments, if Bank of Scotland, acting through its Australia branch should at any time be compelled by law to deduct or withhold an amount in respect of any Australian withholding taxes, Bank of Scotland, acting through its Australia branch shall subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the Instrumentholders after such deduction or withholding shall equal the respective amounts which would have been received had no such deduction or withholding been required.

#### **A-2. Other tax matters**

Subject to paragraph A-3, Bank of Scotland, acting through its Australia branch, has been advised that under Australian law as presently in effect:

- (A) Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to the Instruments of Bank of Scotland, acting through its Australia branch, payment of principal and interest (as defined in section 128A(1AB) of the Australian Tax Act) to an Instrumentholder, who is a non-resident of Australia and who, during the taxable year, does not hold the Instruments in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income taxes;
- (B) Australian residents or non-Australian residents who hold the Instruments in the course of carrying on business at or through a permanent establishment in Australia (“**Australian Holders**”), will be assessable for Australian tax purposes on income either received or accrued due to them in respect of the Instruments. Whether income will be recognised on a cash receipts or accruals basis will depend upon the tax status of the particular Australian Holder and the terms and conditions of the Instruments. Special rules apply to the taxation of Australian residents who hold the Instruments in the course of carrying on business at or through a permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located;
- (C) An Instrumentholder of Bank of Scotland, acting through its Australia branch, who is a non-resident of Australia and who, during the taxable year, does not hold Instruments in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income tax on gains realised during that year on sale or redemption of the



Instruments, provided such gains do not have an Australian source. A gain arising on the sale of an Instrument by a non-Australian resident Instrumentholder to another non-Australian resident where the Instrument is sold outside Australia and all negotiations are conducted and documentation executed, outside Australia would not be regarded as having an Australian source;

- (D) Australian Holders will be required to include any gain or loss on disposal of the Instruments in their taxable income. Special rules apply to the taxation of Australian residents who hold the Instruments in the course of carrying on business at or through a permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located;
- (E) There are specific rules that can apply to treat a portion of the purchase price of the Instruments as interest for Australian IWT purposes when certain Instruments originally issued at a discount or with a maturity premium or which do not pay interest at least annually are sold to an Australian resident (who does not acquire them in the course of carrying on trade or business at or through a permanent establishment outside Australia) or a non-resident (who acquires them in the course of carrying on trade or business at or through a permanent establishment in Australia). If the Instruments are not issued at a discount and do not have a maturity premium, these rules should not apply to the Instruments. These rules also do not apply in circumstances where the deemed interest would have been exempt under section 128F of the Australian Tax Act if the Instruments had been held to maturity by a non-resident;
- (F) No Instruments will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death;
- (G) No *ad valorem* stamp, issue, registration or similar taxes are payable in Australia on the issue of any Instruments;
- (H) Section 12-140 of Schedule 1 to the Taxation Administration Act 1953 of Australia (“**Taxation Administration Act**”) imposes a type of withholding tax at the rate of (currently) 46.5% on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number (“**TFN**”), (in certain circumstances) an Australian Business Number (“**ABN**”) or proof of some other exception (as appropriate). Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to Instruments issued out of Bank of Scotland’s Australia branch, then the requirements of section 12-140 do not apply to payments to a holder of such Instruments in registered form who is not a resident of Australia and not holding those Instruments in the course of carrying on business at or through a permanent establishment in Australia. Payments to other classes of holders of Instruments issued out of Bank of Scotland’s Australia branch in registered form may be subject to a withholding where the holder of those Instruments does not quote a TFN, ABN or provide proof of an appropriate exemption (as appropriate);
- (I) Payments in respect of the Instruments can be made free and clear of the “supply withholding tax” imposed under section 12-190 of Schedule 1 to the Taxation Administration Act;
- (J) Neither the issue nor receipt of the Instruments will give rise to a liability for goods and services tax (“**GST**”) in Australia on the basis that the supply of the Instruments will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by Bank of Scotland, acting through its Australia branch, nor the disposal of the Instruments would give rise to any GST liability in Australia;



- (K) Division 974 of the Australian Tax Act contains tests for characterising debt (for all entities) and equity (for companies) for Australian tax purposes, including for the purposes of dividend withholding tax and Australian IWT. Bank of Scotland, acting through its Australia branch intends to issue Instruments which are to be characterised as “debt interests” for the purposes of the tests contained in Division 974 and the returns paid on the Instruments are to be “interest” for the purpose of section 128F of the Australian Tax Act. Accordingly, Division 974 is unlikely to adversely affect the Australian tax treatment of Instrumentholders of Bank of Scotland, acting through its Australia branch;
- (L) Section 12-315 of Schedule 1 to the Taxation Administration Act gives the Governor-General power to make regulations requiring withholding from certain payments to non-residents.

However, section 12-315 expressly provides that the regulations will not apply to interest and other payments which are already subject to the current Australian IWT rules or specifically exempt from those rules. Further, regulations may only be made if the responsible minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The regulations promulgated prior to the date of this Prospectus are not relevant to any payments in respect of the Instruments. Any further regulations should also not apply to repayments of principal under the Instruments, as in the absence of any issue discount, such amounts will generally not be reasonably related to assessable income. The possible application of any future regulations to the proceeds of any sale of the Instruments will need to be monitored; and

- (M) Divisions 775 and 960 of the Australian Tax Act contain rules to deal with the taxation consequences of foreign exchange transactions.

The rules are complex and will apply to Bank of Scotland, acting through its Australia branch in respect of any Instruments denominated in a currency other than Australian dollars as well as any currency hedging arrangements entered into in respect of such Instruments. Nevertheless Bank of Scotland, acting through its Australia branch ought to be able to manage its position under the rules so that the tax consequences are effectively the same as the commercial position (that is that any net foreign exchange gains and losses recognised for tax purposes should be represented by similar cash gains and losses);

The rules are complex and may also apply to any Instrumentholders who are Australian residents or non-residents that hold Instruments that are not denominated in Australian dollars in the course of carrying on business in Australia. Any such Instrumentholders should consult their professional advisors for advice as to how to tax account for any foreign exchange gains or losses arising from their holding of those Instruments.

### **A-3. Recent Developments**

On 20 September 2007, the Tax Laws Amendment (Taxation of Financial Arrangements) Bill 2007 (“**TOFA Bill**”) was introduced into Parliament. As a result of the Federal election being called, Parliament was prorogued and the Parliament dissolved on 15 October 2007. All bills before Parliament at that time (including the TOFA Bill) lapsed. The TOFA Bill will need to be monitored as it is expected the TOFA Bill will be revived. Accordingly, the comments below are general observations only and would be relevant if the TOFA Bill were re-introduced to Parliament and passed in its previous form.

The TOFA Bill contained new rules which, if enacted in their previous form, would represent a new code for the taxation of receipts and payments in relation to financial arrangements. The proposed new

rules contemplated a number of different methods for bringing to account gains and losses in relation to “financial arrangements” (including, fair value, accruals, retranslation, realisation, hedging and financial records).

The TOFA Bill indicated that the proposed new rules are to apply as from the commencement of the first tax year beginning on or after 1 July 2009 (although taxpayers may have been able to make an election to apply the proposed rules for a tax year commencing on or after 1 July 2008 if they wished to do so). Further, the proposed new rules are not to apply to “financial arrangements” which are current as at the commencement date. In relation to current “financial arrangements” at that time, taxpayers may have been able to elect to apply the proposed new rules if they wished, but certain tax adjustments would need to be made if such an election is made.

The TOFA Bill did not contain any indication as to how (if at all) the proposed rules are to relate to the imposition of interest withholding tax. However, there is nothing which suggested that the proposed new rules are intended to apply in a manner which overrides the exemption available under section 128F of the Australian Tax Act.

## **B. Australian Domestic Instruments in registered form issued by HBOS or Bank of Scotland**

The following is a summary of the Australian taxation treatment at the date of this Prospectus of payments of interest (as defined in the Australian Tax Act) on Australian Domestic Instruments in registered form issued by HBOS or Bank of Scotland acting through a branch other than the Australia branch and certain other matters. It is not exhaustive and, in particular, does not deal with the position of certain classes of Instrumentholders (such as dealers in securities, custodians or other third parties who hold Instruments on behalf of other persons). Prospective Instrumentholders should be aware that particular terms of issue of any Series of Australian Domestic Instruments may affect the tax treatment of that and other Series of Australian Domestic Instruments. The following is a general guide and should be treated with appropriate caution. Prospective Instrumentholders who are in any doubt as to their tax position should consult their professional advisers on the tax implications of an investment in the Instruments for their particular circumstances.

### **B.1 Australian Domestic Instruments held by Australian residents or by non-residents carrying on business at or through a permanent establishment in Australia (“Australian Holders”)**

Payments of interest (including original issue discount) made on the Australian Domestic Instruments will be included in an Australian Holder’s taxable income.

So long as HBOS or Bank of Scotland acting through a branch other than the Australia branch continues to be a non-resident of Australia and does not carry on a business at or through a permanent establishment in Australia, then payments of principal and interest on the Australian Domestic Instruments will not be subject to Australian IWT.

Consequently, neither HBOS nor Bank of Scotland acting through a branch other than the Australia branch will be required to withhold any amounts on account of Australian taxes from payments of interest, or repayments of principal, in respect of the Australian Domestic Instruments. Instead, Australian Holders will be assessable for Australian tax purposes on income either received or accrued due to them in respect of the Australian Domestic Instruments. Whether income will be recognised on a cash receipts or accruals basis will depend upon the tax status of the particular Australian Holder and the terms and conditions of the Australian Domestic Instruments. Australian Holders will also be required to include any gain or loss on disposal of the Instruments in their taxable income. Special rules apply to the taxation of Australian residents who hold the Australian Domestic Instruments in

the course of carrying on business at or through a permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located.

## **B.2 Australian Domestic Instruments held by non-residents (other than those carrying on business at or through a permanent establishment in Australia)**

Where Australian Domestic Instruments are held by non-residents of Australia (other than those carrying on business at or through a permanent establishment in Australia), payments of interest (including original issue discount) made on the Australian Domestic Instruments will not be subject to Australian withholding tax so long as HBOS or Bank of Scotland continues to be a non-resident of Australia and does not carry on business at or through a permanent establishment in Australia.

