



# LLOYDS TSB BANK plc

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

## £50,000,000,000

### Euro Medium Term Note Programme

This Prospectus (the “**Prospectus**”) is issued in connection with the Programme (as defined below). Save where otherwise specified in the applicable Final Terms, any Notes (as defined below) issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein. This does not affect any Notes already in issue. Under the Euro Medium Term Note Programme described in this Prospectus (the “**Programme**”), Lloyds TSB Bank plc (the “**Bank**” or “**Lloyds TSB Bank**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the “**Notes**”). The aggregate nominal amount of Notes outstanding will not at any time exceed £50,000,000,000 (or the equivalent in other currencies), subject to increase as provided herein.

Notes to be issued under the Programme may comprise (i) unsubordinated Notes (“**Senior Notes**”), (ii) Notes which are subordinated as described herein with a maturity date and with terms capable of qualifying as Lower Tier 2 Capital (as defined below) (the “**Dated Subordinated Notes**”) and (iii) Notes which are subordinated as described herein with no maturity date and with terms capable of qualifying as Upper Tier 2 Capital (“**Undated Subordinated Notes**”) and, together with the Dated Subordinated Notes, the “**Subordinated Notes**”). The terms “Upper Tier 2 Capital” and “Lower Tier 2 Capital” have the respective meanings given to them from time to time by the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the United Kingdom.

Application has been made to the Financial Conduct Authority (the “**FCA**”) under Part VI of the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for Notes issued under the Programme for the period of twelve months from the date of this Prospectus to be admitted to the Official List of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes 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.

Each Tranche (as defined herein) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”) and, together with the temporary Global Notes, the “**Global Notes**”). Notes in registered form may also be issued. The minimum specified denomination of the Notes shall be at least the greater of (i) €100,000 (or its equivalent in another currency as at the date of issue of the Notes) or (ii) the minimum amount allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency of the Notes.

As at the date of this Prospectus: (i) long-term senior obligations of the Bank are rated “A” by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), “A2” by Moody’s Investors Service Ltd. (“**Moody’s**”) and “A” by Fitch Ratings Ltd. (“**Fitch**”); and (ii) short-term obligations of the Bank are rated “A-1” by S&P, “P-1” by Moody’s and “F1” by Fitch. Each of Fitch, Moody’s and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Tranches of Notes (as defined in “Overview of the Programme – Method of Issue”) to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies will be disclosed in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus. This Prospectus does not describe all of the risks of an investment in the Notes.**

**Prospective investors in Notes should ensure that they understand the nature of the relevant Notes and the extent of their exposure to risks and that they consider the suitability of the relevant Notes as an investment in the light of their own circumstances and financial condition. It is the responsibility of prospective investors to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Notes and are not relying on the advice of the Bank, the Trustee (as defined herein) or any Dealer (as defined herein) in that regard.**

**Arranger**  
**BofA Merrill Lynch**

**Co-arranger**  
**Lloyds Bank**

**Dealers**

Barclays  
BNP PARIBAS  
Commerzbank  
Credit Suisse  
Deutsche Bank  
Goldman Sachs International  
J.P. Morgan Cazenove  
Mizuho Securities  
Nomura  
SMBC Nikko  
The Royal Bank of Scotland  
UniCredit Bank

BofA Merrill Lynch  
Citigroup  
Crédit Agricole CIB  
Daiwa Capital Markets Europe  
DZ BANK AG  
HSBC  
Lloyds Bank  
Morgan Stanley  
RBC Capital Markets  
Standard Chartered Bank  
UBS Investment Bank  
Wells Fargo Securities

**This Prospectus comprises a base prospectus for the purposes of Directive 2003/71/EC, as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “Prospectus Directive”) and for the purpose of giving information with regard to the Bank and the Bank and its subsidiary and associated undertakings (the “Lloyds TSB Bank Group”) which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank.**

**The Bank (the “Responsible Person”) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Bank (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.**

**The Notes may not be a suitable investment for all investors. Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:**

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

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

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

**Lloyds Banking Group plc (the “Company”) is a non-operating holding company which carries on all of its trading activities through its direct subsidiary, the Bank. Accordingly, save for the issuance and ongoing management of certain capital instruments by the Company and certain of its subsidiaries, the consolidated financial statements of the Company and the Bank are similar in all material respects, and the financial and other information relating to the Company incorporated by reference in this Prospectus has**

been included as it is more detailed and places the activities of the Bank in the context of the operations of the Group.

No person is or has been authorised to give any information or to make any representation other than as contained in this Prospectus in its entirety in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank or any of the Dealers, the Arranger or the Co-arranger or the Trustee (each as defined in “Overview of the Programme”). Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank or Lloyds TSB Bank Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Bank, the Trustee or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each prospective investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer of, or an invitation by or on behalf of, the Bank or any of the Dealers or the Trustee to any person to subscribe for or purchase, any Notes.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the relevant Dealer, the Arranger, or the Co-arranger as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Bank in connection with the Programme. Neither the relevant Dealer, the Arranger nor the Co-arranger accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Bank in connection with the Programme.

The Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Bank, the Dealers, the Arranger and the Co-arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the accounts or benefit of, U.S. persons. The Notes are being offered and sold outside the United States to persons that are not U.S. persons (as defined in Regulation S (“Regulation S”) under the Securities Act) in reliance on Regulation S. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see “Selling Restrictions”.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “pounds” and “Sterling” are to pounds sterling, references to “U.S. dollars” and to “U.S.\$” are to United States dollars, references to “Yen” are to Japanese Yen, references to “Renminbi”, “RMB” and “CNY” are to the lawful currency of the PRC, and references to “€” and “euro” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In this Prospectus, references to “PRC” are to the People’s Republic of China which, for the purpose of this Prospectus, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan.

In this Prospectus, references to “CNH Notes” are to Notes denominated in CNY or Renminbi deliverable in Hong Kong.

In this Prospectus, references to “CMU Notes” are to Notes denominated in any lawful currency which the Central Moneymarkets Unit Service (the “CMU Service”) accepts for settlement from time to time that are, or are intended to be, cleared through the CMU Service.

If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“NGN”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or any other agreed clearing system. If a Global Certificate is held under the new safekeeping structure (the “NSS”), the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system. Global Notes which are not issued in NGN form (“Classic Global Notes” or “CGNs”) and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system. Notes in registered form (“Registered Notes”) will be represented by registered certificates (each a “Certificate”). Registered Notes which are sold to persons that are not U.S. persons in an ‘offshore transaction’ within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended (the “Securities Act”), will initially be represented by a permanent registered global certificate (each, a “Global Certificate”), which will, unless held under the NSS, be deposited on the issue date of the relevant Tranche either with (a) a common depository on behalf of Euroclear and Clearstream, Luxembourg or (b) in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA or (c) and/or any other agreed clearing system. Investors may also hold interests in the Notes through Euroclear UK & Ireland Limited (formerly known as CRESTCo Limited) (“CREST”) through the issuance of dematerialised depository interests (“CREST Depository Interests” or “CDIs”) issued, held, settled and transferred through CREST, representing interests in the relevant Notes underlying the CDIs (the “Underlying Notes”). CREST Depository Interests are independent securities constituted under English law and transferred through CREST and will be issued by CREST Depository Limited (the “CREST Depository”) pursuant to the global deed poll dated 25 June 2001 (as subsequently modified, supplemented and/or restated) (the “CREST Deed Poll”). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Bearer Notes are described in “Summary of Provisions Relating to the Notes while in Global Form”.

In connection with the issue of any Tranche (as defined in “Overview of the Programme”), the Dealer or Dealers (if any) acting as stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) will

**undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Final 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 action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

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

## Certain Definitions

In this Prospectus, reference to:

- (i) “**Company**” is to Lloyds Banking Group plc;
- (ii) “**FCA**” is to the United Kingdom Financial Conduct Authority;
- (iii) “**FSA**” is to the United Kingdom Financial Services Authority;
- (iv) “**FSMA**” is to the Financial Services and Markets Act 2000;
- (v) “**Group Reorganisation**” is to the transfer by Lloyds Banking Group plc of its holding in HBOS plc to Lloyds TSB Bank plc on 1 January 2010;
- (vi) “**HBOS**” or “**HBOS Group**” is to HBOS plc and its subsidiary and associated undertakings;
- (vii) “**Issuer**” is to the Bank;
- (viii) “**Lloyds Banking Group**”, “**Lloyds**” or the “**Group**” is to the Company and its subsidiary and associated undertakings;
- (ix) “**Lloyds TSB Bank**” or “**Bank**” is to Lloyds TSB Bank plc;
- (x) “**Lloyds TSB Bank Group**” is to the Bank and its subsidiary and associated undertakings which, for the avoidance of doubt, includes the HBOS Group;
- (xi) “**Lloyds TSB Group**” is to the Company and its subsidiary and associated undertakings but excluding the HBOS Group; and
- (xii) “**PRA**” is to the United Kingdom Prudential Regulation Authority.

## TABLE OF CONTENTS

FORWARD LOOKING STATEMENTS .....	8
DOCUMENTS INCORPORATED BY REFERENCE .....	10
PRESENTATION OF FINANCIAL INFORMATION .....	12
OVERVIEW OF THE PROGRAMME .....	12
RISK FACTORS .....	20
TERMS AND CONDITIONS OF THE NOTES.....	48
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM .....	88
USE OF PROCEEDS .....	96
REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC .....	97
CLEARING AND SETTLEMENT .....	100
LLOYDS BANKING GROUP.....	104
TAXATION .....	124
SUBSCRIPTION AND SALE .....	127
SELLING RESTRICTIONS .....	128
TRANSFER RESTRICTIONS.....	142
FORM OF FINAL TERMS (CGN & NGN) .....	143
GENERAL INFORMATION .....	152

## FORWARD LOOKING STATEMENTS

Certain statements included herein may constitute forward looking statements with respect to the business, strategy and plans of the Bank, Lloyds TSB Bank Group or the Group and their current goals and expectations relating to their future financial condition and performance. Statements that are not historical facts, including statements about the Bank's, Lloyds TSB Bank Group's or the Group's or their respective directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future.

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Bank's or the Group's future financial position (other than profit forecasts or estimates but including provisions, dividends, capital structure, expenditures or any other financial items or ratios); statements of plans, objectives or goals of the Bank or the Group or their respective management including in respect of certain synergy targets; statements about the future business and economic environments in the United Kingdom ("UK") and elsewhere, including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Bank or the Group or on the Bank's or the Group's behalf include, but are not limited to, the risks identified herein under "Risk Factors", as well as: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, without limitation, as a result of the Group's simplification procedures; changing demographic developments including mortality and changing customer behaviour including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside the Bank's and the Group's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside the Bank's and the Group's control; the policies and actions of governmental or regulatory authorities in the UK, the European Union (the "EU"), the U.S. or elsewhere; the implementation of the draft EU crisis management framework directive and banking reform, following the recommendations made by the Independent Commission on Banking (the "ICB"); the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of Her Majesty's Treasury's investment in the Group; the ability to complete satisfactorily the disposal of certain assets as part of the Group's EU State Aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; market related trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the

adequacy of loss reserves; the actions of competitors including non-bank financial services and lending companies; and the success of the Group in managing the risks of the foregoing.

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

### *Lloyds TSB Bank plc financial statements:*

- (i) The Bank's Annual Report and Accounts 2012 including the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2012, together with the audit report thereon, as set out on pages 12 to 148 and 11, respectively (the "**Bank's 2012 Annual Report**"); and
- (ii) The Bank's Annual Report and Accounts 2011 including the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2011, together with the audit report thereon, as set out on pages 17 to 143 and 15 to 16, respectively.

### *Lloyds Banking Group plc financial statements:*

- (i) The audited consolidated financial statements of the Company for the financial year ended 31 December 2012, together with the audit report thereon, as set out on pages 206 to 343 and 204 to 205, respectively, of the Company's Annual Report and Accounts 2012 (the "**Company's 2012 Annual Report**");
- (ii) The audited consolidated financial statements of the Company for the financial year ended 31 December 2011, together with the audit report thereon, as set out on pages 208 to 343 and 206 to 207, respectively, of the Company's Annual Report and Accounts 2011 (the "**Company's 2011 Annual Report**"); and
- (iii) The unaudited interim management statement of the Company for the three month period ended 31 March 2013.

### *Other documents incorporated by reference:*

- (i) The section entitled "Terms and Conditions" on pages 19 to 40 of the Base Prospectus dated 13 June 2006 relating to the Lloyds TSB Bank plc £25,000,000,000 EMTN Programme;
- (ii) The section entitled "Terms and Conditions" on pages 24 to 61 of the Base Prospectus dated 12 June 2007 relating to the Lloyds TSB Bank plc £25,000,000,000 EMTN Programme;
- (iii) The section entitled "Terms and Conditions" on pages 25 to 66 of the Base Prospectus dated 10 June 2008 relating to the Lloyds TSB Bank plc £30,000,000,000 EMTN Programme;
- (iv) The section entitled "Terms and Conditions" on pages 43 to 84 of the Base Prospectus dated 4 June 2009 relating to the Lloyds TSB Bank plc £50,000,000,000 EMTN Programme;
- (v) The section entitled "Terms and Conditions" on pages 52 to 104 of the Base Prospectus dated 14 May 2010 relating to the Lloyds TSB Bank plc £50,000,000,000 EMTN Programme;
- (vi) The section entitled "Terms and Conditions" on pages 52 to 112 of the Base Prospectus dated 20 May 2011 relating to the Lloyds TSB Bank plc £50,000,000 EMTN Programme; and
- (vii) The section entitled "Terms and Conditions" on pages 49 to 85 of the Base Prospectus dated 20 April 2012 relating to the Lloyds TSB Bank plc £50,000,000 EMTN Programme,

all of which have been previously published and filed with the FCA (or its predecessor, the Financial Services Authority) and which 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. Any

documents or information themselves incorporated by reference in, or cross-referred to in, the documents incorporated by reference in this Prospectus shall not form part of this Prospectus unless also separately incorporated by reference above. In each case, where only certain sections of a document referred to above are incorporated by reference in the Prospectus, the parts of the document which are not incorporated by reference are either not relevant to prospective investors in the Notes or covered elsewhere in this Prospectus.

The Company is a non-operating holding company which carries on all of its trading activities through its direct subsidiary, the Bank. Accordingly, save for the issuance and ongoing management of certain capital instruments by the Company and certain of its subsidiaries, the consolidated financial statements of the Company and the Bank are similar in all material respects, and the financial and other information relating to the Company incorporated by reference in this Prospectus has been included as it is more detailed and places the activities of the Bank in the context of the operations of the Group.

The Bank will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to the Bank at its principal office set out at the end of this Prospectus. Copies of all documents incorporated by reference in this Prospectus can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html).

The Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included or incorporated by reference in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus (a “**Supplemental Prospectus**”) or publish a new prospectus for use in connection with any subsequent issue of Notes. The Bank has undertaken to the Dealers in the Programme Agreement (as defined in “Subscription and Sale”) that it will comply with section 87G of the FSMA.

## PRESENTATION OF FINANCIAL INFORMATION

In this Prospectus, references to the “**consolidated financial statements**” or “**financial statements**” are to Lloyds Banking Group’s consolidated financial statements included in the Company’s 2012 Annual Report unless indicated otherwise.