Payments of principal and interest to a holder of Australian Domestic Instruments, who is a non-resident of Australia who, during the taxable year, does not hold Australian Domestic Instruments in the course of carrying on business at or through a permanent establishment in Australia will not be subject to Australian income taxes. Furthermore, such a holder will not be subject to Australian income tax on gains realised during that year on sale or redemption of the Australian Domestic Instruments, provided such gains do not have an Australian source. A gain arising on the sale of Australian Domestic Instruments by a non-Australian resident holder to another non-Australian resident where the Australian Domestic Instruments are sold outside Australia and all negotiations are conducted, and documentation executed, outside Australia would not be regarded as having an Australian source.

## **B.3 Other tax matters**

Under Australian law as currently in effect:

- (a) no death, estate or succession duties will be payable in respect of the Australian Domestic Instruments held at the date of death regardless of the Instrumentholder's domicile at the time of death;
- (b) no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Australian Domestic Instruments;
- (c) so long as HBOS or Bank of Scotland acting through a branch other than the Australia branch continues to be a non-resident of Australia and does not carry on business at or through a permanent establishment in Australia, the Tax File Number and Australian Business Number requirements of Part VA of the Australian Tax Act and section 12-140 of Schedule 1 to the Taxation Administration Act 1959 should not apply to HBOS or Bank of Scotland in respect of the Australian Domestic Instruments;
- (d) payments in respect of the Australian Domestic Instruments can be made free and clear of the "supply withholding tax" imposed under section 12-190 of Schedule 1 to the Taxation Administration Act 1959 of Australia; and
- (e) neither the issue nor receipt of the Australian Domestic Instruments will give rise to a liability for goods and services tax ("GST") in Australia on the basis that the supply of Australian Domestic Instruments will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by HBOS or Bank of Scotland acting through a branch other than the Australia branch, nor the disposal of the Australian Domestic Instruments, would give rise to any GST liability in Australia.

#### **B.4 Proposed new rules for the “Taxation of Financial Arrangements”**

On 20 September 2007, the Tax Laws Amendment (Taxation of Financial Arrangements) Bill 2007 (“**TOFA Bill**”) was introduced into Parliament. As a result of the Federal election being called, Parliament was prorogued and the Parliament dissolved on 15 October 2007. All bills before Parliament at that time (including the TOFA Bill) lapsed. The TOFA Bill will need to be monitored as it is expected the TOFA Bill will be revived. Accordingly, the comments below are general observations only and would be relevant if the TOFA Bill were re-introduced to Parliament and passed in its previous form.

The TOFA Bill contained new rules which, if enacted in their previous form, would represent a new code for the taxation of receipts and payments in relation to financial arrangements. The proposed new rules contemplated a number of different methods for bringing to account gains and losses in relation to “financial arrangements” (including, fair value, accruals, retranslation, realisation, hedging and financial records).

The TOFA Bill indicated that the proposed new rules are to apply as from the commencement of the first tax year beginning on or after 1 July 2009 (although taxpayers may have been able to make an election to apply the proposed rules for a tax year commencing on or after 1 July 2008 if they wished to do so). Further, the proposed new rules are not to apply to “financial arrangements” which are current as at the commencement date. In relation to current “financial arrangements” at that time, taxpayers may have been able to elect to apply the proposed new rules if they wished, but certain tax adjustments would need to be made if such an election is made.

#### **New Zealand Taxation**

*The following is a summary of the New Zealand taxation consequences under the Income Tax Act 2007 (the “**New Zealand Tax Act**”), at the date of this Prospectus, on the acquisition, ownership and disposition of the Instruments issued by HBOS, Bank of Scotland and BOSIF under the Programme. It is not exhaustive and, in particular, does not deal with the position of certain classes of Instrumentholders (including dealers in securities, custodians or other third parties who hold Instruments on behalf of other persons).*

##### **Acquisition, Ownership and Disposition of the Instruments**

Instrumentholders who are subject to taxation in New Zealand on their worldwide income will be liable to income tax in relation to interest received on the Instruments. For the purposes of this summary it is assumed that the interest income does not have a New Zealand source.

The Instruments will constitute “financial arrangements” for the purposes of the New Zealand Tax Act. Therefore, the Instrumentholder will generally be required to use one of the spreading methods (generally the yield to maturity method) in the New Zealand Tax Act to calculate its income or expenditure under the arrangement for each income year over the arrangement’s term, and to allocate it to the relevant income year.

In the event that a New Zealand resident Instrumentholder disposes of the Instrument, the disposal will give rise to a “base price adjustment” calculation pursuant to the financial arrangement rules in the New Zealand Tax Act.

The calculation will include all the consideration received by the Instrumentholder (that is, interest and the sale proceeds) less the consideration paid to acquire the Instrument. An adjustment will be made for income or expenditure amounts that have been dealt with for tax purposes in earlier years. The effect of this

is to tax any previously unrecognised gain on the Instruments. Losses may be deductible if the relevant criteria are met.

### **New Zealand withholding taxes**

Provided that the Issuer does not have a fixed establishment in New Zealand and the interest payment is not received by a New Zealand resident agent's nominee or trustee on behalf of the Instrumentholder, New Zealand resident Instrumentholders should not be subject to resident withholding tax ("**RWT**") on interest derived from the ownership of the Instrument.

### **Overseas taxes**

Interest received on Instruments may be subject to withholding or other taxes in jurisdictions outside of New Zealand. There may be foreign tax credits available to New Zealand resident Instrumentholders in relation to any tax paid in an overseas jurisdiction on interest from the Instruments, subject to certain requirements being met.

### **Foreign exchange**

If the Instruments are denominated in a currency other than New Zealand dollars, all amounts paid under the Instruments must be converted into New Zealand dollars at the appropriate exchange rate for the purpose of calculating the Instrumentholders' New Zealand tax liability. Accordingly, exchange rate fluctuations will affect the Instrumentholders' New Zealand tax liability in respect of the Instruments.

The above statements are based on the interpretation of applicable New Zealand tax legislation current at the date of this Prospectus. No assurance can be given that applicable tax legislation and interpretations of such legislation will not be changed in the future.

All references to taxation in this Prospectus are of a general nature only, and are not (and should not be construed as) legal or tax advice to any Instrumentholder. They are not intended to deal with all relevant considerations or possible cases.

Instrumentholders should consult their own taxation or other financial advisors concerning the taxation implications, in their particular circumstances, of owning and/or disposing of the Instruments.

### **Ireland Taxation**

The following is a summary as of the date hereof in relation to payments of principal and interest in respect of the Instruments issued by BOS (Ireland) Funding plc (the "**Irish Issuer**"). Also summarised below is the Irish stamp duty treatment as at the date hereof in relation to the issue and transfer of the Instruments. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Instruments. This summary relates only to the position of persons who are absolute beneficial owners of the Instruments and may not apply to certain other classes of persons such as dealers in securities.

The summary is based upon Irish tax laws and the practice of the Irish Revenue Commissioners as of the date hereof. Prospective Instrumentholders should consult their own advisors as to the Irish tax consequences of the purchase, beneficial ownership and disposition of the Instruments. Prospective Instrumentholders should be aware that the particular terms of issue of any series of Instruments as specified in the relevant Final Terms may affect the tax treatment of that and other series of Instruments. The following is a general guide and should therefore be treated with appropriate caution. Instrumentholders who are in any doubt as to the tax position should consult their professional advisors.

References to the “**Instrument**” below are to the instruments issued by the Irish Issuer. References to (“**TCA**”) are a reference to the Irish Taxes Consolidation Act 1997.

**(A) Irish Withholding Tax on Irish Source Interest**

*A.1 Irish Instruments listed on a recognised stock exchange*

Section 64 TCA provides for the payment of interest on a “Quoted Eurobond” without deduction of tax in certain circumstances. A Quoted Eurobond is defined in Section 64 as a security which:

- (i) is issued by a company;
- (ii) is quoted on a recognised stock exchange (this term is not defined but is understood to mean an exchange which is recognised in the country in which it is established); and
- (iii) carries a right to interest.

There is no obligation to withhold tax on Quoted Eurobonds where:

- (a) the person by or through whom the payment is made is not in Ireland, or
- (b) the payment is made by or through a person in Ireland, and
- (c) the Quoted Eurobond is held in a recognised clearing system (Euroclear, Clearstream, Frankfurt and Clearstream, Luxembourg have been designated as recognised clearing systems); or
- (d) the person who is the beneficial owner of the Quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made an appropriate written declaration to this effect.

The London Stock Exchange should be a recognised stock exchange as referred to above. In the case of Instruments to be traded on the London Stock Exchange the Instruments will be treated as listed on a recognised stock exchange if the Instruments are admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange. While the Instruments are and continue to be Quoted Eurobonds and the other criteria referred to above are satisfied, payments of interest on the Instruments may be made without withholding or deduction for or on account of Irish income tax.

*A.2 Instrument holders resident in a relevant territory*

Section 246 TCA (“Section 246”) provides for an exemption from withholding tax in respect of interest payments made by the Irish Issuer to a company which is resident in an EU Member State (other than Ireland) or a country with which Ireland has a double tax treaty in place. A list of countries with which Ireland has entered into a double tax treaty is available on [www.revenue.ie](http://www.revenue.ie). This exemption does not apply if the interest is paid to a company in connection with a trade or business which is carried on in Ireland by that company through a branch or agency.

*A.3 All other cases*

In cases falling outside the exemptions described in A.1 and A.2 above, interest paid on the Instruments may fall to be paid under deduction of Irish Income tax at the standard rate of income tax which is currently 20%. Exemptions other than those described in A.1 and A.2 above may be available to Irish resident Instrumentholders pursuant to Section 246 or to non-Irish resident Instrumentholders



by virtue of the provisions of any applicable double taxation treaty. Withholding will not apply if the relevant interest is paid on Instruments with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Instruments part of a borrowing with a total term of a year or more.

In certain circumstances Irish encashment tax may be required to be withheld at the standard rate of income tax (currently 20%) from interest, where such interest is collected by a person in Ireland on behalf of any Instrumentholder.

**(B) Other rules relating to Irish withholding tax**

Where interest has been paid under deduction of Irish income tax, Instrumentholders who are not resident in Ireland may be able to recover all or part of the tax deducted pursuant to an applicable double taxation treaty. Irish resident Instrumentholders may receive a credit in respect of any withholding tax.

The references to “interest” above mean “interest” as understood for Irish tax purposes. The statements in A above do not take any account of any different definitions of “interest” or “principal” which may prevail under any law or which may be created by the terms and conditions of the Instruments or any related documentation.

The above description of the Irish withholding tax position assumes that there will be no addition or substitution of an Issuer (pursuant to Condition 13.03 of the Instruments or otherwise) and does not consider the tax consequences of any such addition or substitution.

**(C) Irish Stamp Duty**

No Irish stamp duty or capital duty will apply to the issue of the Instruments.