The consolidated financial statements of the Company and the Bank incorporated by reference within the Prospectus have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as adopted by the EU.

## OVERVIEW OF THE PROGRAMME

*This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference and the relevant Final Terms.*

### **Issuer**

Lloyds TSB Bank plc

Lloyds TSB Bank plc (the “**Bank**” or “**Lloyds TSB Bank**”) was incorporated in England and Wales on 20 April 1865 (Registration number 2065). The Bank’s registered office is at 25 Gresham Street, London EC2V 7HN. The Bank is a wholly-owned subsidiary of Lloyds Banking Group plc (the “**Company**”). The Company and its subsidiary and associated undertakings are referred to as the “**Lloyds Banking Group**”, “**Lloyds**” or the “**Group**”.

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

**Risk Factors Relating to the Group**

*Investors should note that the risks that are stated to apply to “the Group” apply also to the Bank.*

**Risks:**

Relating to the shareholding of The Commissioners of Her Majesty’s Treasury.

Associated with state aid obligations.

Arising from general and macro-economic conditions in the UK, the Eurozone and other markets, instability in the financial markets and the continuing sovereign debt crisis.

Of material negative changes to the estimated fair values of financial assets of the Group.

Relating to borrower and counterparty credit quality.

Relating to concentrations of credit and market risk.

Concerning borrowing costs and the Group’s access to liquidity and sources of funding.

Relating to the Group’s insurance businesses and employee pension schemes.

Associated with the implementation of a new UK regulatory architecture.

Relating to adverse regulatory developments or changes in UK Government, EU or U.S. policy, including capital adequacy requirements.

Associated with the Banking Act 2009 and the proposed Banking Reform Bill relating to competition and related issues.

Associated with changes in taxation rates, accounting policy, law or interpretation of the law.

That the Group could fail to attract or retain senior management or other key employees.

Of weaknesses or failures in the Group’s internal processes, systems and security.

Of assumptions and estimates on which the Group’s financial statements are based being wrong.

**Risk Factors relating to the Notes and the CREST Depositary Interests (“CDIs”)****Risks:**

There is no assurance that a liquid secondary market for certain Notes will develop or continue.

Certain Notes may be subject to early redemption at the Bank’s discretion.

The Bank’s obligations under Subordinated Notes are subordinated.

Noteholders (as defined in “Terms and Conditions of the

Notes”) of the Subordinated Notes may be required to absorb losses in the event the Bank becomes non-viable.

Upon the occurrence and continuation of a Capital Event, the Bank may, without the need for any consent of the Noteholders or the Trustee, substitute all (but not some only) of certain Subordinated Notes, or vary the terms of such Subordinated Notes so that they remain or, as appropriate, become, Compliant Securities.

Investors who hold through CREST through the issuance of CDIs (“**CDI Holders**”) or have an interest in a separate legal instrument, will have only indirect interests in the Underlying Notes and will be subject to external provisions.

Associated with certain provisions of the U.S. Internal Revenue Code (commonly referred to as “**FATCA**”).

Renminbi is not freely convertible and it has limited availability outside of the People’s Republic of China, which may affect the liquidity of any CNH Notes.

**Description**

Euro Medium Term Note Programme.

**Size**

Up to £50,000,000,000 (or the equivalent in other currencies at the date of issue).

**Arranger**

Merrill Lynch International

**Co-arranger**

Lloyds TSB Bank plc

**Dealers**

Barclays Bank PLC  
BNP Paribas  
Citigroup Global Markets Limited  
Commerzbank Aktiengesellschaft  
Crédit Agricole Corporate and Investment Bank  
Credit Suisse Securities (Europe) Limited  
Daiwa Capital Markets Europe Limited  
Deutsche Bank AG, London Branch  
DZ BANK AG Deutsche Zentral-Genossenschaftsbank  
Frankfurt am Main  
Goldman Sachs International  
HSBC Bank plc  
J.P. Morgan Securities plc  
Lloyds TSB Bank plc  
Merrill Lynch International  
Mizuho International plc  
Morgan Stanley & Co. International plc  
Nomura International plc  
RBC Europe Limited  
SMBC Nikko Capital Markets Limited  
Standard Chartered Bank  
The Royal Bank of Scotland plc

	<p>UBS Limited  UniCredit Bank AG  Wells Fargo Securities International Limited</p> <p>(together, the “<b>Dealers</b>”). The Bank may terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or the Programme.</p>
<b>Trustee</b>	The Law Debenture Trust Corporation p.l.c.
<b>Issuing and Paying Agent</b>	Citibank, N.A., London Branch and, in respect of CMU Notes only, Citicorp International Limited
<b>CMU Lodging Agent</b>	Citicorp International Limited
<b>Method of Issue</b>	<p>The Notes will be issued on a syndicated or non-syndicated basis and will be issued in series (each, a “<b>Series</b>”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each, a “<b>Tranche</b>”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant final terms (each, the “<b>Final Terms</b>”).</p>
<b>Issue Price</b>	Notes may be issued at their nominal amount or at a discount or premium thereto.
<b>Form</b>	<p>The Notes may be issued in bearer form only (“<b>Bearer Notes</b>”), in bearer form exchangeable for Registered Notes (“<b>Exchangeable Bearer Notes</b>”) or in registered form only (“<b>Registered Notes</b>”) represented by a Global Certificate.</p> <p>In respect of CDIs, to the extent applicable, CDI Holders will hold CDIs constituted and issued by the CREST Depository and representing indirect interests in the Notes. The CDIs will be issued and settled through CREST.</p> <p>Neither the Notes nor any rights thereto will be issued, held, transferred or settled within the CREST system otherwise than through the issue, holding, transfer and settlement of CDIs.</p> <p>CDI Holders will not be entitled to deal directly in the Notes and accordingly all dealings in the Notes will be effected through CREST in relation to the holding of CDIs.</p>
<b>Clearing Systems</b>	<p>With respect to Notes (other than CMU Notes), Clearstream, Luxembourg, Euroclear and such other clearing system as agreed between the Bank, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s). With respect to CMU Notes, the CMU Service operated by the Hong Kong Monetary</p>

Authority (the “**HKMA**”). With respect to CDIs, to the extent applicable, CREST.

**Initial Delivery of Notes**

On or before the issue date for each Tranche, if the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may be (a) deposited with a common depositary for Euroclear and Clearstream, Luxembourg or (b) in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA. Global Notes or Global Certificates may also be deposited with any other clearing system or delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Bank, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s).

Registered Notes will initially be represented by a Global Certificate, which, if not held under the NSS, will be deposited on the issue date of the relevant Tranche either with (a) a common depositary on behalf of Euroclear and Clearstream, Luxembourg or (b) in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA or (c) any other agreed clearing system.

**Currencies**

Subject to compliance with all relevant laws, regulations and directives, any currency agreed between the Bank and the relevant Dealer(s).

**Maturities**

Subject to compliance with all relevant laws, regulations and directives, any maturity. Unless otherwise permitted by then current laws, regulations and directives, (i) Subordinated Notes may be undated and (ii) Dated Subordinated Notes constituting Lower Tier 2 Capital will have a minimum maturity of five years.

**Denomination**

Definitive Notes will be in such denominations as agreed between the Bank and the relevant Dealer and as specified in the relevant Final Terms save that the minimum denomination of each Note shall be at least the greater of (i) €100,000 (or its equivalent in another currency as at the date of issue of the Notes) or (ii) the minimum amount allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

**Fixed Rate Notes**

Fixed Rate Notes will bear interest at the rate specified in the relevant Final Terms, such interest being payable in arrear on

**Fixed Rate Reset Notes**

the date(s) in each year specified in the relevant Final Terms.

Fixed Rate Reset Notes will bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on certain dates and by reference to a mid-market swap rate or to a benchmark gilt rate, as adjusted for any applicable margin, in each case as may be specified in the relevant Final Terms, such interest being payable in arrear on the date(s) in each year specified in the relevant Final Terms.

**Floating Rate Notes**

Floating Rate Notes will bear interest as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as amended and supplemented) published by the International Swaps and Derivatives Association, Inc.; or
- (ii) by reference to LIBOR or EURIBOR, as adjusted for any applicable margin.

Floating Rate Notes may also have a maximum interest rate and/or a minimum interest rate.

**Zero Coupon Notes**

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest other than after the Maturity Date.

**Redemption**

The relevant Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified circumstances) or that such Notes will be redeemable at the option of the Bank and/or the Noteholders upon giving notice to the Noteholders or the Bank, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be specified in the relevant Final Terms and/or any drawdown prospectus.

**Status of Notes**

Senior Notes will constitute unsecured and unsubordinated obligations of the Bank and Subordinated Notes will constitute unsecured, subordinated obligations of the Bank.

**Early Redemption**

Except as provided in "Redemption" above, Notes will be redeemable at the option of the Bank prior to maturity only for tax reasons or, in the case of Subordinated Notes, upon the occurrence of a Capital Event (as defined in "Terms and Conditions of the Notes").

**PRA Consent**

For so long as it is required under Applicable Banking Regulations (as defined in "Terms and Conditions of the Notes"), any optional redemption or purchase by the Bank of Subordinated Notes may be made only with (i) the prior written consent of, or, as applicable, lack of objection from, the

Prudential Regulation Authority (the “**PRA**”) and (ii) the Bank having satisfied the PRA that, after such repayment, the Bank will be able to meet its capital resources requirements and/or overall financial adequacy rules, as more fully described in Condition 5(i).

#### **Withholding Tax**

All payments of principal and interest in respect of the Notes will be made free and clear of withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. In the event such withholding or deduction is made, additional amounts may be payable by the Bank, subject to certain exceptions as more fully described in Condition 8.

#### **Governing Law**

English.

#### **Listing and Admission to Trading**

Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Market and references to listing shall be construed accordingly.

#### **Ratings**

Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”) is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more “A”; Senior Notes issued by the Bank with a maturity of less than one year “A-1”; Dated Subordinated Notes issued by the Bank “BBB-”; and Undated Subordinated Notes issued by the Bank “BB+”.

Fitch Ratings Limited (“**Fitch**”) is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more “A”; and Senior Notes issued by the Bank with a maturity of less than one year “F1”. Subordinated Notes issued by the Bank will be rated by Fitch on a case-by-case basis.

Moody’s Investors Service Limited (“**Moody’s**”) is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more “A2”; Senior Notes issued by the Bank with a maturity of less than one year “P-1”; Dated Subordinated Notes issued by the Bank “Baa3”; and Undated Subordinated Notes issued by the Bank “Ba1”.

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody’s, each of which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Tranches of Notes (as defined in “Overview of the Programme – Method of Issue”) to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a

credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) on credit rating agencies will be disclosed in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

### **Selling Restrictions**

United States, the Public Offer Selling Restriction under the Prospectus Directive, United Kingdom and all jurisdictions listed in “Selling Restrictions”. Other restrictions may be required in connection with a particular issue of Notes. The Bank is Category 2 for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form as such rules for purposes of section 4701 of the U.S. Internal Revenue Code of 1986, as amended) (the “**D Rules**”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form as such rules for purposes of section 4701 of the U.S. Internal Revenue Code of 1986, as amended) (the “**C Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

## RISK FACTORS

*The Bank believes that the following factors may affect its ability to fulfil its obligations under the Notes issued under the Programme and confirms that the risks that are stated to apply to “the Group” below apply also to the Bank. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Bank believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme in relation to the Group are also described below.*

*The Bank believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Bank to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective purchasers should consider carefully the risks and uncertainties described below, together with all other information contained in this Prospectus and the information incorporated by reference herein before making any investment decision.*

### 1 Government related risks

#### 1.1 ***The Commissioners of HM Treasury is the largest shareholder of the Company. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business.***

As at 1 May 2013, Her Majesty’s Treasury (“**HM Treasury**”) holds approximately 38.8 per cent. of the ordinary share capital of the Company. In the longer term, it is possible that the shareholding of HM Treasury may be diluted upon any further equity capital raising or potential conversion of the Company’s enhanced capital notes (the “**Enhanced Capital Notes**” or “**ECNs**”) into ordinary shares pursuant to their terms, although, in such case, it is expected that HM Treasury would remain a significant shareholder in the Company. It is also possible that the Group may seek to raise further capital or to obtain other support from the UK Government, which could result in an increase in HM Treasury’s shareholding in the Company.

No formal relationship agreement has been concluded between the Group and HM Treasury in respect of its shareholding in the Company and no express measures are in place to limit the level of influence which may be exercised by HM Treasury. However, the relationship falls within the scope of the revised framework document between HM Treasury and UK Financial Investments Limited (“**UKFI**”) published on 1 October 2010, which states that UKFI will manage its investment in the UK financial institutions in which HM Treasury holds an interest ‘on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined herein) (including with respect to individual lending or remuneration decisions)’. The framework document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision. Nevertheless, there is a risk that HM Treasury might seek to exert influence over the Group in relation to matters including, for example, commercial and consumer lending policies and management of the Group’s assets and/or business. There is also a risk of the existing framework document being replaced or amended, leading to potential interference in the operations of the Group, although there has been no indication that the UK Government intends to change the existing operating arrangements.

There is also a risk that, through the interest of HM Treasury in the Company, the UK Government and HM Treasury may attempt to influence the Group in other ways that would have a material adverse effect on the Group’s business, including, for example, through the election of directors, the appointment of senior management at the Company, senior management and staff remuneration policies, lending policies and commitments and management of the Group’s business (in particular, the management of the Group’s assets such as its existing retail and corporate loan portfolios, significant corporate transactions and the issue of new ordinary shares). Moreover,

HM Treasury also has interests in other UK financial institutions, as well as an interest in the general health of the UK banking industry and the wider UK economy. The pursuit of those interests may not always be aligned with the commercial interests of the Group.

For more information see “Risk Factors – Regulatory and legal risks – The Group’s businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments could have a significant material adverse effect on the Group’s results of operations, financial condition or prospects.”. For more information on transactions related to HM Treasury, see “Lloyds Banking Group – Major Shareholders and Related Party Transactions – Other Related Party Transactions with the UK Government”.

**1.2 *The Group is subject to European state aid obligations following the approval of its restructuring plan. The implementation of this restructuring plan may have consequences that are materially adverse to the interests of the Group.***

On 18 November 2009, the European Commission approved a restructuring plan that the Group was required to submit (the “**Restructuring Plan**”) as a result of HM Treasury’s investment in the Company in the context of the placing and open offer in November 2008. The principal elements of the Restructuring Plan seek to support the long-term viability of the Group and to remedy any distortions to competition and trade in the EU arising from the state aid that the Group has received, including HM Treasury’s subsequent participation in the Company’s placing and compensatory open offer in June 2009 and the rights issue that was announced in November 2009 and completed in December 2009 (the “**Rights Issue**”). It also seeks to address any commercial benefit received by the Group following its announcement in March 2009 of its then intention to participate in the Government Asset Protection Scheme (“**GAPS**”). In the deed of withdrawal from GAPS in November 2009 (the “**GAPS Withdrawal Deed**”) the Company agreed with HM Treasury to comply with the terms of the European Commission’s decision.

In line with the Restructuring Plan agreed in July 2012, the Group announced that it had agreed non-binding heads of terms with The Co-operative Group plc (the “**Co-operative**”) for the mandated retail divestment known as Project Verde (“**Project Verde**”). As announced on 24 April 2013, following the withdrawal of the Co-operative from the sale process, the Group now intends to divest the Verde business through an IPO, subject to regulatory and EC approval.

The Group is subject to various risks as a result of the implementation of the Restructuring Plan. There can be no assurance that the price that the Group receives for any assets disposed of in accordance with the Restructuring Plan will be at a level which the Group considers adequate or which it could obtain if the Group was not disposing of such assets in accordance with the Restructuring Plan. In particular, should the Group fail to complete the disposal of the retail banking business that it is required to divest by the end of November 2013, then in the absence of any time extension being granted by the European Commission, a divestiture trustee would be appointed to conduct the sale, with a mandate to complete the disposal with no minimum price (including at a negative price). As a direct consequence of the implementation of the Restructuring Plan, the Group will lose existing customers, deposits and other assets (and may also lose additional customers, deposits and other assets indirectly through damage to the rest of the Group’s business as a result of the implementation of the Restructuring Plan). It may also lose the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals. Moreover, implementation may result in disruption to the retained businesses, impacting customers and necessitating potentially significant separation costs. Implementation may also have a negative impact on the Group’s competitive position, including through the emergence of new competitors particularly in the creation of a viable competitor through the retail banking business disposal.

Should the Group require further state aid that was not covered in the European Commission’s approval decision of 18 November 2009, the Group may have to commit to further restructuring measures, which could have a material adverse effect on the interests of the Group.

For more detail on the principal elements, current status and expected timescales of the Restructuring Plan, see “Risk Management – State funding and state aid” in the Company’s 2012 Annual Report as set out on page 124 therein which is incorporated by reference into this Prospectus.

## **2 Business and economic risks**

### **2.1 *The Group’s businesses are subject to inherent risks arising from general macro-economic conditions in the UK, the Eurozone and other markets, the instability of the financial markets and the continuing sovereign debt crisis.***

The Group’s businesses are subject to inherent risks arising from general macro-economic conditions in the markets in which it operates, particularly the UK, in which the Group’s earnings are predominantly generated. Any significant macro-economic deterioration in the UK and/or other economies in which the Group operates or has legacy business such as the Republic of Ireland, Spain, Australia and the United States, could have a material adverse effect on the results of operations, financial condition or prospects of the Group. Additionally, the profitability of the Group’s businesses could be affected by increased insurance and other claims arising from market factors such as increased unemployment, which may continue even following the return to economic growth in certain parts of the markets in which the Group operates. Lack of, or reduced economic growth in the UK, higher unemployment in the UK or elsewhere, reduced corporate profitability, reduced personal income levels, reduced UK Government and/or consumer expenditure, increased personal or corporate and small and medium-sized enterprise (“SME”) insolvency rates, increased tenant defaults or increased interest rates may reduce borrowers’ ability to repay loans and may cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Group’s assets. These, in turn, could cause increased impairments and/or fair value adjustments.

In addition to the possibility of further macro-economic deterioration, any continuation, or worsening of financial market instability may represent further risk to the Group’s business. The Group has significant exposures, particularly by way of loans, in a number of overseas jurisdictions, notably the Republic of Ireland (which is legacy HBOS originated lending), Spain, Australia and the United States, and is therefore subject to various risks relating to the stability of these financial markets. The global financial system has suffered considerable turbulence and uncertainty in recent years and the outlook for the global economy over the near to medium term remains challenging. In Europe, the ongoing economic deterioration of several countries, including Greece, Italy, the Republic of Ireland, Spain and Portugal, together with the risk of contagion to other, more stable countries, has exacerbated the global economic crisis. In particular, the risk of default on the sovereign debt of those countries and the impact this would have on the Eurozone countries, including the potential that some countries (albeit those with a relatively small GDP) could leave the Eurozone (either voluntarily or involuntarily) has raised concerns about the ongoing viability of the Euro currency and the European Monetary Union (the “EMU”). Despite the various rescue packages and other stabilising measures adopted throughout Europe to deal with the worsening Eurozone sovereign debt crisis, global markets continue to record high levels of volatility and uncertainty. Uncertainty over the best way forward for the highly indebted Eurozone persists and poses a serious threat to global economic recovery. Financial markets are expected to remain dislocated and volatile, with the risk of contagion unlikely to dissipate in the near term, and this continues to place strains on funding markets at a time when many financial institutions (in particular) have material ongoing funding needs. The Group has credit exposure to SMEs and corporates, financial institutions and securities which may have material direct and indirect exposures in these countries. With the exception of the Group’s lending exposures in the Republic of Ireland and Spain, its direct credit exposure to the Eurozone through sovereign and private sector exposure is relatively small and has been managed steadily downward since 2008. However, a wide-scale break-up of the Eurozone would most likely be associated with a significant deterioration in the economic and financial environment in the UK and

Eurozone that would materially affect the capital and the funding position of participants in the banking industry, including the Group. This could also give rise to operational disruptions to the business.

The effects on the European and global economy of the potential dissolution of the EMU, exit of one or more European Union Member States from the EMU or the redenomination of financial instruments from the Euro to a different currency, are impossible to predict and protect fully against in view of (i) economic and financial instability in the Eurozone, (ii) the severity of the recent global financial crisis, (iii) difficulties in predicting whether any recovery will be sustained and at what rate, (iv) the uncertain legal position, and (v) the fact that many of the risks related to the business are totally, or in part, outside the control of the Group. However, if any such events were to occur they would likely result in (a) significant market dislocation, (b) heightened counterparty risk, (c) an adverse effect on the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities, or (d) a material adverse effect on the results of operations, financial condition or prospects of the Group. Any adverse changes affecting the economies of the countries in which the Group has significant credit exposures, including those discussed above and any further deterioration in global macro-economic conditions could have a material adverse effect on the Group's results of operations, financial condition or prospects.

**2.2 *The Group's businesses are inherently subject to the risk of market fluctuations, which could have a material adverse effect on the results of operations, financial condition or prospects of the Group.***

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

Market movements will continue to have a significant impact on the Group in a number of key areas. For example, adverse market movements have had and would have an adverse effect, which could be material, upon the financial condition of the pension schemes of the Group. Banking and trading activities that are undertaken by the Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, interbank margins over official rates, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. The potential for future volatility and margin changes remains. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

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

For further information, see "Risk Factors – Business and economic risks – The Group's businesses are subject to inherent risks arising from general macro-economic conditions in the UK, the Eurozone and other markets, the instability of the financial markets and the continuing sovereign debt crisis".

Changes in foreign exchange rates, including U.S. dollars, euros and Australian dollars, affect the value of assets and liabilities denominated in foreign currencies. Such changes and the degree of volatility with respect

thereto may affect earnings reported by the Group. In the Group's international businesses, earnings and net assets are denominated in local currencies, which will fluctuate with exchange rates in pounds sterling terms.

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

The Group has material exposures to securities and other investments, including asset-backed securities, structured investments and private equity investments that are recorded by the Group at fair value. These have been and may be subject to further negative fair value adjustments, particularly in view of unsettled market conditions and the fragility of economic recovery. In addition, in dislocated markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions, due in part to the decreasing credit quality of hedge counterparties. Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Group's financial assets and these may also translate into increased impairment charges. In addition, the value ultimately realised by the Group for its securities and other investments may be lower than their current fair value. Any of these factors could require the Group to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects. Material losses from the fair value of financial assets will also have an adverse impact on the Group's capital ratios.

The Group has made asset redesignations as permitted by amendments to IAS 39 (Financial Instruments: Recognition and Measurement). The effect of such redesignations has been, and would be, that any effect on the income statement of movements in the fair value of such redesignated assets that have occurred since 1 July 2008, in the case of assets redesignated prior to 1 November 2008, or which may occur in the future, may not be recognised until such time as the assets become impaired or are disposed of.

In addition, in circumstances where fair values are determined using financial valuation models, the Group's valuation methodologies may require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain, particularly in light of the uncertainty as to the strength of any global economic recovery and continuing downside risks and during periods of market volatility and illiquidity, and any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, capital ratios, financial condition or prospects.

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

The markets for UK financial services, and the other markets within which the Group operates, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, and the impact of consolidation, regulatory actions and other factors. The Group's financial performance and its ability to capture additional market share depends significantly upon the competitive environment and management's response thereto. Intervention by the UK Government and/or European regulatory bodies and/or governments of other countries in which the Group operates may impact the competitive position of the Group relative to its international competitors, which may be subject to different forms of government intervention, thus potentially putting the Group at a competitive disadvantage. Additionally, one effect of implementing the Restructuring Plan may be the emergence of one or more new viable competitors in the UK banking market or a material strengthening of one or more of the Group's existing competitors in that market. Any of these factors or a combination thereof could result in a significant reduction in the profit of the Group.

For more information, see "Risk Factors – Competition related risks".

### 3 Credit related risks

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

The Group has exposures to many different products, counterparties and obligors and the credit quality of its exposures can have a significant impact on the Group's earnings. Credit risk primarily arises in the Retail, Commercial Banking and Wealth, Asset Finance and International divisions, reflecting the risks inherent in the Group's lending and lending related activities, and, to a lesser extent, in the Insurance division primarily in respect of investment holdings and exposures to reinsurers. Adverse changes in the credit quality of the Group's UK and/or international borrowers and counterparties or collateral, or in their behaviour or businesses, may reduce the value of the Group's assets, and materially increase the Group's write-downs and allowances for impairment losses. Credit risk can be affected by a range of factors, including global economic slowdown, changes in the rating of individual counterparties, the debt levels of individual contractual counterparties and the economic environment they operate in, reduced UK consumer and/or government spending (in light of the Group's concentration in the UK), increased unemployment, reduced asset values, increased personal or corporate insolvency levels, reduced corporate profits, changes in interest rates, higher tenant defaults and any external factors of a legislative or regulatory nature. In recent years, the global economic crisis has driven cyclically high bad debt charges. The UK economy remains fragile. Consumer and business confidence remains low. Consumer spending is fragile. The Group has credit exposure in both the UK and internationally, including Europe, the Republic of Ireland, particularly in commercial real estate lending, where it has a high level of lending secured on secondary and tertiary non-prime assets and in Australia and the United States of America. In particular, the Group has significant credit exposure to certain individual counterparties in cyclically weak sectors and weakened geographic markets (such as the Republic of Ireland and Spain). In addition, the Group has concentrated country exposure in the UK and within certain industry sectors, namely real estate and real estate-related sectors. Retail customer portfolios (including those in the Wealth, Asset Finance and International division) will remain strongly linked to the economic environment, with house price deterioration, unemployment increases, consumer over-indebtedness and rising interest rates among the factors that may impact secured and unsecured retail credit exposures.

The ongoing Eurozone instability, the deterioration of capital market conditions, the global economic slowdown and measures adopted by the governments of individual countries have reduced and could further reduce households' disposable income and businesses' profitability and/or have a negative impact on customers' ability to honour their obligations, which in turn would result in deterioration of the Group's credit quality. If the continued uncertainty over the Eurozone, or the UK Government and Eurozone austerity measures and public spending cuts result in the UK or Eurozone economic recovery slowing or faltering, it may lead to further weakening of counterparty credit quality and subsequent higher impairment charges or fair value statements in the Group's lending and derivative portfolios. This could have a material adverse effect on the Group's results of operations, financial condition or prospects. At present, default rates are cushioned by low rates of interest which have improved customer affordability, but the risk remains of increased default rates as interest rates start to rise.

All new lending is dependent on the Group's assessment of the customers' ability to pay and there is an inherent risk that the Group has incorrectly assessed the credit quality or willingness of borrowers to pay, possibly as a result of incomplete or inaccurate disclosure by those borrowers, or as a result of the inherent uncertainty that is involved in the exercise of constructing models to estimate the true risk of lending to counterparties.

The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to the Group's results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how macro-economic conditions might impair the ability of borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the Group will

fail to adequately identify the relevant factors or that it will fail to estimate accurately the impact of these identified factors.

### **3.2 Concentration of credit and market risk could increase the Group's potential for significant losses.**

The Group has exposure to concentration risk where its business activities focus particularly on a similar type of customer, product, industrial sector or geographic location, including the UK market.

As a result of the acquisition of HBOS, the composition of the Group's wholesale portfolio materially changed, with much larger sectoral concentrations (for example, in real estate and real estate related lending, leveraged lending, certain asset-based lending products (for example, shipping), asset-backed securities and floating rate notes issued by financial institutions) and substantially greater global credit exposure, particularly in the Republic of Ireland, Australia and the United States. The Group also has greater exposure to the UK residential mortgage market as a result of its acquisition of HBOS.

The acquisition of HBOS has increased the Group's credit exposure to concentration risk, since the combination of the two portfolios inevitably gave rise to some greater concentrations than would otherwise have been permitted. Whilst some progress has been made in de-risking certain portfolios (for example, real estate and real estate related lending, leveraged lending, asset-backed securities and floating rate notes issued by financial institutions), market conditions at present mean that it is difficult to achieve the required level of sales to ameliorate these concentrations.

The Group has significant real estate and real estate-related exposure, meaning that further decreases in residential or commercial property values and/or further tenant defaults are likely to lead to higher impairment charges, which could materially affect the Group's results of operations, financial condition or prospects. The majority of this portfolio will move to the Foundation Internal Ratings Board slotting approach in 2013, which will have capital implications. HBOS had material exposure to secondary and tertiary non-prime assets in the commercial real estate sector, including hotels and residential property developers, which have been particularly adversely affected by the recessionary environment. These concentrations in cyclically weak sectors, as well as exposure at various levels of the capital structure, mean that the heritage HBOS wholesale business is particularly exposed to high and volatile levels of impairments and may be subject to greater risk if conditions deteriorate beyond the Group's base case assumptions.

The Group's corporate lending portfolio also contains substantial exposure to large, mid-sized and private companies, as well as leveraged finance. These concentrations in cyclically weak sectors, coupled with a heritage HBOS strategy of supporting UK entrepreneurs and taking exposure at various levels of the capital structure, continue to give rise to significant single name and risk capital exposure. Whilst these exposures are appropriately provided for within the Group's base case assumptions, they remain vulnerable to downside risks.

The heritage HBOS portfolio in the Republic of Ireland is heavily exposed to the commercial (including hotel) and residential real estate sectors, which have been negatively impacted by the economic recession. As in the UK, the heritage HBOS portfolio overseas is also particularly exposed to a small number of long-term customer relationships and these single name concentrations place the Group at risk of loss should default occur.

The Group's efforts to divest, diversify or manage its credit portfolio against concentration risks may not be successful and any concentration of credit risk could increase the potential for significant losses in its credit portfolio. In addition, any disruption in the liquidity or transparency of the financial markets may result in the Group's inability to sell or syndicate securities, loans or other instruments or positions held, thereby leading to increased concentrations of such positions. These concentrations could expose the Group to losses if the mark-to-market value of the securities, loans or other instruments or positions declines causing the Group to take write-downs. Moreover, the inability to reduce the Group's positions not only increases the market and credit risks associated with such positions, but also increases the level of risk-weighted assets on the Group's balance sheet,

thereby increasing its capital requirements and funding costs, all of which could adversely affect the Group's operating results, financial condition and prospects.