There is a wide ranging exemption from stamp duty in relation to certain types of “loan capital” pursuant to Section 85 Stamp Duties Consolidation Act 1999. Where that exemption applies, no stamp duty is payable on the transfer of the Instruments or on any agreement to transfer such Instruments. However, the terms of certain Instruments specified in the applicable Final Terms, may prevent them from qualifying for that exemption. This may occur, in particular if (a) the Instruments carry rights of the same kind as shares including rights such as voting rights, share in the profits or a share in the surplus on liquidation of the Company (b) any Instruments carry a right of conversion into shares or other securities of the Company (c) any Instrument is issued for a price which is less than 90% of its nominal value or (d) the amount of interest payable on any Instrument depends to any extent on the movement in an index or indices.

Where there is no exemption there may be a charge to stamp duty in respect of transfers or agreements to transfer such Instruments. Persons who are in doubt regarding the application of the “loan capital” exemption to their particular Instruments should seek appropriate professional advice.



## SUBSCRIPTION AND SALE

Instruments may be issued from time to time by any Issuer to any one or more of ABN AMRO Bank N.V., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Daiwa Securities SMBC Europe Limited, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities Ltd., Lehman Brothers International (Europe), Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc, Royal Bank of Canada Europe Limited and UBS Limited (the “**Dealers**”). The arrangements under which Instruments may from time to time be agreed to be issued by an Issuer to, and subscribed by, Dealers are set out in a dealership agreement dated 21 August 1992, as most recently amended and restated by the Amended and Restated Dealership Agreement dated 13 May 2008 (the “**Dealership Agreement**”), and made between the Issuers, the Guarantors and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be subscribed by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the relevant Issuer in respect of such subscription. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and the appointment of additional Dealers. Any Issuer may issue Instruments from time to time to a person or institution who is not an existing Dealer provided such person or institution becomes a Dealer either generally in respect of the Programme or in relation to the relevant Instruments.

### United States of America

Each Dealer understands that the Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations thereunder.

Each Dealer has represented, warranted and agreed that, except as permitted by the Dealership Agreement, (a) it will not offer, sell or deliver Instruments (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, US persons, (b) neither it, its affiliates nor any persons acting on its or their behalf will engage in any directed selling efforts with respect to the Instruments and (c) it will have sent to each distributor, dealer or person to which it sells Instruments during the distribution compliance period a confirmation or other notice setting forth the restrictions on offer and sales of the Instruments within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the respective meanings given to them by Regulation S under the Securities Act.

In addition, until forty days after the commencement of the offering of Instruments comprising any tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each issuance of index-, commodity- or currency-linked Instruments shall be subject to such additional U.S. selling restrictions as the relevant Dealer or Dealers may agree in connection with the

issuance and purchase of such Instruments. Each Dealer has agreed that it will offer, sell and deliver such Instruments only in compliance with such additional U.S. selling restrictions.

Each Dealer represents, warrants and agrees that it has not entered and will not enter into any contractual arrangements with respect to the distribution or delivery of Instruments except with its affiliates (if any) or with the prior written consent of the relevant Issuer.

### **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Relevant Member State, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

- (a) if the Final Terms in relation to the Instruments specify that an offer of those Instruments may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Instruments which 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, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Instruments referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Instruments to the public in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus**

**Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

## **UK**

In relation to each tranche of Instruments, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

### **1      *Financial promotion***

It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or the relevant Guarantor ; and

### **2      *General compliance***

It has complied and will comply with all applicable provisions of the FSMA (and all rules and regulations made pursuant to the FSMA) with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

## **Australia**

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the “**Corporations Act**”) in relation to the Programme or the Instruments has been lodged with the Australian Securities and Investments Commission (“**ASIC**”) or ASX Limited (ABN 98 008 624 691) (“**ASX**”). Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that, unless the relevant Final Terms otherwise provides, it:

- (a) has not (directly or indirectly) offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of the Instruments in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, the Prospectus or any other offering material or advertisement relating to the Instruments in Australia,

unless (i) the minimum aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in other currencies) (disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act and (ii) such action complies with all applicable laws, regulations and directives and (iii) the offer or invitation is not made to a person who is a “retail client” within the meaning of section 761G of the Corporations Act, and (iv) does not require any document to be lodged with ASIC.

Section 708(19) of the Corporations Act provides that an offer of debentures for issue or sale does not need disclosure to investors under Part 6D.2 of the Corporations Act if the Issuer is an authorised deposit-taking institution for the purposes of the Banking Act 1959 of Australia. As at the date of this Prospectus, Bank of Scotland is a foreign authorised deposit-taking institution for such purposes.

In addition, and unless the relevant Final Terms or, as the case may be, the relevant Drawdown Prospectus otherwise provides, each Dealer has agreed that it will not sell Instruments issued by Bank of Scotland, acting through its Australia branch to any person if, at the time of such sale, the employees of the Dealer aware of, or involved in, the sale knew or had reasonable grounds to suspect that, as a result of such

sale, any such Instruments or an interest in any such Instruments were being or would later be, acquired (directly or indirectly) by an ‘associate’ of the relevant Issuer except as permitted by section 128F(5) of the Income Tax Assessment Act 1936 of Australia (the “**Australian Tax Act**”) and will use its reasonable endeavours to assist Bank of Scotland, acting through its Australia branch to ensure that the sale of Instruments by it otherwise complies with the public offer test in section 128F(3) of the Australian Tax Act. The term ‘associate’ is explained on pages 115 and 116.

## **New Zealand**

No prospectus, investment statement or other disclosure document in relation to the Programme or the Instruments has been lodged with the Companies Office in New Zealand. Each Dealer has represented, warranted and agreed that it has not offered or sold and represents, warrants and agrees it will not, directly or indirectly, offer, sell or deliver any Instruments in New Zealand or distribute any other offering material or advertisement in relation to any offer of Instruments in New Zealand other than:

- (a) to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money or who in all cases can properly be regarded as having been selected otherwise than as a member of the public; or
- (b) in other circumstances where there is no contravention of the Securities Act 1978 of New Zealand.

## **The Netherlands**

Zero Coupon Instruments and other Instruments in definitive bearer form on which interest does not become due and payable during their term but only at maturity (which qualify as savings certificates or *spaarbewijzen* as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) (the “**Savings Certificate Act**”) may only be transferred and accepted directly or indirectly, from or within the Netherlands through the mediation of either the relevant Issuer or a member of Euronext Amsterdam N.V. with due observance of the Savings Certificates Act and its implementing regulations (including registration requirements. No mediation is required, however, in respect of (i) the initial issue of those Instruments to the first holders thereof, (ii) any transfer or acceptance by individuals who do not act in the conduct of a profession or business, and (iii) the issue and trading of those Instruments, if they are physically issued outside the Netherlands and are not immediately thereafter distributed in the Netherlands.

## **Japan**

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “**Financial Instruments and Exchange Law**”) and, accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not offered or sold any Instruments, directly or indirectly, and will not offer or sell any Instruments, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan. For the purposes of this paragraph, “**Japanese Person**” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **Ireland**

In relation to each tranche of Instruments, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that they have not offered, sold, placed or underwritten and will not offer, sell, place or underwrite the issue of any Instruments in Ireland:

- (a) except in circumstances which do not require the publication of a prospectus pursuant to Article 3(2) of Directive 2003/71/EC;
- (b) otherwise than in compliance with the provisions of the Irish Companies Acts 1963-2006;
- (c) otherwise than in compliance with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No. 60 of 2007) (as amended), and they will conduct themselves in accordance with any codes or rules of conduct and any conditions or requirements, or any other enactment, imposed or approved by the Financial Regulator with respect to anything done by them in relation to the Instruments;
- (d) otherwise than in compliance with the provisions of the Irish Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued by the Financial Regulator pursuant thereto; and
- (e) otherwise than in compliance with the provisions of the Irish Central Bank Acts 1942 – 2004 (as amended) and any codes of conduct rules made under Section 117(1) thereof.

## **General**

No representation is made that any action has been taken in any country or jurisdiction by any Issuer or any Guarantor that would permit an offering of any of the Instruments, or possession or distribution of the Prospectus or any other offering material or the Final Terms in relation thereto, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed to comply and each further Dealer appointed under the Programme will be required to agree to comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or has in its possession or distributes offering material in relation thereto including, for the avoidance of doubt, any amendment made by the Final Terms to any of the selling restrictions listed above, in all cases at its own expense, and neither any Issuer, any Guarantor nor any other Dealer shall have responsibility therefor.

Neither any Issuer, any Guarantor nor any of the Dealers represents, warrants or agrees that Instruments may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

The Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the second paragraph under the heading “General” above.

Selling restrictions may be supplemented or modified with the agreement of the relevant Issuer. Any such supplement or modification will be set out in the relevant Final Terms for each particular Series of Instruments.

## **Settlement and Transfer of Australian Domestic Instruments**

### **1 Austraclear**

On issue of an Australian Domestic Instrument the relevant Issuer will (unless otherwise agreed with the Instrumentholder) procure that the Australian Domestic Instruments are entered into the Austraclear System. On entry, Austraclear Limited (ABN 94 002 060 773) (“**Austraclear**”) (in its capacity as the operator of the Austraclear System), will become the sole registered Instrumentholder and legal owner of the Australian Domestic Instruments. Members of the Austraclear System (“**Accountholders**”) acquire rights against Austraclear in relation to those Australian Domestic Instruments as beneficial owners and Austraclear is required to deal with the Australian Domestic Instruments in accordance with the directions and instructions of the Accountholders. Any potential investors who are not Accountholders may hold their interest in the relevant Australian Domestic Instruments through a nominee who is an Accountholder. All payments by the relevant Issuer in respect of Australian Domestic Instruments entered in the Austraclear System will be made directly to an account agreed with Austraclear or as it directs in accordance with the Regulations.

Accountholders may, on request to the Australian Registrar receive written confirmation from the Australian Registrar that they are noted in the Australian Register in respect of a specified number of Australian Domestic Instruments.

### **2 Holding of Australian Domestic Instruments through Euroclear and Clearstream**

On admission to the Austraclear System, interests in the Australian Domestic Instruments may be held through Euroclear or Clearstream. In these circumstances, entitlements in respect of holdings of interests in the Australian Domestic Instruments in Euroclear would be held in the Austraclear System by Westpac Custodian Nominees Limited as nominee of Euroclear, while entitlements in respect of holdings of interests in the Australian Domestic Instruments in Clearstream would be held in the Austraclear System by ANZ Nominees Limited as nominee of Clearstream.

The rights of a holder of interests in Australian Domestic Instruments held through Euroclear or Clearstream are subject to the respective rules and regulations for accountholders of Euroclear and Clearstream and their respective nominees and the rules and regulations of the Austraclear System (in each case the “**Regulations**”).

Any transfer of interests in Australian Domestic Instruments recorded in the Austraclear System will be subject to the Corporations Act 2001 of Australia and the other requirements set out in the Australian Domestic Instruments.

### **3 Secondary Market Sales and Austraclear**

Secondary market sales of Australian Domestic Instruments settled in the Austraclear System will be settled in accordance with the Austraclear Regulations.

### **4 Relationship of Accountholders with Austraclear**

Australian Domestic Instruments are lodged with a validly marked and executed transfer and acceptance form (which must be consistent with the Accountholders lodgement report) being delivered or faxed to Austraclear with the lodging Accountholder as transferor and Austraclear as transferee. The Australian Domestic Instruments are entered into the Accountholder’s Security Record (as defined in the Austraclear Regulations) but, in accordance with the lodged transfer and acceptance form, are transferred to Austraclear.

The Austraclear System facilitates settlement at the point of issue of an Australian Domestic Instrument by matching payments made by an investor to that investor's account with Austraclear against instructions from the relevant Issuer to issue the Australian Domestic Instrument. The opposite is true on redemption. Austraclear will not be liable for any amounts owing to the relevant Issuer, upon issue, or to investors, upon either payment of interest or amounts due on redemption, which have not been paid to it.

Where Austraclear is registered as the Instrumentholder of Australian Domestic Instruments that are lodged in the Austraclear System, Austraclear may in certain specified circumstances as set out in the Austraclear Regulations instruct the Registrar to transfer or "uplift" the Australian Domestic Instruments to the person in whose Security Record (as defined in the Austraclear Regulations) those Australian Domestic Instruments are recorded without any consent or action of such transferee and, as a consequence, remove those Australian Domestic Instruments from the Austraclear System.



**PRO FORMA FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF  
INSTRUMENTS WITH A DENOMINATION OF LESS THAN €50,000 TO BE ADMITTED  
TO TRADING ON AN EU REGULATED MARKET AND/OR OFFERED TO THE PUBLIC  
IN THE EUROPEAN ECONOMIC AREA**

**Final Terms dated**

**[HBOS PLC]**

**[BANK OF SCOTLAND PLC (acting through its [Treasury Division,  
London office and Australia branch])]**

**[BOS (IRELAND) FUNDING PLC]**

Issue of [Aggregate Principal Amount of Tranche] [Title of Instruments]

[Guaranteed by [Name of Guarantor(s)]]

**under the U.S.\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc,  
Bank of Scotland plc (acting through its Treasury Division, London office and Australia branch) and  
BOS (Ireland) Funding plc**

[The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (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 the Instruments. Accordingly any person making or intending to make an offer of the Instruments may only do so in:

- (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer; or
- (ii) in those Public Offer Jurisdictions mentioned in Paragraph 37 of Part A below, provided such person is one of the persons mentioned in Paragraph 37 of Part A below and that such offer is made during the Offer Period specified for such purpose therein.

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in any other circumstances]<sup>1</sup>.

[The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (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 the Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of the Instruments may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Instruments in any other circumstances]<sup>2</sup>.

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1 Include this legend where a non-exempt offer of Notes is anticipated

2 Include this legend where an exempt offer of Notes is anticipated

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [●] May 2008 (the “**Prospectus**”) [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive [(Directive 2003/71/EC) (the “**Prospectus Directive**”)]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP, [Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET,] [1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL] and, in respect of BOS (Ireland) Funding plc, at [its registered office], and in the case of each of them, at the specified office of the Principal Paying Agent.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a [Prospectus] [Information Memorandum] with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the [Prospectus] [Information Memorandum] dated [original date] [and the supplemental Prospectus dated [●]]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive [(Directive 2003/71/EC) (the “**Prospectus Directive**”)] and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus] [Information Memorandum] dated [original date] [and the supplemental Prospectus dated [●]] and are attached hereto. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the [Prospectus] [Information Memorandum] dated [original date] [and the Prospectus dated [current date]] [and the supplemental Prospectuses dated [●] and [●]]. The [Prospectus] [and the Information Memorandum] [and the supplemental Prospectuses] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP, Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET, and, in respect of BOS (Ireland) Funding plc, at [its registered office], and, in the case of each of them, at the specified office of the Principal Paying Agent.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

- |   |                      |                                     |
|---|----------------------|-------------------------------------|
| 1 | [(i)] Issuer:        | [●]                                 |
|   | [(ii)] Guarantor[s]: | HBOS plc [and Bank of Scotland plc] |



- 11 Change of Interest or Redemption/  
Payment Basis: *[Specify details of any provision for convertibility of  
Instruments into another interest or redemption/  
payment basis]*
- 12 Put/Call Options: *[Investor Put]  
[Issuer Call]  
[(Further particulars specified below)]*
- 13 Capital Disqualification Event: *Applicable/Not Applicable*
- 14 [(i)] Status of the Instruments: *[Unsubordinated / [Undated] / Subordinated / Tier 1  
Instruments [Option A/Option B]]  
[Specify which of Conditions 3A (unsubordinated  
Instruments), 3B.02 (subordinated Instruments (other  
than Undated Instruments)), or 3C (subordinated  
Undated Instruments) applies. Where Condition 3C  
applies, specify if either Equity Accounting or  
Financial Liability Accounting applies.]*
- [(ii)] Status of the Guarantee: *[Unsubordinated/[Undated]/ Subordinated]]  
[Specify which of Conditions 4A (unsubordinated  
guarantee), 4B (subordinated guarantee other than in  
respect of undated Instruments) or 4C (subordinated  
guarantee in respect of undated Instruments) applies.]*
- [(iii)] [Date [Board] approval for issuance  
of Instruments [and Guarantee]  
obtained: *[●] [and [●], respectively]]  
(N.B Only relevant where Board (or similar)  
authorisation is required for the particular tranche of  
Instruments or related Guarantee)]*
- 15 Method of distribution: *[Syndicated/Non-syndicated]*

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 16 **Fixed Rate Instrument Provisions** *[Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs  
of this paragraph)*
- (i) Rate[(s)] of Interest: *[●] per cent. per annum [payable [annually/semi-  
annually/quarterly/monthly] in arrear]*
- (ii) Interest Period(s): *[●]*
- (iii) Interest Payment Date(s): *[●] in each year [adjusted in accordance with [specify  
Business Day Convention and any applicable  
Relevant Financial Centre(s) for the definition of  
“Business Day”]/not adjusted]*
- (iv) Fixed Coupon Amount[s]: *[●] per [●] in principal amount*
- (v) Broken Amounts: *[Insert particulars of any initial or final broken  
interest amounts which do not correspond with the  
fixed coupon amount(s)]*

- (vi) Day Count Fraction: [30/360/Actual/Actual (Bond)/Actual/365/Actual/365 (Fixed)/Actual/360/30E/360/Eurobond Basis/30E/360 ISDA/Actual/Actual ([ICMA]/ISDA)/RBA Bond Basis/other]
- (vii) Determination Dates: [●] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA])*)
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: [Not Applicable/*give details*]

**17 Floating Rate Instrument Provisions** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Interest Period(s): [●]
- (ii) Interest Payment Dates: [●]
- (iii) Business Day Convention: [Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
- (iv) Relevant Financial Centre(s): [●]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not Principal Paying Agent): [●]
- (vii) Screen Rate Determination:
- Reference Rate: [●]
  - Interest Determination Date(s): [●]
  - Relevant Screen Page: [●]
- (viii) ISDA Determination:
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
- (ix) Margin(s): [+/-] [●] per cent. per annum

	(x) Minimum Rate of Interest:	<input type="checkbox"/> per cent. per annum
	(xi) Maximum Rate of Interest:	<input type="checkbox"/> per cent. per annum
	(xii) Day Count Fraction:	<input type="checkbox"/>
	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on floating rate Instruments, if different from those set out in the Conditions:	<input type="checkbox"/>
<b>18</b>	<b>Non Interest Bearing Instrument Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) [Amortisation/accrual] yield:	<input type="checkbox"/> per cent. per annum
	(ii) Reference price:	<input type="checkbox"/>
	(iii) Any other formula/basis of determining amount payable:	<input type="checkbox"/>
<b>19</b>	<b>Index Linked Interest Instruments</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Index/Formula/other variable:	[UK RPI. Sub paragraph [(i)(a)/(i)(b)/(i)(c)] of the definition of “Index” as set out in condition 5G.01 shall apply.]/[other – give or annex details]
	(ii) Determination Agent responsible for calculating the interest due:	<input type="checkbox"/>
	(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	<input type="checkbox"/>
	(iv) Interest Determination Date(s):	<input type="checkbox"/>
	(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	<input type="checkbox"/>
	(vi) Interest period(s):	<input type="checkbox"/>
	(vii) Interest Payment Dates:	<input type="checkbox"/>
	(viii) Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]

	(ix) Relevant Financial Centre(s):	[●]
	(x) Minimum Rate/Amount of Interest:	[●] per cent. per annum
	(xi) Maximum Rate/Amount of Interest:	[●] per cent. per annum
	(xii) Day Count Fraction:	[●]
	(xiii) Other terms relating to the calculation of interest in respect of Index Linked Interest Instruments:	[●] <i>(Where UK RPI is not the Index, and where necessary, specify Index Commencement Date, Indexation Advisor and Substitute Index Figure)</i>
	(xiv) Minimum Indexation Factor:	[Not Applicable/specify]
	(xv) Maximum Indexation Factor:	[Not Applicable/specify]
	(xvi) Limited Indexation Month(s):	[Not Applicable/specify]
	(xvii) Base Index Figure:	[●]
	(xviii) Reference Gilt:	[●]
<b>20</b>	<b>Dual Currency Instrument Provisions</b>	[●] [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate of Exchange/method of calculating Rate of Exchange:	<i>[give details]</i>
	(ii) Determination Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]
<b>21</b>	<b>Other Rates (Instruments to which Condition 5C.05 applies)</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) All terms relating to the calculation of interest in respect of Instruments in relation to which Condition 5C.05 applies to be inserted:	[●]