**3.3 *The Group may be forced to record further credit valuation adjustments on securities insured or guaranteed by market counterparties/insurers and credit counterparties, which could have an adverse effect on the Group's results of operations, financial condition or prospects.***

The Group has some limited remaining credit exposure to market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter derivative contracts, mainly credit default swaps ("CDS") which are recorded at fair value. The fair value of these CDS and other securities, and the Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought and the credit quality of the protection provider (e.g. the CDS counterparty). The Group seeks to limit and manage direct exposure to market counterparties, although indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of market counterparties or their perceived creditworthiness deteriorates, the Group may record credit valuation adjustments on the underlying instruments insured by such parties. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties may have an adverse effect on the Group's results of operations, financial condition or prospects.

**4 Financial soundness related risks**

**4.1 *The Group's businesses are subject to inherent risks concerning liquidity and funding, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale funding markets continues to be limited or becomes more limited.***

Liquidity and funding continues to remain a key area of focus for the Group and the industry as a whole. Like all major banks, the Group is dependent on confidence in the short- and long-term wholesale funding markets. Should the Group, due to exceptional circumstances, be unable to continue to source sustainable funding, its ability to fund its financial obligations could be impacted.

The Group's profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a prolonged period of time. Under extreme and unforeseen circumstances, a prolonged and severe restriction on the Group's access to liquidity (including government and central bank facilities) could affect the Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend. In such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access. These factors may have a material adverse effect on the Group's solvency, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by operational factors such as an over-reliance on a particular source of funding or changes in credit ratings, as well as market-wide phenomena such as market dislocation, regulatory change or major disasters.

There is also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Group (or to all banks) which could increase the Group's cost of funding and limit its access to liquidity. In addition, the funding structure employed by the Group may prove to be inefficient, thus giving rise to a level of funding cost that is not sustainable over the longer term. The funding needs of the Group may increase and such increases may be material to the Group's operating results, financial condition or prospects. The Group relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets to meet its funding needs. The ability of the Group to gain access to wholesale and retail funding sources on satisfactory economic terms is subject to a number of factors outside its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign

wholesale or central bank depositors and loss of confidence in the UK banking system, any of which could have a material adverse effect on the Group's profitability or, in the longer term and under extreme circumstances, its ability to meet its financial obligations as they fall due.

Medium-term growth in the Group's lending activities will depend, in part, on the availability of retail deposit funding on appropriate terms, for which there is increasing competition. See "Risk Factors – Business and economic risks – The Group's businesses are conducted in highly competitive environments and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures.". This reliance has increased in the recent past given the Group's reduction in wholesale funding. The ongoing availability of retail deposit funding on appropriate terms is dependent on a variety of factors outside the Group's control, such as general macro-economic conditions and market volatility, the confidence of retail depositors in the economy, the financial services industry and in the Group, as well as the availability and extent of deposit guarantees. Increases in the cost of retail deposit funding will impact on the Group's margins and affect profit, and a lack of availability of retail deposit funding could have a material adverse effect on the Group's future growth.

Any loss in consumer confidence in the Group could significantly increase the amount of retail deposit withdrawals in a short space of time. Should the Group experience an unusually high and unforeseen level of withdrawals, in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material adverse effect on the Group's solvency.

If the wholesale funding markets were to suffer stress or central bank provision of liquidity to the financial markets is abruptly curtailed, or the Group's credit ratings are downgraded (for more information, see "Risk Factors – Financial soundness related risks – The Group's borrowing costs and access to the capital markets is dependent on a number of factors, including any reduction in the Group's longer-term credit rating, and increased costs or reduction in access could materially adversely affect the Group's results of operations, financial condition or prospects."), it is likely that wholesale funding will prove more difficult to obtain. Such increased refinancing risk, in isolation or in concert with the related liquidity risks noted above, could have a material adverse effect on the Group's profitability and, in the longer term under extreme and unforeseen circumstances, its ability to meet its financial obligations as they fall due.

**4.2 *The Group's borrowing costs and access to the capital markets is dependent on a number of factors, including any reduction in the Group's longer-term credit rating, and increased costs or reduction in access could materially adversely affect the Group's results of operations, financial condition or prospects.***

A reduction in the credit rating of the Group or deterioration in the capital markets' perception of the Group's financial resilience could significantly increase its borrowing costs and limit its issuance capacity in the capital markets. As an indicator, during 2012 the spread between an index of "A" rated long-term senior unsecured bank debt and an index of similar "BBB" rated Bank debt, both of which are publicly available, has averaged 134 basis points. The applicability to and implications for the Group's funding cost would depend on the type of issuance, and prevailing market conditions. The impact on the Group's funding cost is subject to a number of assumptions and uncertainties and is therefore impossible to quantify precisely.

On 21 June 2012, as part of a ratings review of 114 European financial institutions announced in February 2012, a leading ratings agency downgraded the longer-term credit rating of the Group and the Company by one notch. Rating agencies regularly evaluate the Group and the Company, and their ratings of longer-term debt are based on a number of factors, including the Group's financial strength as well as factors not entirely within the Group's control, including conditions affecting the financial services industry generally. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the Group or the Company will maintain its current ratings. Downgrades of the Group's longer-term credit rating could lead to additional collateral posting and cash outflow. A hypothetical instantaneous two notch downgrade of the Group's

current long-term credit rating and accompanying short-term downgrade implemented simultaneously by all major rating agencies, could result in an outflow of £11.5 billion of cash over a period of up to one year, £3.5 billion of collateral posting related to customer financial contracts and £18 billion of collateral posting associated with secured funding. Any reduction in the Group's longer-term credit rating may result in increased borrowing costs, a reduction in access to capital markets or a reduction in liquidity which could materially adversely affect the Group's results of operations, financial condition or prospects.

The Group's borrowing costs and access to capital markets could also be affected by regulatory developments such as the UK Government's response to the proposals of the ICB, proposals of the Basel Committee on Banking Supervision (known as Basel III), the proposed amendments to the Capital Requirements Directive ("**CRD IV**") and the European Commission's proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the Crisis Management Directive (the "**CMD**"). The return required by Noteholders may also rise if the prospects of bail-in scenarios become more likely which would increase the Group's funding costs. Unfavourable developments could materially adversely affect the Group's access to liquidity, increase its funding costs and, hence, have a material adverse effect on the Group's results of operations, financial condition or prospects. See also the risk factor entitled "*The Group and its UK subsidiaries may be subject to the provisions of the Banking Act 2009 in the future. Future legislation may create additional bail-in or resolution powers. The potential impact on the Group is inherently uncertain.*" below in relation to the CMD and related legislative proposals.

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

A perceived or actual shortage of capital could result in actions or sanctions, which may have a material adverse effect on the Group's business, including its operating results, financial condition and its prospects. This, in turn, may affect the Group's capacity to continue its business operations, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. If, in response to any such shortage, the Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders or holders of debt of a capital nature may experience a dilution of their holdings.

The circumstances which could give rise to shortages of capital and force the Group to raise additional capital include the following:

- The Group may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section.
- The Group may experience an increased demand for capital. For example:
  - (a) The Group is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. New or revised minimum and buffer capital requirements could be applied and/or the manner in which existing regulatory requirements are applied to the Group could be changed. For example, in November 2012 the Financial Policy Committee ("**FPC**") of the Bank of England issued its Financial Stability Report, which recommended that the FSA (subsequently the Prudential Regulation Authority ("**PRA**")) "take action to ensure that the capital of the UK banks and building societies reflect a proper valuation of their assets, a realistic assessment of future conduct costs and prudent calculation of risk weights". Following this in March 2013 the FPC issued a statement from its policy meeting which concluded that, after adjusting for the items described above, UK banks and building societies had an aggregate capital shortfall at end of 2012 of £25 billion. In May 2013 the Group was informed as to the outcome of the PRA's considerations in relation to its capital position. The Group expects to meet its additional capital requirements through its strongly capital generative core business, continued progress in executing the Group's

customer focussed strategy and further capital accretive non-core asset disposals. As at the date of this Prospectus, these additional capital requirements are expected to be met without recourse to further equity issuance or the utilisation of additional contingent capital securities. The Group continues to be confident in its capital position. As at the date of this Prospectus, the Group expected its estimated pro-forma fully loaded CRD IV core tier 1 ratio to be above 9 per cent. by the end of 2013 and above 10 per cent. by the end of 2014.

(b) Extensive regulatory reforms are being implemented within the EU and the UK relating to Basel III and CRD IV and bank recovery and resolution including the proposals of the ICB. These reforms, as proposed, include:

- (i) increased minimum levels of capital and additional minimum capital buffers;
- (ii) enhanced quality standards for capital including requirements for capital and certain other liabilities including senior debt instruments to be capable of being written down or converted to equity in the event of the bank being deemed to be non-viable;
- (iii) increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk;
- (iv) the introduction of a minimum leverage ratio;
- (v) additional capital buffers and reporting requirements for systemically important banks; and
- (vi) the ring-fencing of the retail activities of banks from their investment banking activities.

- There remains some uncertainty about the detailed arrangements for the implementation of CRD IV and the implementation of other reforms in the EU and UK in general. There is a risk that the reforms may give rise to higher regulatory capital expectations than the Group had anticipated within its strategic plans.
- Some of the Group's risk weighted assets are calculated from the Group's approved models. These are subject to regular review on a rolling basis to ensure that they remain appropriate in prevailing economic and business conditions. Additionally, the Group is currently effecting a programme of recalculating the risk weights for commercial property assets using an Internal Ratings Based ("IRB") 'slotting' approach in place of risk weights calculated using the standardised approach and is implementing the replacement of other IRB models. These reviews and model implementation may lead to increased levels of risk weighted assets and/or expected loss, and so to lower reported capital ratios.
- The Group's life assurance and general insurance businesses in the UK are subject to capital requirements prescribed by the PRA, and the Group's life and general insurance companies outside the UK are subject to local regulatory capital requirements. Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry, aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. There is a risk that the Solvency II final regime could increase the planned amount of regulatory capital which the Group's life assurance and general insurance businesses are required to hold, thus decreasing the amount of capital available for other uses.

The Group sets its internal target amount of capital by taking account of market and rating agency expectations as well as regulatory requirements. If market and rating agency expectations increase, driven by, for

example, the capital levels or targets amongst peer banks or through the changing views of rating agencies, then the Group may experience pressure to increase its capital ratios.

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

The Group is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the UK. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This presents systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis, all of which could have a material adverse effect on the Group's ability to raise new funding. One potential source of increased systemic risk is presented by the market's perception of Eurozone sovereign and bank borrowers in Italy, the Republic of Ireland, Greece, Portugal and Spain, as reflected in the quoted prices of bonds and credit default swaps for these borrowers.

The Group routinely executes a high volume of transactions with counterparties in the financial services industry, resulting in a significant credit concentration. A default by, or even concerns about the financial resilience of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on the Group's results of operations, financial condition or prospects.

## **5 Insurance and pension scheme related risks**

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

The insurance business of the Group and its employee pension schemes are exposed to short-term and longer-term variability arising from uncertain longevity, mortality, morbidity and expense levels. Adverse developments in any of these factors will increase the size of the Group's insurance and/or employee pension scheme liabilities and may adversely affect the Group's financial condition and results of operations.

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

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

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

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

## **6 Regulatory and legal risks**

### **6.1 *The Group’s businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments could have a significant material adverse effect on the Group’s results of operations, financial condition or prospects.***

The Group’s businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK, the European Union and the other markets where it operates. The UK Government, the PRA, the FCA and other regulators in the UK, the European Union or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could affect the Group. The Group cannot predict such regulatory intervention, but any changes in regulations could have a material adverse effect on the Group’s results of operations, financial condition or prospects.

Areas where regulatory changes could have an adverse effect on the Group include, but are not limited to:

- (i) general changes in government, central bank or regulatory policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which the Group operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- (ii) external bodies applying or interpreting standards or laws differently to those applied by the Group;
- (iii) changes in competitive and pricing environments;
- (iv) further requirements relating to financial reporting, corporate governance and conduct of business and employee compensation;
- (v) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- (vi) changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing.

Evolving capital and liquidity requirements continue to be a priority for the Group (for more information, see “Risk Factors – Financial soundness related risks – The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators.”). Basel III and CRD IV comprise proposals for a reform package which changes the regulatory capital requirements and liquidity standards, introduces new definitions for the calculation of counterparty credit risk and leverage ratios and requires additional capital buffers and development of a global liquidity standard. Implementation of CRD IV is expected to be phased in between 1 January 2014 and 2018. The impact of slotting migration on the Real Estate portfolio is not expected to be material at a Group level under the current regulatory framework (although the impact under Basel III is likely to be material).

The EU’s Liikanen report, if adopted, could result in widespread reforms of the banking sector at both national and European levels. For banks with retail operations in the UK, there will be additional uncertainty as a

result of inconsistencies between Liikanen proposals and the ICB's recommendations. As noted below, the ICB puts the ring-fence around the retail activities, while Liikanen puts it around trading operations. If implemented, the impacts of the Liikanen recommendations are potentially far reaching with both strategic and structural implications, such that banks will be required to 'ring-fence' certain trading operations into a new subsidiary.

The UK Government has endorsed the ICB's proposals to ring-fence retail banking operations as part of a wider regulatory framework including capital and liquidity and effective macro- and micro-prudential supervision, which should remove any implicit taxpayers' guarantee for the ring-fenced entities. In October 2012, the UK Government published the draft Financial Services (Banking Reform) Bill which will give effect to the recommendations of the ICB covering banking structural reforms (ring-fencing of retail banking activities), bail-in of senior debt and depositor preference. In December, the Parliamentary Commission on Banking Standards published its first report commenting upon the draft bill. Given that the Group is predominantly a retail and commercial bank, it would expect to be less affected by the implementation of a retail ring-fence, but believes it will be important for any transition period to be flexible in order to minimise any impact on economic growth, and for banks to implement the required structural changes.

The ICB also recommended that ring-fenced banks should hold a common equity capital base of at least 10 per cent. to absorb the impact of potential losses or financial crises. The Government's proposals on capital are consistent with the capital targets the Group set in its strategic review in 2011 and, although much work remains to be done on the detail of the implementation of capital requirements, the Group is on track to achieve the capital levels the ICB recommends.

HM Treasury confirmed on 19 December 2012 that the Financial Services Bill (the "**Bill**") had received Royal Assent. This meant that the PRA and the FCA became responsible for regulating the UK financial services industry from 1 April 2013. There are now two independent groups of supervisors for banks, insurers and major investment firms covering prudential and conduct. The PRA is responsible for supervising banks, building societies and other large firms. The FCA focuses on consumer protection and market regulation.

In addition, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, as new EU Supervisory Authorities, are likely to have greater influence on regulatory matters across the EU.

Significant regulatory initiatives from the U.S. impacting the Group include the enactment of the Dodd-Frank Act which provides a broad framework for significant regulatory changes that extend to almost every area of U.S. financial regulation. See "Lloyds Banking Group – Regulation – U.S. Regulation – Dodd-Frank Act". Although uncertainty remains about many of the details, impact and timing of the Dodd-Frank Act's implementing regulations, the Group expects that there may be additional costs and limitations on its business resulting from certain regulatory initiatives, including the proposed regulations to implement the Volcker Rule limitations. In addition, the provisions of U.S. law commonly known as the Foreign Account Tax Compliance Act ("**FATCA**") or intergovernmental agreements implementing FATCA may require non-U.S. financial institutions to identify their U.S. account holders or be subject to 30 per cent. withholding tax on certain payments.