## PROVISIONS RELATING TO REDEMPTION

- 22 Call Option (Instruments to which Condition 6.06 applies)** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
  - (ii) Optional Redemption Amount of each Instrument and method, if any, of calculation of such amount(s): [●] per Calculation Amount [Applicable/Not Applicable]  
(If applicable, insert details)
  - (iii) If redeemable in part:
    - (a) Minimum redemption amount: [●] per Calculation Amount
    - (b) Maximum redemption amount: [●] per Calculation Amount
  - (iv) Notice period: [●]
- 23 Put Option (Instruments to which Condition 6.09 applies)** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
  - (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s): [●] per Calculation Amount
  - (iii) Notice period: [●]
- 24 Final Redemption Amount of each Instrument** [[●] per Calculation Amount
- (N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of Commission Regulation (EC) No. 809/2004 will apply and a Drawdown Prospectus will be prepared.)
- In cases where the Final Redemption Amount is Index Linked or other variable-linked:
- (i) Index/Formula/variable: [give or annex details]
  - (ii) Determination Agent responsible for calculating the Final Redemption Amount: [●]

- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Determination Date(s): [●]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Payment date: [●]
- (vii) Minimum Final Redemption Amount: [●]
- (viii) Maximum Final Redemption Amount: [●]

## 25 Early Redemption Amount

Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons or on default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions) [●]

## GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

- |    |   |   |
|----|---|---|
| 26 | Form of Instruments:  | <p><b>Bearer Instruments/Registered Instruments/Exchangeable Bearer Instruments</b></p> <p>[Temporary Global Instrument exchangeable for a]/</p> <p>[A] Permanent Global Instrument [which is exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument]</p> <p><i>[Specify: (i) whether any Instruments in definitive form will have Coupons/Talon attached (Condition 1.05); and (ii) whether they will be security-printed.]</i></p> |
| 27 | Relevant Financial Centre(s) or other special provisions relating to Payment Dates: | <p>[Not Applicable/give details. Note that this item relates to the date and place of payment, and not Interest Period end dates, to which items 15(iii), 16(iv) and 18(ix) relate]</p>   |

- 28 Talons for future Coupons to be attached to Definitive Instruments (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 29 Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment]: [Not Applicable/*give details*]
- 30 Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
- 31 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition ●] apply]
- 32 New Global Instrument: [Yes/No]
- 33 Other final terms: [Not Applicable/*give details*]

*(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

- 34 (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names, addresses and underwriting commitments*]  
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)*
- (ii) Date of [Subscription] Agreement: [●]
- (iii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
- 35 If non-syndicated, name and address of Dealer: [Not Applicable/*give name and address*]
- 36 Total commission and concession: [●] per cent. of the Aggregate Principal Amount of the Instruments
- 37 Additional selling restrictions: [Not Applicable/*give details*]

**38 Non-exempt Offer:**

[Not Applicable] [An offer of the Instruments may be made by the Managers [and *[specify, if applicable]*] other than pursuant to Article 3(2) of the Prospectus Directive in *[specify relevant Member State(s) - which must be jurisdictions where the Prospectus and any supplements have been passported]* (“**Public Offer Jurisdictions**”) during the period from *[specify date]* until *[specify date]* (“**Offer Period**”). See further Paragraph 11 of Part B below.

**[PURPOSE OF THE FINAL TERMS**

These Final Terms comprise the final terms required for issue [and] [public offer in the Public Offer Jurisdictions] [and] [admission to trading on *[specify relevant regulated market]*to of the Instruments described herein] pursuant to the U.S.\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc, Bank of Scotland plc (acting through its Treasury Division, London office and Australia branch) and BOS (Ireland) Funding plc.]

**RESPONSIBILITY**

The Issuer [and the Guarantor(s)] accept[s] responsibility for the information contained in these Final Terms. ☐ has been extracted from ☒. [Each of the] [The] Issuer [and the Guarantor(s)] confirms that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, such information is in accordance with the facts and does not omit anything likely to affect its import.]

Signed on behalf of the Issuer:

By: .....  
Duly authorised

[Signed on behalf of HBOS plc, as Guarantor:

By: .....  
Duly authorised]

[Signed on behalf of Bank of Scotland plc, as Guarantor:

By: .....  
Duly authorised]

## PART B – OTHER INFORMATION

### 1 LISTING

- (i) Listing: [London/ other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on [●] with effect from [●].] [Not Applicable.]
- (Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*
- (iii) [Estimate of total expenses relating to admission to trading:] [●]

### 2 RATINGS

- Ratings: The Instruments to be issued are expected to have the following ratings:
- [S & P: [●]]
- [Moody's: [●]]
- [[Other]: [●]]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*
- (The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3 [NOTIFICATION]

The UK Listing Authority [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the 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 Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 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:

“Save as discussed in [ “Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer.”]

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

[(i) Reasons for the offer

[●]

*(See [“Use of Proceeds”] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*

[(ii) Estimated net proceeds:

[●]

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii) Estimated total expenses:

[●]

*[Include breakdown of expenses including legal fees, listing fees and underwriting commissions.]*

*(If the Instruments 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 [Fixed Rate Instruments only – YIELD

Indication of yield:

[●]

Calculated as *[include details of method of calculation in summary form]* on the Issue Date.

As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

## 7 [Floating Rate Instruments only - HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

## 8 [Index Linked Interest Instrument or other variable-linked Instruments only – PERFORMANCE OF INDEX/FORMULA/other variable, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS and other information concerning the underlying

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. [Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.] ]*

**9 [Dual Currency Instruments only – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*

**10 OPERATIONAL INFORMATION**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) (and the address of such clearing system(s)) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s):	<i>[Not Applicable/give name(s), (address(es)) and number(s)]</i>
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No]  <i>[Note that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][include this text if “yes” selected in which case the Instruments must be issued in New Global Instrument form]</i>

**11 TERMS AND CONDITIONS OF THE OFFER**

Offer Price:	[Issue Price][specify]
Conditions to which the offer is subject:	<i>[Not Applicable/give details]</i>
Description of the application process:	<i>[Not Applicable/give details]</i>
Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	<i>[Not Applicable/give detail]</i>



Details of the minimum and/or maximum amount of application:	<i>[Not Applicable/give details]</i>
Details of the method and time limits for paying up and delivering the Instruments:	<i>[Not Applicable/give details]</i>
Manner in and date on which results of the offer are to be made public:	<i>[Not Applicable/give details]</i>
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	<i>[Not Applicable/give details]</i>
Categories of potential investors to which the Instruments are offered and whether tranche(s) have been reserved for certain countries:	<i>[Not Applicable/give details]</i>
Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	<i>[Not Applicable/give details]</i>
Amount of any expenses and taxes specifically charged to the subscriber or purchaser:	<i>[Not Applicable/give details]</i>
Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place.	<i>[None/give details]</i>

**PRO FORMA FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF INSTRUMENTS  
TO BE ADMITTED TO TRADING  
WITH A DENOMINATION OF AT LEAST €50,000  
ON AN EU REGULATED MARKET**

Final Terms dated  
[HBOS PLC]  
[BANK OF SCOTLAND PLC (acting through its Treasury Division,  
London office and Australia branch)]  
[BOS (IRELAND) FUNDING PLC]

Issue of [Aggregate Principal Amount of Tranche] [Title of Instruments]  
[Guaranteed by [Name of Guarantor(s)]]

under the U.S.\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc,  
Bank of Scotland plc (acting through its Treasury Division, London office and Australia branch)  
and BOS (Ireland) Funding plc

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [●] May 2008 (the “**Prospectus**”) [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP, [Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET] [Exchange Crescent, Conference Square, Edinburgh, EH3 8UL], and, in respect of BOS (Ireland) Funding plc, [at its registered office], and in the case of each of them, at the specified office of the Principal Paying Agent.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a [Prospectus] [Information Memorandum] with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the [Prospectus] [Information Memorandum] dated [original date] [and the supplemental Prospectus dated [●]]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus] [Information Memorandum] dated [original date] [and the supplemental Prospectus dated [●]] and are attached hereto. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the [Prospectus] [Information Memorandum] dated [original date] [and the Prospectus dated [current date]] [and the supplemental Prospectuses dated [●] and [●]]. The [Prospectus] [and the Information Memorandum] [and the supplemental Prospectuses] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP,

Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET, and, in respect of BOS (Ireland) Funding plc, at its registered office, and, in the case of each of them, at the specified office of the Principal Paying Agent.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing final terms or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

- |   |   |  |
|---|---|--|
| 1 | [(i)] Issuer:   | [●]  |
|   | [(ii)] Guarantor[s]:  | [●]  |
|   |   | HBOS plc [and Bank of Scotland plc]  |
| 2 | [(i)] Series Number:  | [●]  |
|   | [(ii)] Tranche Number:  | [●]  |
|   | <i>(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).]</i> |  |
| 3 | Specified Currency or Currencies:   | [●]  |
| 4 | Aggregate Principal Amount:   |  |
|   | [(i)] Series:   | [●]  |
|   | [(ii)] Tranche:   | [●]  |
| 5 | Issue Price:  | [●] per cent. of the Aggregate Principal Amount [plus accrued interest from <i>[insert date]</i> (if applicable)]  |
| 6 | (i) Specified Denominations:  | [●]  |
|   | (ii) Calculation Amount:  | [●]  |
| 7 | [(i)] Issue Date:   | [●]  |
|   | [(ii)] Interest Commencement Date:  | [●]  |
| 8 | Maturity Date:  | [specify date or (for floating rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]                                       |
| 9 | Interest Basis:   | [Interest-bearing/Non Interest bearing.] [If interest-bearing, specify which of Conditions 5A (Fixed Rate), 5B (Floating Rate), or 5C (Other Rates) is applicable] |
|   |   | [●% Fixed Rate]  |
|   |   | [[specify reference rate]+/-●% Floating Rate]  |

- [Index Linked Interest]
- [Other (*specify*)]
- (further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Dual Currency]
- [Partly Paid]
- [Instalment]/[other (*specify*)]
- [N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of Commission Regulation (EC) No. 809/2004 will apply and a Drawdown Prospectus will be prepared.]*
- 11 Change of Interest or Redemption/ Payment Basis: [Specify details of any provision for convertibility of Instruments into another interest or redemption/ payment basis]
- 12 Put/Call Options: [Investor Put]
- [Issuer Call]
- [(further particulars specified below)]
- 13 Capital Disqualification Event [Applicable/Not Applicable]
- 14 [(i)] Status of the Instruments: [Unsubordinated / [Undated] / Subordinated / Tier 1 Instruments [Option A/Option B]]
- [Specify which of Conditions 3A (unsubordinated Instruments), 3B.02 (subordinated Instruments (other than Undated Instruments)) or 3C (subordinated Undated Instruments) applies. Where Condition 3C applies, specify if either Equity Accounting or Financial Liability Accounting applies].*
- [(ii)] Status of the Guarantee: [Unsubordinated/[Undated]/Subordinated]]
- [Specify which of Conditions 4A (unsubordinated guarantee), 4B (subordinated guarantee other than in respect of undated Instruments) or 4C (subordinated guarantee in respect of undated Instruments) applies.]
- [(iii)] Date [Board] approval for issuance of Instruments [and Guarantee] obtained: [●] [and [●], respectively]]
- (N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Instruments or related Guarantee)]*

15 Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16 **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semiannually/quarterly/monthly] in arrear]
- (ii) Interest Period(s): [●]
- (iii) Interest Payment Date(s): [●] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Relevant Financial Centre(s) for the definition of "Business Day"]*/not adjusted]
- (iv) Fixed Coupon Amount[s]: [●] per [●] in principal amount
- (v) Broken Amounts: [Insert particulars of any initial or final broken interest amounts which do not correspond with the fixed coupon amount(s)]
- (vi) Day Count Fraction: [30/360/Actual/Actual (Bond)/Actual/365/Actual/365 (Fixed)/Actual/360/30E/360/Eurobond Basis/30E/360 (ISDA)/Actual/Actual ([ICMA]/ISDA)/RBA Bond Basis/other]
- (vii) Determination Dates: [●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))*
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: [Not Applicable/give details]

17 **Floating Rate Instrument Provisions** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Interest Period(s) [●]
- (ii) Interest Payment Dates: [●]
- (iii) Business Day Convention: [Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]
- (iv) Relevant Financial Centre(s): [●]

	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other ( <i>give details</i> )]
	(vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent):	[●]
	(vii) Screen Rate Determination:	
	– Reference Rate:	[●]
	– Interest Determination Date(s):	[●]
	– Relevant Screen Page:	[●]
	(viii) ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	(ix) Margin(s):	[+/-][●] per cent. per annum
	(x) Minimum Rate of Interest:	[●] per cent. per annum
	(xi) Maximum Rate of Interest:	[●] per cent. per annum
	(xii) Day Count Fraction:	[●]
	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on floating rate Instruments, if different from those set out in the Conditions:	[●]
18	<b>Non Interest Bearing Instrument Provisions</b>	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) [Amortisation/accrual] yield:	[●] per cent. per annum
	(ii) Reference price:	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
19	<b>Index Linked Interest Instruments</b>	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i)	Index/Formula/other variable:	[UK RPI. Sub paragraph [(i)(a)/(i)(b)/(i)(c)] of the definition of “Index” as set out in Condition 5G.01 shall apply.]/[ <i>other – give or annex details</i> ]
(ii)	Determination Agent responsible for calculating the interest due:	[●]
(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
(iv)	Interest Determination Date(s):	[●]
(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
(vi)	Interest Period(s):	[●]
(vii)	Interest Payment Dates:	[●]
(viii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other ( <i>give details</i> )]
(ix)	Relevant Financial Centre(s):	[●]
(x)	Minimum Rate/Amount of Interest:	[●] per cent. per annum
(xi)	Maximum Rate/Amount of Interest:	[●] per cent. per annum
(xii)	Day Count Fraction:	[●]
(xiii)	Other terms relating to the calculation of interest in respect of Index Linked Interest Instruments:	[●] (Where UK RPI is not the Index, and where necessary, specify Index Commencement Date, Indexation Adviser and Substitute Index Figure)
(xiv)	Minimum Indexation Factor:	[Not applicable/specify]
(xv)	Maximum Indexation Factor:	[Not applicable/specify]
(xvi)	Limited Indexation Month(s) :	[Not applicable/specify]
(xvii)	Base Index Figure:	[●]
(xviii)	Reference Gilt:	[●]
20	<b>Dual Currency Instrument Provisions</b>	[●] [Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)



	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[give details]
	(ii)	Determination Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]
21	<b>Other Rates</b>		
	<b>(Instruments to which Condition 5C.05 applies)</b>		[●] [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	All terms relating to the calculation of interest in respect of Instruments in relation to which Condition 5C.05 applies to be inserted:		[●]
<b>PROVISIONS RELATING TO REDEMPTION</b>			
22	<b>Call Option</b>		
	<b>(Instruments to which Condition 6.06 applies)</b>		[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount of each Instrument and method, if any, of calculation of such amount(s):	[●] per Calculation Amount [Applicable/Not Applicable] <i>(If applicable, insert details)</i>
	(iii)	If redeemable in part:	
	(a)	Minimum redemption amount:	[●] per Calculation Amount
	(b)	Maximum redemption amount:	[●] per Calculation Amount
	(iv)	Notice period:	[●]
23	<b>Put Option (Instruments to which Condition 6.09 applies)</b>		[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i)	Optional Redemption Date(s):	[●]

- (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) Notice period: [●]
- 24 **Final Redemption Amount of each Instrument** [[●] per Calculation Amount]  
*(N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII Commission Regulation (EC) No. 809/2004 will apply and a Drawdown Prospectus will be prepared).*
- In cases where the Final Redemption amount is Index Linked or other variable-linked:
- (i) Index/Formula/variable: *[give or annex details]*
- (ii) Determination Agent responsible for calculating the Final Redemption Amount: [●]
- (iii) Provisions for determining Final Redemption amount where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Determination Date(s): [●]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Payment date: [●]
- (vii) Minimum Final Redemption Amount: [●]
- (viii) Maximum Final Redemption Amount: [●]
- 25 **Early Redemption Amount**
- Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons or on default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [●]

## GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

26	Form of Instruments:	<p><b>Bearer Instruments/Registered Instruments/Exchangeable Bearer Instruments:</b></p> <p>[Temporary Global Instrument exchangeable for a]/ [A] Permanent Global Instrument [which is exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument]</p> <p><i>[Specify: (i) whether any Instruments in definitive form will have Coupons/Talon attached (Condition 1.05); and (ii) whether they will be security-printed.]</i></p>
27	Relevant Financial Centre(s) or other special provisions relating to payment Dates:	<i>[Not Applicable/give details. Note that this item relates to the date and place of payment, and not Interest Period end dates, to which items 15(iii), 16(iv) and 18(ix) relate]</i>
28	Talons for future Coupons to be attached to Definitive Instruments (and dates on which such Talons mature):	[Yes/No. If yes, give details]
29	Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment]:	[Not Applicable/give details]
30	Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made:	[Not Applicable/give details]
31	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition ●] apply]
32	New Global Instrument:	[Yes/No]
33	Other final terms:	<p>[Not Applicable/give details]</p> <p><i>(When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)</i></p>

## DISTRIBUTION

- 34 (i) If syndicated, names of Managers: [Not Applicable/*give names*]  
(ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]  
35 If non-syndicated, name of Dealer: [Not Applicable/*give name*]  
36 Additional selling restrictions: [Not Applicable/*give details*]

## [PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the [*specify relevant regulated market*] of the Instruments described herein pursuant to the U.S.\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc, Bank of Scotland plc (acting through its Treasury Division, London office and Australia branch) and BOS (Ireland) Funding plc.

## RESPONSIBILITY

The Issuer [and the Guarantor(s)] accept[s] responsibility for the information contained in these Final Terms. [[●] has been extracted from [●].] [Each of the] [The] Issuer [and the Guarantor(s)] confirms that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, such information is in accordance with the facts and does not omit anything likely to affect its import.]

Signed on behalf of the Issuer:

By: .....  
Duly authorised

[Signed on behalf of HBOS plc, as Guarantor:

By: .....  
Duly authorised]

[Signed on behalf of Bank of Scotland plc, as Guarantor:

By: .....  
Duly authorised]

## PART B – OTHER INFORMATION

### 1 LISTING

- (i) Listing: [London/other (specify)/None]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on [●] with effect from [●].] [Not Applicable.]
- (iii) Estimate of total expenses relating to admission to trading: [●]

### 2 RATINGS

- Ratings: The Instruments to be issued are expected to have the following ratings:
- [S & P: [●]]
- [Moody's: [●]]
- [[Other]: [●]]
- (The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/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:

“Save as discussed in [ “Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer.”]

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

- [(i) Reasons for the offer [●]  
*(See [“Use of Proceeds”] wording in Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*
- [(ii) Estimated net proceeds: [●]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii)] Estimated total expenses:

☐

[Include breakdown of expenses, including legal fees, listing fees and underwriting commissions.] (Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

## **5 [Fixed Rate Instruments only – YIELD]**

Indication of yield:

☐

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

## **6 [Index Linked Interest Instrument or other variable-linked Instruments only – PERFORMANCE OF INDEX/FORMULA/other variable, and other information concerning the underlying]**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by paragraph 102 of Annex XII of the Prospectus Directive Regulation]*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

The Issuer [intends to provide post-issuance information *[specify what information will be reported and where it can be obtained]*] [does not intend to provide post-issuance information]

## **7 [Dual Currency Instruments only – PERFORMANCE OF RATE[S] OF EXCHANGE]**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

## **8 OPERATIONAL INFORMATION**

ISIN Code:

☐

Common Code:

☐

Any clearing system(s) (and the address of such clearing system(s)) other than Euroclear Bank SA/NV and Clearstream Banking société anonyme and the relevant identification number(s):

*[Not Applicable/give name(s), (address(es)) and number(s)]*

Delivery:

Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any):

☒

Intended to be held in a manner which would allow Euro system eligibility:

[Yes][No]

*[Note that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][include this text if “yes” selected in which case the Instruments must be issued in New Global Instrument form]*