At a European level, the pace of regulatory reform has increased with a number of new directives or changes to existing directives planned in the next 12 to 24 months including a revised Markets in Financial Instruments Directive, Transparency Directive, Insurance Mediation Directive, Alternative Investment Fund Managers Directive and a Fifth Undertakings In Collective Investments in Transferable Securities Directive as well as a proposed Directive regulating Packaged Retail Investment Products. There are also proposals to introduce a Financial Transactions Tax in certain European Union Member States. The Insurance division is also continuing to progress its plans to achieve Solvency II compliance.

The Group is continually assessing the impacts of legal and regulatory developments which could have an effect on the Group and will participate in relevant consultation and calibration processes to be undertaken by the

various regulatory and other bodies. Implementation of the foregoing regulatory developments could result in additional costs or limit or restrict the way that the Group conducts business, although uncertainty remains about the details, impact and timing of these reforms. The Group continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to the Group and its stakeholders. For further information, see “Lloyds Banking Group – Regulation”.

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

The Group is exposed to various forms of regulatory risk in its operations including:

- (i) certain aspects of the Group’s business may be determined by the relevant authorities, the Financial Ombudsman Service (the “FOS”) or the courts not to have been conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman’s opinion;
- (ii) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of the Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;
- (iii) the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians; the FCA in particular continues to drive focus on conduct of business activities through its supervision activity;
- (iv) contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- (v) the Group holds accounts for a number of customers that might be or are subject to interest from various regulators and authorities including the Serious Fraud Office or similar regulators in the United States or other jurisdictions. The Group is not aware of any current investigation into the Group as a result of any such interest but cannot exclude the possibility of its conduct being reviewed as part of any such investigations;
- (vi) the intellectual property of the Group (such as trade names) may not be adequately protected;
- (vii) the Group may be liable for damages to third parties harmed by the conduct of its business; and
- (viii) the risk of regulatory proceedings and private litigation, arising out of regulatory investigations or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions.

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. The Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Group believes that it has no liability. The Group may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for their losses even in situations where the Group does not believe that it is legally compelled to do so.

Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable.

Failure to manage these risks adequately could materially affect the Group, both financially and reputationally.

The financial impact of regulatory risks might be considerable but is difficult to quantify. Amounts eventually paid may exceed the amount of provisions set aside to cover such risks.

Companies within the Group are responsible for contributing to compensation schemes such as the UK Financial Services Compensation Scheme (the “FSCS”) in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Going forward, further provisions in respect of these costs are likely to be necessary. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material effect on the Group’s results of operations, financial condition or prospects.

## 7 **Banking Act 2009 and related risks**

*The Group and its UK subsidiaries may be subject to the provisions of the Banking Act 2009 in the future. Future legislation may create additional bail-in or resolution powers. The potential impact on the Group is inherently uncertain.*

Under the Banking Act 2009 (the “**Banking Act**”), substantial powers have been granted to HM Treasury, the Bank of England (including the PRA) and the FCA (together, the “**Authorities**”) as part of the special resolution regime (the “**SRR**”). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA). The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a “bridge bank” wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances.

In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the United Kingdom. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. The Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect.

On 6 June 2012, the European Commission published the CMD. The CMD is intended to complement CRD IV. The powers referred to in the CMD include certain powers which overlap in part with those available under the Banking Act. The powers provided to resolution authorities in the draft CMD include write down powers to ensure relevant capital instruments absorb losses upon, amongst other events, the occurrence of the non-viability of the relevant institution or its parent company as well as a bail-in tool comprising a more general power for resolution authorities to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. It is expected that the CMD as it relates to capital write-down will be implemented in (or before) 2015 with the more general bail-in tool being implemented from a later date, expected to be in (or before) 2018.

In October 2012, the UK Government published the draft Financial Services (Banking Reform) Bill which will give effect to the recommendations of the ICB covering, among other things, bail-in of senior debt (which may include Notes issued under the Programme). The draft Bill was scrutinised by the Parliamentary Commission on Banking Standards and the UK Government made a series of amendments based on their recommendations. The

Bill was introduced to Parliament on 4 February 2013. There is still scope for changes to be made to the CMD and the Financial Services (Banking Reform) Bill and any further UK legislation to be made thereunder before any final primary or secondary legislation is adopted. While there is no certainty as to the timing of the adoption of such legislation, the proposals contained in the CMD and the Financial Services (Banking Reform) Bill on capital write-down and on bail-in are both expected to cover outstanding liabilities already in issue which may include Notes outstanding at that time. See also the risk factor entitled “*The Group’s borrowing costs and access to the capital markets is dependent on a number of factors, including any reduction in the Group’s longer-term credit rating, and increased costs or reduction in access could materially adversely affect the Group’s results of operations, financial condition or prospects.*” above in relation to the CMD and related legislative proposals.

In general, there is considerable uncertainty about the scope of the powers afforded to the Authorities under the Banking Act and how the Authorities may choose to exercise them or the powers granted under any future legislation.

## **8 Competition related risks**

***The Group remains subject to various regulatory developments and increased governmental scrutiny which could result in further proposals or initiatives to increase competition in markets which the Group operates in.***

A number of recent investigations and reviews, including the ICB report, the UK Government White Paper and the UK Office of Fair Trading’s Personal Current Account Review, have identified a lack of competition in the UK banking markets. This, combined with the new FCA statutory objective to promote competition (something which the FSA was not required to do) may lead to greater UK Government and regulatory scrutiny in the future and to proposals or initiatives to increase competition, ranging from enforced product and service developments and payment system changes to significant structural changes (in addition to previously announced developments, including the Project Verde divestment and the new account switching service). This increase in competition scrutiny could have a significant effect on the Group’s operations, financial condition or the business of the Group.

For more information see “Lloyds Banking Group – Regulation – Other Bodies Impacting the Regulatory Regime” and “Risk Factors – Regulatory and legal risks – The Group’s businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments could have a significant material adverse effect on the Group’s results of operations, financial condition or prospects.”.

## **9 Operational risks**

### **9.1 *The Group could fail to attract or retain senior management or other key employees.***

The Group’s success depends on its ability to attract, retain and develop high calibre talent. Achievement of this aim cannot be guaranteed, particularly in light of ongoing regulatory and public interest in remuneration practices (the Group is subject to the FCA’s Remuneration Code). In addition, macro-economic conditions and negative media attention on the financial services industry may adversely impact employee retention, colleague sentiment and engagement. The Group also made a number of other commitments in 2011 regarding its pay policy, including those set out within the statement agreed with the UK Government as part of ‘Project Merlin’, encompassing pay governance, transparency and engagement with its shareholders on pay policy.

The Group’s continuing structural consolidation and the sale of part of the branch network under Project Verde may result in disruption of senior management’s ability to lead and manage the Group effectively. The level and impact of change is managed via robust change management governance and a consolidated strategic change plan. There are separate governance arrangements in place in Project Verde to oversee the impacts of the divestment on the retained business customers, operations and controls.

Failure to attract and retain senior management and key employees could have a material adverse effect on the Group's results of operations, financial condition or prospects, and presents a significant risk to the delivery of the Group's overall strategy.

**9.2 *Weaknesses or failures in the Group's internal processes, systems and security could materially adversely affect the Group's results of operations, financial condition or prospects and could result in the reputational damage of the Group.***

Operational risks, through inadequate or failed internal processes, systems (including financial reporting and risk monitoring processes) or security, or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Group, are present in the Group's businesses. The Group's businesses are dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in these internal processes, systems or security could have an adverse effect on the Group's results, reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period. Specifically, failure to develop, deliver or maintain effective IT solutions could have a material adverse impact on customer service. In addition, any breach in security of the Group's systems, for example from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information, and create significant financial and legal exposure. The resilience of the Group's IT is of paramount importance to the Group; accordingly, significant investment has been made in IT infrastructure and systems to ensure its resilience and to enhance the services it supports. The Group continues to invest in IT and information security control environments including user access management and records management to address evolving threats, and maintains contingency plans for a range of Group specific and industry wide IT and breach of security scenarios.

The Group adopts a risk based approach to mitigate the external fraud risks it faces, reflecting the current and emerging external fraud risks within the market. This approach drives an annual programme of enhancements to the Group's technology, process and people related controls; with an emphasis on preventative controls, supported by real time detective controls – wherever feasible. Through Group-wide policies and operational control frameworks, the Group has developed a robust fraud operating model with centralised accountability. The Group's fraud awareness programme is a key component of its fraud control environment. In 2012, a Group-wide awareness campaign was launched specifically addressing the emerging 'cyber' threats and the role that the Group's employees play in helping to keep its customers safe and secure. Although the Group devotes significant resources to maintain and regularly update its processes and systems that are designed to protect the security of the Group's systems, software, networks and other technology assets, there is no assurance that all of the Group's security measures will provide absolute security. Any damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in Group systems, processes or security could have a material adverse effect on the Group's results of operations, financial condition or prospects.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Company or any relevant company within the Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FCA and the PRA.

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

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

## 10 Other risks

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgements and estimates, which include impairment of financial assets, valuation of financial instruments, pensions, insurance and taxation are discussed in detail in the Company's 2012 Annual Report under the section entitled "Critical accounting estimates and judgements" as set out on pages 226 to 228 therein.

If the judgements, estimates and assumptions used by the Group in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material adverse effect on the Group's results of operations, financial condition or prospects and a corresponding impact on its funding requirements and capital ratios.

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

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

In order to pay dividends, UK subsidiaries need to have distributable reserves. One of the Company's indirect principal subsidiaries, Bank of Scotland plc, does not and is currently unable to pay dividends. There is a risk that any profits earned by Bank of Scotland plc and its subsidiaries cannot be remitted to the holding company as dividends.

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

The Bank is a holding company as well as a bank and as such one of its sources of income is dividends from its operating subsidiaries. Following the Group Reorganisation, a proportion of the Bank's income is derived from the businesses and assets of the HBOS Group. Therefore, in order to be able to pay the obligations to debt holders as they fall due, the Bank relies in part on the remittance of dividends and other funds from its operating subsidiaries including the HBOS Group. The remittance of dividends is subject to certain restrictions – see "*The Company is a holding company and as a result, is dependent on dividends from its subsidiaries to meet its obligations including its obligations with respect to its debt securities*" above for further information.

### **10.4 *Failure to manage the risks associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws, could materially adversely affect the Group's results of operations, financial condition or prospects.***

Tax risk is the risk associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws. This could result in increased charges, financial loss including penalties, and reputational damage.

Failure to manage these risks adequately could have a material adverse effect on the Group's results of operations, financial condition or prospects.

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

Certain companies in the Group have material tax losses and reliefs which they anticipate carrying forward to reduce tax payable in the future and restrictions on the ability to utilise these losses and reliefs could affect the post-tax profitability and capital position of the Group.

Following the acquisition of HBOS, actions which could possibly cause the loss of these reliefs to occur would include any further increase in HM Treasury's shareholding in the Company, or the aggregation of HM Treasury's interests with that of other shareholders holding 5 per cent. or more. These actions, if coupled with the occurrence of certain specified events in relation to the Group companies (including a major change in the nature or conduct of a trade carried on by such a Group company or an increase in capital of such a Group company with an investment business) would, in the case of legacy HBOS Group companies, and could, in the case of legacy Lloyds TSB Group companies, cause restrictions on the ability to utilise these losses and reliefs.

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

## **11 Risk Factors relating to the Notes and the CDIs**

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

#### **11.1 Risks related to the structure of a particular issue of Notes**

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

##### *The Bank's obligations under Dated Subordinated Notes are subordinated*

The Bank's obligations under Dated Subordinated Notes will be unsecured and subordinated and will, in the event of the winding-up of the Bank, be subordinated, in the manner provided in the Trust Deed, to the claims of depositors and all other creditors of the Bank other than Subordinated Creditors (as defined in "Terms and Conditions of the Notes" herein). Although Dated Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Dated Subordinated Notes will lose all or some of his investment should the Bank become insolvent.

##### *Undated Subordinated Notes*

The Bank is under no obligation to redeem the Undated Subordinated Notes at any time and may elect not to pay interest on any given interest payment date and the holders of Undated Subordinated Notes have no right to call for their redemption. Furthermore the Bank's obligations under Undated Subordinated Notes are subordinated to the claims of Senior Creditors (as defined in "Terms and Conditions of the Notes" herein). Although Undated Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Undated Subordinated Notes will lose all or some of his investment should the Bank become insolvent.

*Noteholders of the Subordinated Notes may be required to absorb losses in the event the Bank becomes non-viable*

The Basel Committee on Banking Supervision has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the “**Basel III Reforms**”).

The Council of the European Union has also published proposals for a new Capital Requirements Directive and Regulation (the “**CRD IV Proposals**”) in part to implement the Basel III Reforms in the EU. It is expected that the CRD IV Proposals will be phased in from 1 January 2014.

The Basel III Reforms contemplate that instruments, such as the Subordinated Notes, must contain contractual terms providing for their write off or conversion into equity upon the occurrence of a Non-Viability Event (as defined below), in order for them to be included in full in the Tier 2 Capital of an internationally active bank from 1 January 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written off upon the occurrence of a Non-Viability Event, or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss.

As used above, “**Non-Viability Event**” means the earlier of (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority.

On 6 June 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the CMD. The CMD is intended to complement the CRD IV Proposals. The powers provided to resolution authorities in the draft CMD include write down powers to ensure relevant capital instruments (including Tier 2 capital instruments such as the Subordinated Notes) absorb losses upon, amongst others, the occurrence of events similar to those described in the definition of Non-Viability Event above as well as a bail-in tool comprising a more general power for resolution authorities to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. It is expected that the CMD as it relates to capital write-down will be implemented in (or before) 2015 with the more general bail-in tool being implemented from a later date, expected to be in (or before) 2018.

It is possible that the powers which either currently exist under the Banking Act or which may result from any future change to the Banking Act or the application of relevant laws, including those arising from the CMD or the Basel III Reforms or other similar regulatory proposals, could be used in such a way as to result in the Subordinated Notes absorbing losses in the manner described above. Accordingly, the operation of any such current or future legislation may have an adverse effect on the position of holders of the Subordinated Notes.

Furthermore, there can be no assurance that, prior to their implementation, the Basel III Reforms, the CRD IV Proposals and the CMD will not be amended. Further, the relevant authorities in the United Kingdom may implement the Basel III Reforms, the CRD IV Proposals and the CMD, in a manner that is different from that which is currently envisaged or may impose more onerous requirements on U.K. banks.

*Substitution, Variation or Redemption upon the occurrence of a Capital Event*

Where specified in the Final Terms, upon the occurrence and continuation of a Capital Event (as defined in Condition 5) (i) the Bank may, subject as provided in Condition 7 and without the need for any consent of the Noteholders, the Couponholders or the Trustee, substitute all (but not some only) of any Series of Dated Subordinated Notes or Undated Subordinated Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Compliant Securities (as defined in Condition 7) and/or (ii) the Bank may at its option but subject to Condition 5(i) and without the need for any consent of the Noteholders, the Couponholders or the Trustee, redeem all but not some only of any relevant Series of Dated Subordinated Notes or Undated Subordinated Notes, together (if applicable) with accrued but unpaid interest up to (but excluding) the date fixed for redemption.