## GENERAL INFORMATION

1. The Prospectus which comprises a prospectus for the purposes of the Prospectus Directive was published on 13 May 2008, and the listing of the Programme is expected to be effective on or around 15 May 2008.
2. BOSIF is not nor has it been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, a significant effect on the financial position or profitability of BOSIF.
3. Save as otherwise disclosed on page 103 of this Prospectus under the heading “Bank Charges Test Case”, neither Bank of Scotland as Issuer or Guarantor nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Guarantor is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, a significant effect on the financial position or profitability of the Guarantor and its subsidiaries taken as a whole.
4. Save as otherwise disclosed on page 103 of this Prospectus under the heading “Bank Charges Test Case”, neither HBOS as Issuer or Guarantor nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Guarantor is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, a significant effect on the financial position or profitability of the Guarantor and its subsidiaries taken as a whole.
5. The financial statements of the HBOS Group for the two years ended 31 December 2006 and 31 December 2007, have been audited without qualification by KPMG Audit Plc, chartered accountants, registered auditors and independent auditors, (authorised and regulated by the Financial Services Authority for designated investment business) whose address is Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG. The reports of KPMG Audit Plc (“KPMG”) dated 27 February 2007 and 26 February 2008, in respect of the HBOS Group for the years ended 31 December 2006 and 31 December 2007, respectively, stated that the reports were made solely to HBOS’ members, as a body, in accordance with section 235 of the Companies Act 1985. The reports further stated that KPMG’s audit work had been undertaken so that KPMG might state to HBOS’ members those matters KPMG were required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, KPMG did not accept or assume responsibility to anyone other than HBOS and HBOS’ members as a body, for their audit work, for their reports, or for the opinions KPMG formed.
6. The financial statements of Bank of Scotland Group for the year ended 31 December 2007 and of The Governor and Company of the Bank of Scotland for the year ended 31 December 2006 have been audited without qualification by KPMG Audit Plc, chartered accountants, registered auditors and independent auditors (authorised and regulated by the Financial Services Authority for designated investment business), whose address is Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG. The report of KPMG Audit Plc dated 26 February 2008, in respect of the Bank of Scotland Group for the year ended 31 December 2007, stated that the report was made solely to Bank of Scotland’s members, as a body, in accordance with section 235 of the Companies Act 1985. The report further stated that KPMG’s audit work had been undertaken so that KPMG might state to Bank of Scotland’s members those matters KPMG

were required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, KPMG did not accept or assume responsibility to anyone other than Bank of Scotland and Bank of Scotland's members as a body, for their audit work, for their reports, or for the opinions KPMG formed. The report of KPMG dated 27 February 2007 in respect of The Governor and Company of the Bank of Scotland for the year ended 31 December 2006, stated that the report was made solely to The Governor and Company of the Bank of Scotland's members, as a body, in accordance with section 235 of the Companies Act 1985. The report further stated that KPMG's audit work had been undertaken so that KPMG might state to The Governor and Company of the Bank of Scotland's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, KPMG did not accept or assume responsibility to anyone other than The Governor and Company of the Bank of Scotland and its members as a body, for their audit work, for their report, or for the opinions KPMG have formed.

7. The financial statements of BOSIF (formerly ICC Investment Services Limited) for the two years ended 31 December 2007 and 31 December 2006, have been audited without qualification by KPMG, Chartered Accountants, registered auditors and independent auditors, whose address is 1 Harbourmaster Place, IFSC, Dublin 1. The reports of KPMG dated 11 March 2008 and 27 July 2007, in respect of BOSIF (formerly ICC Investment Services Limited) for the years ended 31 December 2007 and 31 December 2006, respectively, stated that the reports were made solely to BOSIF (formerly ICC Investment Services Limited)'s members, as a body, in accordance with section 193 of the Companies Act 1990 of Ireland. The reports further stated that KPMG's audit work had been undertaken so that KPMG might state to BOSIF (formerly ICC Investment Services Limited)'s members those matters KPMG were required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, KPMG did not accept or assume responsibility to anyone other than BOSIF (formerly ICC Investment Services Limited) and BOSIF (formerly ICC Investment Services Limited)'s members as a body for their audit work, for their reports, or for the opinions KPMG formed.
8. Save as otherwise disclosed on page 93 of this Prospectus under the heading "Recent Developments", there has been no significant change in the financial or trading position of the HBOS Group, nor any material adverse change in the prospects of the HBOS Group since 31 December 2007.
9. Save as otherwise disclosed on page 93 of this Prospectus under the heading "Recent Developments", there has been no significant change in the financial or trading position nor any material adverse change in the prospects of the Bank of Scotland Group since 31 December 2007.
10. There has been no significant change in the financial or trading position of BOSIF, nor any material adverse change in the prospects of BOSIF since 31 December 2007.
11. For the period of fourteen days after the date of this document and throughout the life of the Programme, copies of the following documents may be inspected during normal business hours at the specified office of the Principal Paying Agent and, in respect of HBOS and Bank of Scotland, at the offices of Shepherd and Wedderburn LLP at Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET until and including 16 May 2008 and thereafter from its offices at 1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL, namely:
  - (i) the memorandum and articles of association of HBOS and the constitutive documents of Bank of Scotland and BOSIF;

- (ii) the Trust Deed dated 13 May 2008;
  - (iii) the Amended and Restated Paying Agency Agreement dated 13 May 2008;
  - (iv) the Amended and Restated Dealership Agreement dated 13 May 2008;
  - (v) the Prospectus and any supplementary prospectuses;
  - (vi) the audited financial statements of the HBOS Group for the financial years ended 31 December 2006 and 31 December 2007, and each financial year and six monthly intervals thereafter in respect of which interim or audited financial statements have been prepared;
  - (vii) the audited financial statements of the Bank of Scotland Group for the financial year ended 31 December 2007, and each financial year and six monthly intervals thereafter in respect of which interim or audited financial statements have been prepared;
  - (viii) the audited financial statements of BOSIF (formerly ICC Investment Services Limited) for the financial years ended 31 December 2007 and 31 December 2006;
  - (ix) the audited financial statements of The Governor and Company of the Bank of Scotland for the financial year ended 31 December 2006; and
  - (x) any Final Terms, any Guarantee Supplement and any Drawdown Prospectus relating to Instruments which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.
12. None of the Issuers intend to provide post issuance transaction information regarding any Instruments that may be admitted to trading.
  13. The establishment of the Programme and the issuance of Instruments thereunder (and, in the case of HBOS and Bank of Scotland, the giving of their guarantee in respect of Instruments issued under the Programme, where appropriate) was authorised pursuant to resolutions of the Board of Directors of HBOS passed on 26 March 2003, and of a duly authorised delegate of the Board of Directors of HBOS passed on 25 April 2003 and of the Board of Directors of the Bank of Scotland passed on 18 August 1992. The 2008 update of the Programme was authorised pursuant to resolutions of duly authorised committees of the Board of Directors of HBOS on 8 May 2008, the Bank of Scotland on 8 May 2008 and BOSIF on 7 May 2008.
  14. The Instruments may be accepted for clearance through Euroclear and Clearstream, Luxembourg or any other relevant clearing system (which will be the entities in charge of keeping the records). The appropriate common codes for each such clearing system for each Series of Instruments, together with the relevant ISIN number, will be contained in the Final Terms relating thereto. The relevant Final Terms shall specify each clearing system which has accepted the relevant Instruments for clearance together with any further appropriate information.
  15. The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
  16. The Issue price and the amount of the relevant Instruments will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The

Issuers do not intend to provide any post-issuance information in relation to any issues of Instruments.

17. The listing of any Series of Instruments on the Official List will be expressed as a percentage of their principal amount (excluding accrued interest). It is expected that each Series of Instruments which is to be admitted to listing, trading and/or quotation by the UK Listing Authority and/or the London Stock Exchange or any other listing authority, stock exchange and/or quotation system will be admitted separately as and when issued, subject only to the issue of a Temporary Global Instrument, Permanent Global Instrument or one or more Certificates initially representing the Instruments of such Series. The initial listing of the Programme was granted on 26 August 1992. However, Instruments may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the UK Listing Authority and/or the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by the UK Listing Authority or the London Stock Exchange or any other listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.
18. Settlement arrangements will be agreed between the relevant Issuer, the relevant Dealer and the Principal Paying Agent in relation to each Series.
19. Regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism.

## **HISTORICAL FINANCIAL INFORMATION FOR BOS (IRELAND) FUNDING PLC**

The following historical financial information has been extracted without material adjustment from, and is qualified in its entirety by reference to, the financial statements of BOSIF (formerly ICC Investment Services Limited) for the year ended 31 December 2006. The following historical financial information should be read in conjunction with the financial statements of BOSIF (formerly ICC Investment Services Limited) for the year ended 31 December 2006.

### ***Independent Auditor's report to the members of ICC Investment Services Limited***

We have audited the financial statements of ICC Investment Services Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet and Cash Flow Statement, the Statement of Recognised Income and Expenses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and independent auditors**

The Directors responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinions as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the Company applied in accordance with the provisions of the Companies Acts 1963 to 2006, and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

We also report to you whether, in our opinion:

- proper books of account have been kept by the Company;
- whether at the Balance Sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and
- whether the information given in the Directors' Report is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit, and whether the financial statements are in agreement with the books of account.

We read the other information contained in the Directors' report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report. We

consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also included an assessment of the significant estimates and judgments made by the Directors' in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2006 and of its result for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations, which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Balance Sheet is in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the Balance Sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2006 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

**KPMG**  
Chartered Accountants  
Registered Auditor  
1 Harbourmaster Place  
IFSC  
Dublin 1

27 July 2007

## **Accounting policies**

### **Statement of compliance**

The 2006 statutory financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU. The Standards adopted by the Company are those endorsed by the European Union and effective (or available for early adoption) at 31 December 2006.

The accounts also comply with the relevant provisions of the Companies Acts, 1963 to 2006.

### **Basis of preparation**

The financial statements have been prepared under the historical cost basis.

The accounting policies that the Company applies in the preparation of the financial statements for the year ended 31 December 2006 are set out below.

### **Loans and advances**

Loans and advances are held at amortised cost less provision for impairment. Impairment is identified at a counter party specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when a banking covenant is breached. The present value of estimated cash flow recoverable is determined after taking into account any security held.

The amount of any impairment is calculated by comparing the present value of the cash flows discounted at the loan’s original effective interest rate with the Balance Sheet carrying value. If impaired, the carrying value is adjusted and the difference is charged to the Income Statement.



**Income Statement, Statement of Recognised Income and Expenses, Reconciliation of Movement in Shareholders Funds, Cash Flow Statement**

*For year ended 31 December 2006*

The Company did not trade during the year and received no income and incurred no expenditure. Consequently during the year the Company made neither a profit nor a loss. The opening and closing balances in the cumulative Income Statement accordingly remain at €5,421,000.

The Company had no other recognised gains and losses nor any cash flow during the year and accordingly no Statement of Recognised Income and Expenses, Reconciliation of Movement in Shareholders Funds or Cash Flow Statement is presented.

Approved by the Board on 23 July 2007 and signed on its behalf by:

J. Brindley  
Director

J. Staunton  
Director

## Balance Sheet

As at 31 December 2006

	Note	31 Dec 2006 €	31 Dec 2005 €
<b>Assets</b>			
Loans and advances to banks .....	2	7,939,291	7,939,291
<b>Total assets</b> .....		<u>7,939,291</u>	<u>7,939,291</u>
<b>Shareholders' equity</b>			
Issued share capital .....	3	2,518,246	2,518,246
Retained earnings .....		<u>5,421,045</u>	<u>5,421,045</u>
<b>Shareholders' equity</b> .....		<u>7,939,291</u>	<u>7,939,291</u>
<b>Total liabilities and shareholders' equity</b> .....		<u>7,939,291</u>	<u>7,939,291</u>

The set of accounting policies on page F-3 and the notes on pages F-6 to F-7 form part of these financial statements.