### *Notes are obligations of the Bank only*

The Notes are obligations of the Bank only and are not guaranteed by the Company or by any other entity and accordingly the Noteholders have recourse in respect thereof only to the Bank.

### *Notes subject to optional redemption by the Bank*

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

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

### *Redemption for Taxation Reasons*

In the event that (i) the Bank would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, (ii) the payment of interest in respect of the Notes would be treated as a “distribution” within the meaning of Chapter 2 of Part 23 of the Corporation Tax Act 2010 of the United Kingdom (or any statutory modification or re-enactment thereof for the time being) or (iii) the Bank would not be entitled to claim a deduction in respect of the payment of interest in computing its United Kingdom taxation liabilities (or the value of such deduction to the Bank would be materially reduced), the Bank may (subject to certain conditions) redeem all outstanding Notes in accordance with the Conditions.

### *Potential Conflicts of Interest*

Where the Bank acts as Calculation Agent or the Calculation Agent is an affiliate of the Bank, potential conflicts of interest may exist between the Calculation Agent and Noteholders, including with respect to certain determinations and judgements that the Calculation Agent may make pursuant to the Conditions that may influence the amount receivable upon redemption of the Notes.

### *Fixed/Floating Rate Notes*

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

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

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

## **11.2 Risks related to Notes generally**

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

*Modification, waivers and substitution*

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

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to (i) any modification of, or waiver or authorisation of any breach or proposed breach of, any of the Terms and Conditions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another entity as principal debtor under any Notes in place of the Bank, in the circumstances described in Condition 12 of the Terms and Conditions of the Notes.

*EU Savings Directive*

Under European Council Directive 2003/48/EC (the “**EU Savings Directive**”) on the taxation of savings income, each EU Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other persons in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories have adopted similar measures.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive, neither the Bank nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. However, the Bank is required to maintain a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the EU Savings Directive.

*Change of law*

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

*Notes where denominations involve integral multiples*

In the case of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### *Holding CREST Depository Interests*

CDI Holders will hold or have an interest in a separate legal instrument and not be the legal owners of the Underlying Notes. Such CDIs will be issued to CDI Holders pursuant to the CREST Deed Poll that will bind such CDI Holders. Fees, charges, costs and expenses may be incurred in connection with the use of the CREST International Settlement Links Service.

Potential investors should note that neither the Bank, the Trustee nor any Paying Agent will have any responsibility for the performance by any intermediaries or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

For further information on the issue and holding of CDIs see “Clearing and Settlement”.

### **11.3 Potential U.S. Foreign Account Tax Compliance Act withholding after 31 December 2016**

Under certain provisions of the U.S. Internal Revenue Code (commonly referred to as “**FATCA**”) as well as certain intergovernmental agreements between the United States and certain other countries (including the United Kingdom), together with expected local country implementing legislation, certain payments made in respect of the Notes after 31 December 2016 may be subject to withholding (“**FATCA withholding**”).

Provided that the Notes are not treated as equity for U.S. federal income tax purposes, and are not materially modified on or after the later of 1 January 2014 and the date that is six months after the date on which final U.S. tax regulations defining the term “foreign passthru payments” are issued (the “**Grandfathering Date**”), no payment on a Note issued on or before the Grandfathering Date will be subject to FATCA withholding. With respect to Notes that are treated as equity for U.S. federal income tax purposes or are issued, or materially modified, after the Grandfathering Date, the Bank (or a relevant intermediary) may be required to impose FATCA withholding on payments in respect of the Notes, to the extent that such payments are “foreign passthru payments,” made after 31 December 2016 to any recipient (including an intermediary) that has not entered into an agreement with the U.S. Internal Revenue Service (“**IRS**”) pursuant to FATCA or otherwise established an exemption from FATCA, including as a result of a failure to provide certain information and forms or other documentation requested by the the Bank or any relevant intermediary.

The United States has entered into intergovernmental agreements with the United Kingdom and certain other jurisdictions and is in the process of negotiating intergovernmental agreements with many other countries. It is not yet certain how the United States and these jurisdictions will address “foreign passthru payments” or if withholding will be required at all under such agreements.

In the event that any amount of FATCA withholding is required from a payment on a Note, no additional amounts will be paid by the Company, the Bank, any Paying Agent or the Trustee and withheld amounts will be treated as paid for all purposes under the Notes. If any FATCA withholding is imposed, a beneficial owner of Notes that is not a foreign financial institution may be entitled to a refund of amounts withheld by filing a U.S. federal income tax return. A beneficial owner of Notes that is a foreign financial institution will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles it to an exemption from, or reduced rate of, tax on the payment that was subject to FATCA withholding. Prospective purchasers and beneficial owners of Notes should consult their tax advisers as to how these rules may apply to payments they receive under the Notes and their ability to obtain a refund of any FATCA withholding.

### **11.4 Risks related to the market generally**

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

#### *The secondary market generally*

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

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

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

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

#### *Interest rate risk*

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

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

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

#### *Effect of credit rating reduction*

The value of the Notes is expected to be affected, in part, by investors' general appraisal of the Bank's creditworthiness. Such perceptions are generally influenced by the ratings accorded to the Bank's outstanding securities by standard statistical rating services, such as Moody's, S&P and Fitch. A reduction in the rating, if any, accorded to outstanding debt securities of the Bank by one of these rating agencies could result in a reduction in the trading value of the Notes.

#### *Investors to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Bank*

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes or Global Certificates may be deposited with a common depositary or a common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes or Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes or Global Certificates, the Bank will discharge its payment obligations under the Notes by making payments to the common depositary or a common safekeeper, as the case may be, for Euroclear or Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear or Clearstream, Luxembourg to appoint appropriate proxies.

### **11.5 Risks related to Notes denominated in Renminbi**

*The Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC*

The Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between the Renminbi and foreign currencies despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover the entire PRC and to make RMB trade and other current account item settlement available worldwide.

For further details in respect of remittance of Renminbi into and outside the PRC, see “Remittance of Renminbi into and outside the PRC”.

There is no assurance that the PRC government will continue gradually to liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

Holders of beneficial interests in Notes denominated in Renminbi may be required to provide certifications and other information (including Renminbi account information) in order to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong.

*There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the CNH Notes and the Bank's ability to source Renminbi outside the PRC to service CNH Notes*

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside of the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. The People's Bank of China (“PBOC”), the central bank of the PRC, has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the settlement agreement on the Clearing of RMB Business (the “**Settlement Agreement**”) between the PBOC and the Bank of China (Hong Kong) Limited (the “**RMB Clearing Bank**”) to expand further the scope of RMB business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there will no longer be any restriction on the transfer of RMB funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. As at the end of December 2012, the total amount of Renminbi deposit held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB603 billion. In addition, participating

banks are also required by the HKMA to maintain a total amount of Renminbi (in the form of cash and its settlement account balance with the RMB Clearing Bank) of no less than 25 per cent. of their Renminbi deposits, which further limits the availability of Renminbi that participating banks can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to RMB20,000 per person per day. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

On 14 June 2012, the HKMA introduced a facility for providing Renminbi liquidity to authorised institutions participating in Renminbi business (“**Participant AIs**”) in Hong Kong. The facility makes use of the currency swap arrangement between the PBOC and the HKMA. With effect from 15 June 2012, the HKMA has stated that it will, in response to requests from individual Participant AIs, provide Renminbi term funds to the Participant AIs against eligible collateral acceptable to the HKMA. The facility is intended to address short-term Renminbi liquidity tightness which may arise from time to time, for example, due to capital market activities or a sudden need for Renminbi liquidity by the Participant AIs’ overseas bank customers.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of the CNH Notes. To the extent the Bank is required to source Renminbi in the offshore market to service the CNH Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

*Investment in the CNH Notes is subject to exchange rate risks and the Bank may make payments of interest and principal in U.S. dollars in certain circumstances*

The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. In addition, although the Bank’s primary obligation is to make all payments of interest and principal or other amounts with respect to the CNH Notes in Renminbi, in certain circumstances, and if so specified, the terms of the Notes allow the Bank to delay any such payment and/or make payment in U.S. dollars or another specified currency at the prevailing spot rate of exchange, and/or cancel or redeem such Notes, all as provided for in more detail in the Notes (see Condition 6(i)). As a result, the value of these Renminbi payments may vary with the prevailing exchange rates in the marketplace. If the value of the Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of a CNH Noteholder’s investment in U.S. dollars or other applicable foreign currency terms will decline.

*Payments in respect of the CNH Notes will only be made to investors in the manner specified in the CNH Notes*

All payments to investors in respect of the CNH Notes will be made solely by (i) when CNH Notes are represented by a Global Note or a Global Certificate, transfer to a Renminbi bank account maintained in Hong Kong, in accordance with prevailing CMU rules and procedures, or (ii) when CNH Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including in bank notes, by cheque or draft, or by transfer to a bank account in the PRC).

#### **11.6 Risks related to payment of Notes in an Alternative Currency**

The Bank's primary obligation is to make all payments of interest and principal with respect to Notes in the relevant Specified Currency. However, if so specified in the Notes, in the event access to the Specified Currency becomes restricted to the extent that, by reason of a Scheduled Payment Currency Disruption Event (as defined in the Conditions), it would, (having been requested to make such a determination by the Bank) in the opinion of the nominated adjudication agent (which may be the Bank, if so specified), be commercially impracticable for the Bank to pay interest or principal in the Specified Currency, the Bank may in its sole and absolute discretion (i) postpone the payment of any such amounts, (ii) make any such payment in the relevant Alternative Currency at the rates, and in the manner, set out in Condition 6(i) and the relevant Final Terms, (iii) postpone the payment and make such payment in the relevant Alternative Currency or (iv) cancel or redeem the Notes.

## TERMS AND CONDITIONS OF THE NOTES

**Neither the Trust Deed constituting the Notes nor the Terms and Conditions of the Notes will contain any negative pledge covenant by the Bank or any events of default other than those set out in Condition 10 below (which do not include, *inter alia*, a cross default provision).**

*The following is the text of the Terms and Conditions that, as completed in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Registered Notes and the Bearer Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, shall be endorsed on the Bearer Notes or on the Certificates relating to Registered Notes. All capitalised terms that are not defined in the Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued by Lloyds TSB Bank plc (the “**Bank**”) and are constituted by a Trust Deed originally dated 4 October 1996 as amended and restated on 7 June 2013 (as modified and/or supplemented and/or restated as at the date of issue of the first Tranche of the Notes (the “**Issue Date**”), the “**Trust Deed**”) between the Bank and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Agency Agreement dated 4 October 1996 and amended and restated on 7 June 2013 (as modified and/or supplemented and/or restated as at the Issue Date, the “**Agency Agreement**”) has been entered into in relation to the Notes between the Bank, the Trustee, Citibank, N.A., London Branch, as issuing and paying agent and, in respect of CMU Notes (as defined below), Citicorp International Limited and the other agents named in it. The issuing and paying agent in respect of Notes other than CMU Notes, the issuing and paying agent in respect of CMU Notes, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**CMU Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall, where the context so permits, include the Issuing and Paying Agent and the CMU Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall, where the context so permits, include the Registrar) and the “**Calculation Agent(s)**” provided that references in these Conditions to the Issuing and Paying Agent shall, in respect of CMU Notes, be construed as references to the CMU Issuing and Paying Agent. Copies of the Trust Deed and the Agency Agreement are available for inspection free of charge during usual business hours at the registered office of the Trustee (being, for the time being, Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

For the purpose of these Terms and Conditions, a “**Series**” means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number. “**Tranche**” means, in relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical. “**Final Terms**” means, in relation to a Tranche, the final terms issued specifying the relevant issue details of such Tranche, substantially in the form of Schedule C to the

dealer agreement dated 7 June 2013 between the Bank, the co-arrangers and the other dealers named therein (the “**Final Terms**”).

## **1 Form, Denomination and Title**

The Notes are issued in bearer form (“**Bearer Notes**”, which expression includes Notes that are specified to be Exchangeable Bearer Notes), in registered form (“**Registered Notes**”) or in bearer form exchangeable for Registered Notes (“**Exchangeable Bearer Notes**”) in each case in the Specified Denomination(s) specified in the Final Terms.

*Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Notes.*

The Notes (i) bear interest calculated by reference to a fixed rate of interest (“**Fixed Rate Notes**”), (ii) bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on one or more dates specified in the Final Terms and by reference to a mid-market swap rate for the Specified Currency or, where the Specified Currency is Sterling, either a Sterling mid-market swap rate or a rate determined by reference to a benchmark gilt (“**Fixed Rate Reset Notes**”), (iii) bear interest by reference to a floating rate of interest (“**Floating Rate Notes**”), (iv) are issued on a non-interest bearing basis (“**Zero Coupon Notes**”) or (v) are a combination of two or more of (i) to (iii) of the foregoing, as specified in the Final Terms.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (“**Certificates**”).

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Bank shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

## **2 Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes**

### *(a) Exchange of Exchangeable Bearer Notes*

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate nominal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note 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 Note is surrendered for exchange after the Record Date (as defined in Condition 6(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination

may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

*(b) Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and such other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor. In the case of a transfer of part only of a holding of Registered Notes 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 Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Bank, 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 Noteholder upon request.

*(c) Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of the Bank's or a Noteholder's option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder 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 Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes 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 Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

*(d) Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a), (b) or (c) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 5(f)) or 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 or Certificate shall have been made or, at the option of the holder 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 holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**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).

*(e) Exchange Free of Charge*

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Bank, the Registrar or the Transfer Agents, 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 or the relevant Transfer Agent may reasonably require).

*(f) Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Bank at its option pursuant to Condition 5(e), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

### 3 Status

(a) *No Set-off*

Subject to applicable law, no Dated or Undated Subordinated Noteholder may exercise or claim any right of set-off in respect of any amount owed to it by the Bank arising under or in connection with the Dated or Undated Subordinated Notes, the relative Coupons and each Dated and Undated Subordinated Noteholder and Couponholder shall, by virtue of being the holder of any Dated or Undated Subordinated Note or Coupon, be deemed to have waived all such rights of set-off, both before and during any winding-up, liquidation or administration of the Bank. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any Subordinated Noteholder or Couponholder against the Bank is discharged by set-off, such Subordinated Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Bank or, in the event of winding-up of the Bank, the liquidator of the Bank and accordingly such discharge will be deemed not to have taken place.

(b) *Status of Senior Notes*

Subject to such exceptions as may be provided by mandatory provisions of applicable law, the Senior Notes (being any Series of Notes the Final Terms in respect of which specify their status as Senior) and the Coupons relating to them constitute unsecured and unsubordinated obligations of the Bank and rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Bank.

(c) *Status of Dated Subordinated Notes*

The Dated Subordinated Notes (being any Series of Notes the Final Terms in respect of which specify their status as Dated Subordinated) and the Coupons relating to them constitute unsecured obligations of the Bank and rank *pari passu* without any preference among themselves. The claims of the Trustee, the Noteholders and the Couponholders against the Bank in respect of the Dated Subordinated Notes and the Coupons relating to them will, in the event of the winding-up of the Bank, be subordinated, in the manner provided in the Trust Deed, to the claims of depositors and all other creditors of the Bank other than Subordinated Creditors (as defined below).

For the purposes of these Conditions, “**Subordinated Creditors**” means (i) persons whose claims are subordinated in the event of the winding-up of the Bank in any manner (other than by statute) to the claims of any unsecured creditors of the Bank and (ii) persons whose claims in the event of the winding-up of the Bank should have been, but shall not have been, subordinated to the claims of unsecured creditors of the Bank in the manner required by any agreement, deed or instrument entered into by the Bank (whether before, on or after the date of the Trust Deed) whereunder the claims of any creditor or class of creditors of the Bank are required to be subordinated to the claims of any unsecured creditor of the Bank.

*Dated Subordinated Notes have no provisions for the deferral of payments.*

(d) *Status of Undated Subordinated Notes*

The Undated Subordinated Notes (being any Series of Notes the Final Terms in respect of which specify their status as Undated Subordinated) and the Coupons relating to them constitute unsecured obligations of the Bank, conditional as described below, and rank *pari passu* without any preference among themselves.

The rights of the holders of the Undated Subordinated Notes and the Coupons relating to them are subordinated to the claims of Senior Creditors (as defined below) and, accordingly, payments of principal and interest are, in addition to the right of the Bank to defer payment of interest in accordance with Condition 4, conditional upon the Bank being solvent at the time of payment by the Bank and no principal or interest shall be payable in respect of the Undated Subordinated Notes except to the extent that the Bank could make such payment and still be solvent immediately thereafter. For the purpose of this Condition 3(d), the Bank shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities (each as defined below) (other than its Liabilities to persons who are not Senior Creditors). A report as to the solvency of the Bank by two Directors of the Bank or, in certain circumstances as provided in the Trust Deed, the auditors of the Bank or, if the Bank is in winding-up, its liquidator, shall in the absence of proven error be treated and accepted by the Bank, the Trustee, the Noteholders and the Couponholders as correct and sufficient evidence thereof.

If at any time an order is made or an effective resolution is passed for the winding-up in England of the Bank, there shall be payable on each Undated Subordinated Note (in lieu of any other payment), but subject as provided in this Condition 3(d), such amount, if any, as would have been payable to the holder thereof if, on the day prior to the commencement of the winding-up and thereafter, such holder of such Undated Subordinated Note were the holder of a preference share in the capital of the Bank (ranking *pari passu* with the cumulative floating rate preference share of £1 in the capital of the Bank (the “**Cumulative Preference Share**”)) having a preferential right to a return of assets in the winding-up over the holders of all issued shares for the time being in the capital of the Bank on the assumption that such preference share was entitled to receive on a return of assets in such winding-up an amount equal to the nominal amount of such Undated Subordinated Note together with Arrears of Interest (as defined in Condition 4(c)), if any, any interest that has not been paid as a consequence of the provisions of this Condition 3(d), if any, and any accrued interest (other than Arrears of Interest) up to, but excluding, the date of repayment (as provided in the Trust Deed) in respect thereof.

For the purposes of these Conditions, “**Senior Creditors**” means creditors of the Bank (i) who are depositors or other unsubordinated creditors of the Bank or (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Bank or otherwise) to the claims of depositors and other unsubordinated creditors of the Bank but not further or otherwise or (iii) who are subordinated creditors of the Bank other than those whose claims are, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the Undated Subordinated Notes; “**Assets**” means the unconsolidated gross assets of the Bank; and “**Liabilities**” means the unconsolidated gross liabilities of the Bank, in each case as shown by the latest published audited balance sheet of the Bank, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as such Directors, the auditors or the liquidator (as the case may be) may determine.

*The obligations of the Bank in respect of the Undated Subordinated Notes and the related Coupons are conditional upon the Bank being solvent for the purpose of Condition 3(d) immediately before and after payment by the Bank. If Condition 3(d) is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of the Undated Subordinated Notes may be used to absorb losses of the Bank, whilst enabling the Bank to continue its business, and any such amounts shall not be deemed to be due for the purposes of Condition 10.*

*The Bank may defer payments of interest in respect of Undated Subordinated Notes as provided in Condition 4.*

#### **4 Interest and other Calculations**

*(a) Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable, subject as provided herein, in arrear on each Interest Payment Date, provided, however, that interest on Undated Subordinated Notes shall (subject to Condition 3(d)) be payable only at the option of the Bank. The amount of interest payable shall be determined in accordance with this Condition 4.

*(b) Interest on Fixed Rate Reset Notes*

Each Fixed Rate Reset Note bears interest on its outstanding nominal amount:

- (i) from and including the Interest Commencement Date up to but excluding the First Reset Date at the Initial Rate of Interest;
- (ii) in the First Reset Period, at the First Reset Rate of Interest; and
- (iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

payable, subject as provided herein, in arrear on each Interest Payment Date, provided, however, that interest on Undated Subordinated Notes shall (subject to Condition 3(d)) be payable only at the option of the Bank. The amount of interest payable shall be determined in accordance with this Condition 4.

Save as otherwise provided herein, the provisions applicable to Fixed Rate Notes shall apply to Fixed Rate Reset Notes.

In these Conditions:

“**Anniversary Date(s)**” means each date specified as such in the Final Terms;

“**Benchmark Gilt**” means, in respect of a Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reset Reference Banks, may determine to be appropriate;

“**Benchmark Gilt Rate**” means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided. If no quotations are provided, the Benchmark

Gilt Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Bank;

“**dealing day**” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

“**First Reset Date**” means the date specified as such in the Final Terms;

“**First Reset Period**” means the period from and including the First Reset Date up to but excluding the Second Reset Date or, if no such Second Reset Date is specified in the Final Terms, the date fixed for redemption of the Notes (if any);

“**First Reset Rate of Interest**” means the rate of interest as determined by the Calculation Agent on the Reset Determination Date corresponding to the First Reset Period as the sum of the relevant Reset Rate plus the relevant Margin;

“**Initial Rate of Interest**” means the initial rate of interest per annum specified in the Final Terms;

“**Margin**” means the margin (expressed as a percentage) in relation to the relevant Reset Period specified as such in the Final Terms;

“**Mid-Swap Quotations**” means the arithmetic mean of the bid and offered rates:

- (i) if the Specified Currency is Sterling, for a semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in Sterling which (a) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis);
- (ii) if the Specified Currency is euro, for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (a) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis); and
- (iii) if the Specified Currency is US dollars, for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in US dollars which (a) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 3-month LIBOR rate (calculated on an Actual/360 day count basis);

“**Mid-Swap Rate**” means in respect of a Reset Period, (i) the applicable semi-annual or annualised (as specified in the applicable Final Terms) mid-swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified in the Final Terms) as displayed on the Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date (which rate, if the relevant Interest Payment Dates are other than semi-annual or annual Interest Payment Dates, shall be adjusted by, and in the manner determined by, the Calculation Agent) or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate;

**“Reset Determination Date”** means, in respect of a Reset Period, (a) each date specified as such in the Final Terms or, if none is so specified, (b) (i) if the Specified Currency is Sterling or Renminbi, the first Business Day of such Reset Period, (ii) if the Specified Currency is euro, the day falling two TARGET Business Days prior to the first day of such Reset Period, (iii) if the Specified Currency is US dollars, the day falling two U.S. Government Securities Business Days prior to the first day of such Reset Period (iv) for any other Specified Currency, the day falling two Business Days in the principal financial centre for such Specified Currency prior to the first day of such Reset Period;

**“Reset Date”** means each of the First Reset Date, the Second Reset Date and each of the Anniversary Dates (if any) as is specified in the Final Terms;

**“Reset Period”** means the First Reset Period or a Subsequent Reset Period;

**“Reset Rate”** means (a) if ‘Mid-Swap Rate’ is specified in the Final Terms, the relevant Mid-Swap Rate or (b) if ‘Benchmark Gilt Rate’ is specified in the Final Terms, the relevant Benchmark Gilt Rate;

**“Reset Reference Bank Rate”** means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Calculation Agent at or around 11:00 a.m. in the principal financial centre of the Specified Currency on the relevant Reset Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Bank;

**“Reset Reference Banks”** means (i) in the case of the calculation of a Reset Reference Bank Rate, five leading swap dealers in the principal interbank market relating to the Specified Currency selected by the Calculation Agent in its discretion after consultation with the Bank or (ii) in the case of a Benchmark Gilt Rate, five brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in its discretion after consultation with the Bank;

**“Screen Page”** means Reuters screen page “ISDAFIX1”, “ISDAFIX2”, “ISDAFIX3”, “ISDAFIX4”, “ISDAFIX5” or “ISDAFIX6” as specified in the Final Terms, or such other screen page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates;

**“Second Reset Date”** means the date specified as such in the Final Terms;

**“Subsequent Reset Period”** means the period from and including the Second Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date;

**“Subsequent Reset Rate of Interest”** means, in respect of any Subsequent Reset Period, the rate of interest determined by the Calculation Agent on the Reset Determination Date corresponding to such Subsequent Reset Period as the sum of the relevant Reset Rate plus the relevant Margin;

**“Swap Rate Period”** means the period or periods specified as such in the Final Terms; and

**“U.S. Government Securities Business Day”** means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income

departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(c) *Interest on Undated Subordinated Notes*

On an Interest Payment Date there may be paid (subject to Condition 3(d)) the interest accrued in the Interest Period ending on the day immediately preceding such date, but the Bank shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Bank for any purpose. If the Bank opts not to pay interest on an Interest Payment Date, it shall give not less than 30 days' notice of such option to the holders of the Undated Subordinated Notes in accordance with Condition 15. Any interest not paid on an Interest Payment Date together with any other interest not paid on any other Interest Payment Date shall, so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest may, at the option of the Bank but subject to Condition 3(d), be paid in whole or in part at any time upon the expiration of not less than seven days' notice to such effect given to the holders of the Undated Subordinated Notes in accordance with Condition 15, but all Arrears of Interest on all Undated Subordinated Notes outstanding shall (subject to Condition 3(d)) become due in full on whichever is the earlier of (i) the date set for any redemption pursuant to Condition 5(c), Condition 5(d) or Condition 5(e) or (ii) the commencement of a winding-up of the Bank. Notwithstanding the foregoing, if notice is given by the Bank of its intention to pay the whole or any part of Arrears of Interest in respect of the Undated Subordinated Notes, the Bank shall be obliged (subject to Condition 3(d)) to do so upon the expiration of such notice. Where Arrears of Interest are paid in part, each part payment shall be in respect of the Arrears of Interest accrued to the relevant Interest Payment Date or consecutive Interest Payment Dates furthest from the date of payment. Arrears of Interest shall not themselves bear interest.

If, on an Interest Payment Date, interest in respect of any Series of Undated Subordinated Notes shall not have been paid as a result of the exercise by the Bank of its option pursuant to this Condition 4 or the operation of Condition 3(d), then from the date of such Interest Payment Date until such time as the full amount of such Arrears of Interest has been received by the Issuing and Paying Agent or the Trustee and no other Arrears of Interest remains unpaid, the Dividend and Capital Restriction shall apply.

The "**Dividend and Capital Restriction**" means that, subject as provided below:

- (i) the Bank may not declare, pay or distribute a dividend or make a payment on: (A) any class of its share capital or its securities (excluding any Non Deferrable Capital other than the Preference Shares) or (B) guarantees given by the Bank, in each case ranking *pari passu* with or below the Cumulative Preference Share;
- (ii) the Bank may not redeem, purchase or otherwise acquire any class of its share capital or its securities ranking *pari passu* with or below the Cumulative Preference Share (save where those shares or securities being redeemed, purchased or acquired are (A) the Preference Shares or (B) replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or in respect of a distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired); and
- (iii) the Bank will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any subsidiary undertaking (other than payments made in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, any such subsidiary or the Bank) on any security (howsoever named or designated) benefiting from a guarantee given by the Bank ranking *pari passu* with or below the Cumulative Preference Share,

in each case, other than a dividend or interest payment which has been declared by the Bank or any such subsidiary undertaking on such share capital, guarantees or security (howsoever named or designated) benefiting from any such guarantee or any such redemption, purchase or acquisition which has been effected by the Bank or any such subsidiary undertaking, as the case may be, prior to the date on which the decision to opt to defer the interest which would otherwise be due on the Undated Subordinated Notes is notified to the Noteholders in accordance with Condition 15.

For the purposes of these Conditions:

“**Non Deferrable Capital**” means any class of the Bank’s share capital or securities, the terms of which do not enable it to defer, pass or eliminate a dividend or other distribution.

“**Preference Shares**” means the 6 per cent. non-cumulative redeemable preference shares of £1 each in the Bank.

(d) *Interest on Floating Rate Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date, provided, however, that interest on Undated Subordinated Notes shall (subject to Condition 3(d)) be payable only at the option of the Bank. The amount of interest payable shall be determined in accordance with Condition 4(h). Such Interest Payment Date(s) is/are either specified in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are specified in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period specified in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*

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

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms 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 Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “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:

- (x) the Floating Rate Option is as specified in the Final Terms;
- (y) the Designated Maturity is a period specified in the Final Terms; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

provided that, if no Rate of Interest can be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined by the Calculation Agent in its sole and absolute discretion (though applying the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest, if any, relating to the Interest Accrual Period).

For the purposes of this sub-paragraph (A), “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.

Unless otherwise stated in the Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified in the Final Terms 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 the Relevant Time on the Interest Determination Date in question as determined by the Calculation 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 Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(y) If the Relevant Screen Page is not available or if sub-paragraph (x)(i) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(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 Calculation 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 Eurozone office of each of the Reference Banks, to provide

the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

- (z) If paragraph (y) above applies, the Calculation 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 Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant 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 Eurozone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation 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 at the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Bank suitable for such purpose) informs the Calculation 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 Eurozone 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 or Maximum Rate of Interest 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 or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(e) *Zero Coupon Notes*

Where a Note the Interest Basis of which is specified to be Zero Coupon 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 Note. As from the due date for redemption, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified in the Final Terms.

(f) *Accrual of Interest*

Interest (if any) shall cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless (upon due presentation thereof where presentation is required), payment of principal is improperly withheld or refused or is not made by reason of Condition 3(d) or unless default is otherwise made in respect of payment, in which event, interest shall continue to accrue or, in the case of Zero Coupon Notes, shall accrue (in each case, both before and

after judgment) at the Rate of Interest in the manner provided in this Condition 4 to (but excluding) the Relevant Date (as defined in Condition 8).

(g) *Margin, Maximum Rate of Interest, Minimum Rates of Interest, Redemption Amounts and Rounding*

- (i) If any Margin is specified in the Final Terms (either (A) generally, (B) in relation to one or more Interest Accrual Periods or (C) in relation to one or more Reset Periods), an adjustment shall, unless the relevant Margin has already been taken into account in determining such Rate of Interest, be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods or Reset Periods, in the case of (B) or (C), respectively, calculated (in the case of (B)) in accordance with Condition 4(b) or (in the case of (C)) in accordance with Condition 4(c) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always (in the case of Floating Rate Notes only) to the next paragraph.
- (ii) If any Maximum Rate of Interest or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest 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 figures 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.