Approved by the Board on 23 July 2007 and signed on its behalf by:

J. Brindley  
Director

J. Staunton  
Director

## Notes forming part of the financial statements

### 1. Net Income Statement / Statement of Recognised Income and Expense

In the year ended 31 December 2006 there was no income receivable (2005: €NIL) nor were any costs, including Directors' remuneration, incurred (2005: €NIL). The Company has no employees and the costs of services and auditors' remuneration are borne by the immediate parent undertaking. No Income Statement or Statement of Recognised Income and Expenses has therefore been prepared.

### 2. Loans and advances to banks

	2006 €	2005 €
Loans and advances to parent company .....	7,939,291	7,939,291

Loans and advances due from the parent company are interest free and repayable on demand.

### 3. Share capital

#### Ordinary Share Capital

	Ordinary €1.27 shares Number	€
<b>Authorised</b>		
At 31 December 2005 and at 31 December 2006 .....	5,000,000	6,350,000
<b>Allotted, called up and fully paid</b>		
At 31 December 2005 and at 31 December 2006 .....	1,982,871	2,518,246

### 4. Related party transactions

ICC Investment Services Limited is a wholly-owned subsidiary undertaking of Bank of Scotland (Ireland) Limited, incorporated in Ireland. The smallest and largest group into which the results of ICC Investment Services Limited are consolidated are headed by Bank of Scotland (Ireland) Limited and HBOS plc respectively. HBOS plc is incorporated and operating in the UK. The consolidated financial statements of the group headed by Bank of Scotland (Ireland) Limited, are at 124-127 St. Stephens Green, Dublin 2. The financial statements of the group headed by HBOS plc are available to the public and may be obtained at The Mound, Edinburgh, Scotland.

Included in loans and advances to banks is €7,939,291 (2005: €7,939,291) due from the parent company.

### 5. Transactions with key management personnel

For the purpose of IAS 24 "Related party disclosures", key management personnel comprise members of the Board of Directors of ICC Investment Services Limited.

Key management personnel and members of their close families have not undertaken any transactions with ICC Investment Services Limited in the normal course of business.

### 6. Post-balance sheet events

There have been no material post-balance sheet events, which would require disclosure.

**7. Commitments and contingent liabilities**

There were no outstanding commitments or contingent liabilities in the Company at the year end (2005: Nil).

**8. Approval of financial statements**

The Board of Directors approved the financial statements on 23 July 2007.

The following historical financial information has been extracted without material adjustment from, and is qualified in its entirety by reference to, the financial statements of BOSIF (formerly ICC Investment Services Limited) for the year ended 31 December 2007. This historical financial information should be read in conjunction with the financial statements of BOSIF (formerly ICC Investment Services Limited) for the year ended 31 December 2007.

***Independent Auditor's report to the directors on the financial statements of BOS (Ireland) Funding plc (formerly ICC Investment Services Limited)***

We have audited the financial statements of BOS (Ireland) Funding plc for the year ended 31 December 2007 which comprise the Balance Sheet, cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and independent auditors**

The Directors responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinions as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and, in the case of the Company applied in accordance with the provisions of the Companies Acts 1963 to 2006, and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

We also report to you whether, in our opinion:

- proper books of account have been kept by the Company;
- whether at the Balance Sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and
- whether the information given in the Directors' Report is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit, and whether the financial statements are in agreement with the books of account.

We read the other information contained in the Directors' report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also included an assessment of the significant estimates and judgments made by the Directors' in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2007 and of its result for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations, which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Balance Sheet is in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the Balance Sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2007 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

**KPMG**  
Chartered Accountants  
Registered Auditor  
1 Harbourmaster Place  
IFSC  
Dublin 1

11th March 2008

## **Accounting policies**

### **Statement of compliance**

The 2007 statutory financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU. The Standards adopted by the Company are those endorsed by the European Union and effective (or available for early adoption) at 31 December 2007.

The accounts also comply with the relevant provisions of the Companies Acts, 1963 to 2006.

### **Basis of preparation**

The financial statements have been prepared under the historical cost basis.

The accounting policies that the Company applies in the preparation of the financial statements for the year ended 31 December 2007 are set out below.

### **Loans and advances**

Loans and advances are held at amortised cost less provision for impairment. Impairment is identified at a counter party specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when a banking covenant is breached. The present value of estimated cash flow recoverable is determined after taking into account any security held.

The amount of any impairment is calculated by comparing the present value of the cash flows discounted at the loan’s original effective interest rate with the Balance Sheet carrying value. If impaired, the carrying value is adjusted and the difference is charged to the Income Statement.



**Income Statement, Statement of Recognised Income and Expenses, Reconciliation of Movement in Shareholders Funds**

*For year ended 31 December 2007*

The Company did not trade during the year and received no income and incurred no expenditure. Consequently during the year the Company made neither a profit nor a loss.

The Company had no recognised gains and losses nor any cash flow during the year other than the declared interim dividend of €5,421,000 which was paid on 26 November 2007 (2006: € Nil). The reconciliation of movement in shareholders funds is presented at note 4, page F-14. The cash flow statement is presented on page F-13. No Statement of Recognised Income and Expenses is presented.

Approved by the Board on 11th March 2008 and signed on its behalf by:

J. Brindley  
*Director*

J. Staunton  
*Director*

## Balance Sheet

As at 31 December 2007

	Note	31 Dec 2007 €	31 Dec 2006 €
<b>Assets</b>			
Loans and advances to banks .....	2	<b>2,518,246</b>	7,939,291
<b>Total assets</b> .....		<b>2,518,246</b>	7,939,291
<b>Shareholders' equity</b>			
Issued share capital .....	3	<b>2,518,246</b>	2,518,246
Retained earnings .....	4	–	5,421,045
<b>Shareholders' equity</b> .....		<b>2,518,246</b>	7,939,291
<b>Total liabilities and shareholders' equity</b> .....		<b>2,518,246</b>	7,939,291

The set of accounting policies on page F-10 and the notes on pages F-14 to F-15 form part of these financial statements.

Approved by the Board on 11th March 2008 and signed on its behalf by:

J. Brindley

*Director*

J. Staunton

*Director*

## Cash flow Statement

*For year ended 31 December 2007*

	Note	2007 €	2006 €
<b>Cashflow from financing activities</b>			
Dividend paid .....		(5,421,045)	—
<b>Net cash from financing activities .....</b>		<b>(5,421,045)</b>	
<b>Net decrease in cash and cash equivalents .....</b>		<b>(5,421,045)</b>	—
Cash and cash equivalents at 1 January .....		<b>7,939,291</b>	7,939,291
<b>Cash and cash equivalents at 31 December .....</b>		<b>2,518,246</b>	7,939,291
<b>Cash and Cash Equivalents</b>			
Loans and advances to banks			
-repayable less than three months.....		2,518,246	7,939,291
<b>Cash and cash equivalents at 31 December .....</b>		<b>2,518,246</b>	7,939,291

The set of accounting policies on page F-10 and the notes on pages F-14 to F-15 form part of these financial statements.

## Notes forming part of the financial statements

### 1 Net Income Statement / Statement of Recognised Income and Expense

In the year ended 31 December 2007 there was no income receivable (2006: €Nil) nor were any costs, including Directors' remuneration, incurred (2006: €Nil). The Company has no employees and the costs of services and auditors' remuneration are borne by the immediate parent undertaking. No Income Statement or Statement of Recognised Income and Expenses have therefore been prepared.

### 2 Loans and advances to banks

	2007 €	2006 €
Loans and advances to parent company .....	<b>2,518,246</b>	7,939,291

Loans and advances due from the parent company are interest free and repayable on demand.

### 3 Share capital

	Ordinary €1.27 shares Number	€
<b>Ordinary Share Capital</b>		
<b>Authorised</b>		
At 31 December 2006 and at 31 December 2007 .....	5,000,000	6,350,000
<b>Allotted, called up and fully paid</b>		
At 31 December 2006 and at 31 December 2007 .....	1,982,871	2,518,246

### 4 Reconciliation of shareholders' equity

	Share Capital €	Retained Earnings €	Total €
<b>At 31 December 2006</b> .....	2,518,246	5,421,045	7,939,291
<b>Changes in equity for 2007</b>			
Interim dividend paid .....	–	(5,421,045)	(5,421,045)
<b>Total recognised income and expense</b> .....	–	–	–
<b>At 31 December 2007</b> .....	<b>2,518,246</b>	–	<b>2,518,246</b>

### 5 Related party transactions

BOS (Ireland) Funding plc (formerly ICC Investment Services Limited) is a wholly-owned subsidiary undertaking of Bank of Scotland (Ireland) Limited, incorporated in Ireland. The smallest and largest group into which the results of BOS (Ireland) Funding plc (formerly ICC Investment Services Limited) are consolidated are headed by Bank of Scotland (Ireland) Limited and HBOS plc respectively. HBOS plc is incorporated and operating in the UK. The consolidated financial statements of the group headed by Bank of Scotland (Ireland) Limited, are available at 124-127 St. Stephens Green, Dublin 2. The financial statements of the group headed by HBOS plc are available to the public and may be obtained at The Mound, Edinburgh, Scotland.

Included in loans and advances to banks is €2,518,246 (2006: €7,939,291) due from the parent company.

## **6 Financial Risk Management**

The Bank of Scotland (Ireland) Limited Group's (BOSI Group) risk management policies are established to identify and analyse the risks faced by the BOSI Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The BOSI Group, through its training and management standards, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and responsibilities. BOS (Ireland) Funding plc currently has only one counterparty balance, a bank balance held with its parent, which is repayable on demand. Accordingly, the Company is not significantly exposed to credit or liquidity risk. The Company does not have significant exposure to market risk as it has no currency or interest rate exposures.

## **7 Transactions with key management personnel**

For the purpose of IAS 24 "Related party disclosures", key management personnel comprise members of the Board of Directors of BOS (Ireland) Funding plc (formerly ICC Investment Services Limited).

Key management personnel and members of their close families have not undertaken any transactions with BOS (Ireland) Funding plc (formerly ICC Investment Services Limited) in the normal course of business.

## **8 Commitments and contingent liabilities**

There were no outstanding commitments or contingent liabilities in the Company at the year end 31 December 2007 (2006: € Nil).

## **9 Approval of financial statements**

The Board of Directors approved the financial statements on 11th March 2008.

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**Bank of Scotland plc**  
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