(h) *Calculations*

The amount of interest payable per Calculation Amount 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 in the Final Terms 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 applied to the period for which interest is required to be calculated.

(i) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts*

The Calculation Agent shall as soon as practicable on each Interest Determination Date, Reset Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period (or, if determining the First Reset Rate of Interest or a Subsequent Reset Rate of Interest in respect of Fixed Rate Reset Notes, the Interest Amount for each Interest Accrual Period falling within the relevant Reset Period) calculate the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and

the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Bank, each of the Paying Agents, the Registrar, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange or admitted to listing by another relevant authority and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(d)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and repayable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding on all parties.

(j) *Determination or Calculation by Trustee*

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or Reset Period or any Interest Amount, Final Redemption Amount(s), Early Redemption or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee (or its agent) shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(k) *Definitions*

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

“**Business Day**” means:

- (i) in the case of a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); or
- (iii) in the case of Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; and
- (iv) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in any Business Centre(s) specified in the Final Terms.

(v) “**CMU Notes**” means Notes denominated in any lawful currency which the CMU Service accepts for settlement from time to time that are, or are intended to be, cleared through the CMU Service.

(vi) “**CMU Service**” or “**CMU**” means the Central Moneymarkets Unit Service operated by the HKMA.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/365**” or “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the Final Terms, the number of days in the Calculation 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 Calculation 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 Calculation Period falls;

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

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation 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 Calculation 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;

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified in the Final Terms, the number of days in the Calculation 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 Calculation 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 Calculation Period falls;

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

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation 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 Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vi) if “**30E/360 (ISDA)**” is specified in the Final Terms, the number of days in the Calculation 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 Calculation 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 Calculation Period falls;

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

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation 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 Calculation 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; and

- (vii) if “**Actual/Actual ICMA**” is specified in the Final Terms:
- (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in such Calculation 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; or
- (B) if the Calculation Period is longer than one Determination Period, the sum of:
- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year; and

- (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year;

where:

“**Determination Period**” means the period from and including a Determination Date (as specified in the Final Terms) in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date specified as such in the Final Terms or, if none is so specified, the Interest Payment Date.

“**euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

“**Eurozone**” means the region comprised of member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the Peoples’ Republic of China.

“**HKMA**” means the Hong Kong Monetary Authority appointed pursuant to Section 5A of the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) or its successors.

“**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 Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending on 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 in the Final Terms.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Renminbi 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 not Sterling, euro or Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**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 in the Final Terms.

“**ISDA Definitions**” means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc. (or as otherwise specified in the Final Terms).

“**PRC**” means the People’s Republic of China which, for the purpose of these Terms and Conditions, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;

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

“**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 Eurozone office of four major banks in the Eurozone inter-bank market, in each case selected by the Calculation Agent or as specified in the Final Terms.

“**Reference Rate**” means the rate specified as such in the Final Terms.

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

“**Relevant Time**” means, if the Reference Rate is LIBOR, approximately 11.00 a.m. (London time) or if the Reference Rate is EURIBOR, 11.00 a.m. (Brussels time) or as otherwise specified in the Final Terms.

“**Renminbi**” means the lawful currency of the People’s Republic of China.

“**Specified Currency**” means the currency specified in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System or any successor thereto.

(l) *Calculation Agent*

The Bank shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent or, pursuant to Condition 4(j), the Trustee fails duly to establish the Rate of Interest for an Interest Accrual Period or Reset Period or to calculate any Interest Amount, Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Bank shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money or swap market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

(m) *Nature of the Return*

Any interest paid to the Noteholder shall constitute consideration paid for the use of the principal and for the assumption of the risk that the Noteholder may not recover its original investment or that its return may be variable.

## 5 Redemption, Purchase and Options

### (a) Final Redemption

- (i) Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount(s) (which, unless otherwise provided in the Final Terms, is its nominal amount).
- (ii) Undated Subordinated Notes have no final maturity date and are only redeemable in accordance with the following provisions of this Condition 5.

### (b) Early Redemption

#### (i) Zero Coupon Notes

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 5(c), Condition 5(d), Condition 5(e) or Condition 5(f) or upon it becoming due and repayable as provided in Condition 10, shall be the Amortised Face Amount (as defined and calculated below) of such Note unless otherwise specified in the Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount(s) of such Note on the Maturity Date discounted back to the due date for payment at a rate per annum (expressed as a percentage) equal to the Amortisation Yield applied on a compounded or non-compounded basis as specified in the Final Terms (which, if none is specified in the Final Terms, shall be such rate (compounded annually) as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) (the “**Amortised Face Amount**”).
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 5(c), Condition 5(d), Condition 5(e) or Condition 5(f) or upon it becoming due and repayable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as calculated in accordance with sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the reference therein to the “due date for payment” were replaced by a reference to the date on which the relevant amount is actually paid. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the date such amount is paid, unless such date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount(s) of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 4(e).

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 specified in the Final Terms.

#### (ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 5(c), Condition 5(d), Condition 5(e) or Condition 5(f) or upon it becoming due and repayable as provided in Condition 10(b), shall be the Final Redemption Amount(s) unless otherwise specified in the Final Terms.

(c) *Redemption for Taxation Reasons*

- (i) The Bank may at its option (subject in the case of Dated Subordinated Notes or Undated Subordinated Notes to Condition 5(i)), having given not less than 30 nor more than 60 days' notice in accordance with Condition 15, redeem all, but not some only, of the Notes outstanding on (if the Notes are Floating Rate Notes) the next Interest Payment Date or (if the Notes are not Floating Rate Notes) at any time at the Early Redemption Amount, together (if applicable) with any Arrears of Interest and any other accrued but unpaid interest up to (but excluding) the date fixed for redemption, if, at any time, the Bank shall satisfy the Trustee (immediately prior to the giving of the notice referred to above) that as a result of a change in or amendment to the laws or regulations of the United Kingdom or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party or any change in the application or official interpretation of such laws or regulations (including a decision of any court or tribunal) which change or amendment becomes effective or applicable on or after the Issue Date (and, in the case of Dated Subordinated Notes or Undated Subordinated Notes, provided that the PRA is satisfied such change is material and was not reasonably foreseeable by the Bank as at the Issue Date):
- (a) in making payment under the Notes, the Bank has or would on or before the next Interest Payment Date or the Maturity Date become obliged to pay additional amounts under Condition 8 (and such obligation cannot be avoided by the Bank taking reasonable measures available to it);
  - (b) the payment of interest on the next Interest Payment Date or the Maturity Date in respect of any of the Notes would be treated as a "distribution" within the meaning of Chapter 2 of Part 23 of the Corporation Tax Act 2010 of the United Kingdom (or any statutory modification or re-enactment thereof for the time being); or
  - (c) on the next Interest Payment Date or the Maturity Date the Bank would not be entitled to claim a deduction in respect of the payment of interest in computing its United Kingdom taxation liabilities (or the value of such deduction to the Bank would be materially reduced).

This Condition 5(c) shall apply in the case of Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes provided that, in the case of Dated Subordinated Notes and Undated Subordinated Notes, upon CRD IV (as defined below) taking effect in the United Kingdom, it shall only apply if, when and to the extent that its inclusion and application would not result in the Notes failing or ceasing to qualify as Tier 2 Capital of the Bank under CRD IV.

- (ii) It shall be sufficient to establish the existence of the circumstances required to be established pursuant to this paragraph (c) if the Bank shall deliver to the Trustee a certificate in writing signed by two Directors of the Bank, in a form satisfactory to the Trustee, confirming that (i) in the case of Dated Subordinated Notes and Undated Subordinated Notes only, the PRA is satisfied such change is material and was not reasonably foreseeable by the Bank as at the Issue Date and (ii) a tax event as set out in paragraph (i) above (including sub-paragraph (a), (b) and/or (c) above) exists. The Bank shall also deliver to the Trustee an opinion of an independent lawyer or accountant satisfactory to the Trustee, in a form satisfactory to the Trustee, to the effect that a tax event as set out in sub-paragraph (a), (b) and/or (c) above exists.

The Trustee may accept such certificate and opinion without any further inquiry as sufficient evidence of the existence of the circumstances required to be established in which event it shall be conclusive and binding on the Bank, the Trustee, the Noteholders and the Couponholders and the Trustee will not be responsible for any loss that maybe occasioned by the Trustee's acting or relying on such certificate.

(d) *Redemption of Dated Subordinated Notes and Undated Subordinated Notes following the occurrence of a Capital Event*

- (i) Where Capital Event Call is specified as being applicable in the Final Terms relating to Dated Subordinated Notes or Undated Subordinated Notes, the Bank may at its option but subject to Condition 5(i), having given not less than 30 nor more than 60 days' notice in accordance with Condition 15, redeem all but not some only of the Notes at any time at the Early Redemption Amount, together (if applicable) with any Arrears of Interest and any other accrued but unpaid interest up to (but excluding) the date fixed for redemption, if immediately prior to the giving of the notice referred to above, it satisfies the Trustee that a Capital Event has occurred and is continuing.

Upon CRD IV taking effect in the United Kingdom, this Condition 5(d) shall only apply if, when and to the extent that its inclusion and application would not result in the Notes failing or ceasing to qualify as Tier 2 Capital of the Bank under CRD IV.

- (ii) It shall be sufficient to establish that a Capital Event has occurred and is continuing if the Bank shall deliver to the Trustee a certificate in writing signed by two Directors of the Bank, in a form satisfactory to the Trustee, confirming that such Capital Event has occurred and is continuing, including (expressly) that the PRA is satisfied such Capital Event was not reasonably foreseeable by the Bank as at the Issue Date.

The Trustee may accept such certificate without any further inquiry as sufficient evidence of the existence of the circumstances required to be established in which event it shall be conclusive and binding on the Bank, the Trustee, the Noteholders and the Couponholders.

In these Conditions:

“**Applicable Banking Regulations**” means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the United Kingdom including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines and policies relating to capital adequacy adopted by the PRA, from time to time (whether or not such requirements, guidelines or policies are applied generally or specifically to the Bank or to the Bank and its subsidiaries).

“**Capital Event**” means the determination by the Bank, after consultation with the PRA, that as a result of a change (or prospective future change which the PRA considers to be sufficiently certain) in the Applicable Banking Regulations or in the official application or interpretation thereof becoming effective on or after the Issue Date, the aggregate outstanding principal amount of the Dated Subordinated Notes or Undated Subordinated Notes (as the case may be) is, or is likely to be, fully excluded from inclusion in the Tier 2 Capital of the Bank and/or the Group (other than as a result of any applicable limitation on the amount of such capital as applicable to the Bank) and provided, in the case of a redemption of Notes in accordance with Condition 5(d), the PRA is satisfied that such change or prospective change was not reasonably foreseeable by the Bank as at the Issue Date.

“**CRD IV**” means taken together, (i) the CRD IV Directive, (ii) the CRD IV Regulation and (iii) the Future Capital Instruments Regulations.

“**CRD IV Directive**” means a directive of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms amending Directive 2002/87/EC, which text was adopted by the European Parliament on 16 April 2013 and any successor directive.

“**CRD IV Regulation**” a regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, which text was adopted by the European Parliament on 16 April 2013 and any successor regulation.

“**Future Capital Instruments Regulations**” means any regulatory capital rules which are in the future applicable to the Bank (on a solo or consolidated basis) and which lay down the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital of the Bank (on a solo or consolidated basis) as required by (i) the CRD IV Regulation or (ii) the CRD IV Directive, including (for the avoidance of doubt) any regulatory technical standards issued by the European Banking Authority.

“**Group**” means Lloyds Banking Group plc and its subsidiaries and subsidiary undertakings from time to time.

“**PRA**” means the Prudential Regulation Authority or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Bank.

“**Tier 2 Capital**” has the meaning given to it in the Applicable Banking Regulations from time to time.

(e) *Redemption at the Option of the Bank*

If Call Option is specified in the Final Terms, the Bank may, on giving not less than 30 nor more than 60 days’ irrevocable notice to the Noteholders and the Trustee (or such other notice period as may be specified in the Final Terms), redeem all or, if so provided, some only of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified in the Final Terms (which may be the Early Redemption Amount (as described in Condition 5(b) above)), together with interest accrued to the date fixed for redemption and, in the case of Undated Subordinated Notes, together with all Arrears of Interest (if any) as provided in Condition 4(c). Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws, stock exchange requirements or the requirements of any other relevant authority.

(f) *Redemption at the Option of Noteholders other than holders of Dated Subordinated Notes or Undated Subordinated Notes*

If Put Option is specified in the Final Terms in respect of Senior Notes, the Bank shall, at the option of the holder of any Note, upon the holder of such Note giving not less than 15 nor more than 30 days’ notice to the Bank (or such other notice period as may be specified in the Final Terms), redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified in the Final Terms (which may be the Early Redemption Amount (as described in Condition 5(b) above)), together with interest accrued to the date fixed for redemption .

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office,

together with a duly completed option exercise notice (“**Exercise Notice**”) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Bank.

(g) *Purchases*

Subject to Condition 5(i) in the case of Dated Subordinated Notes or Undated Subordinated Notes, the Bank or any of its subsidiaries or any holding company of the Bank or any other subsidiary of any such holding company may at any time, but is not obliged to, purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Any Notes so purchased or otherwise acquired may, at the Bank’s discretion, be held or resold or surrendered for cancellation.

(h) *Cancellation*

All Notes purchased by or on behalf of the Bank or any of its subsidiaries or any holding company of the Bank or any other subsidiary of any such holding company may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Bank, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Bank in respect of any such Notes shall be discharged.

(i) *PRA consent or non-objection*

In the case of redemption of any Dated Subordinated Notes or Undated Subordinated Notes at any time (save in the case of Dated Subordinated Notes for redemption on the Maturity Date) or purchase of any such Notes pursuant to Condition 5(g), the relevant Notes may only be redeemed by the Bank or purchased by the Bank, provided that, for so long as it is required to do so under the Applicable Banking Regulations, the Bank (a) has notified the PRA of its intention to do so at least one month (or such other period, longer or shorter, as the PRA may then require or accept) prior to the Bank becoming committed to the proposed repayment or purchase and the prior consent of the PRA has been received (or, following the giving of the required notice, the Bank has not received objection from the PRA) prior to the Bank becoming committed to the proposed repayment; and (b) has satisfied the PRA that, after such repayment, the Bank will be able to meet its Capital Resources Requirement and have sufficient financial resources to meet its Overall Financial Adequacy Rule. In addition and notwithstanding any other provision set out in the Conditions, such Notes may only be redeemed or purchased as aforesaid if such redemption or purchase is not prohibited by the Applicable Banking Regulations.

In this Condition 5(i) “**Capital Resources Requirement**” and “**Overall Financial Adequacy Rule**” each have the meanings given to such terms in the Applicable Banking Regulations and shall include any successor term or terms from time to time equivalent thereto as agreed between the Bank and the Trustee.

## 6 **Payments and Talons**

(a) *Bearer Notes*

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (and, in the case of interest, as specified in Condition 6(f)(v)) or Coupons (in the case of interest, save as specified in Condition 6(f)(ii)), as the case may be:

- (i) in the case of a currency other than euro or Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank in the principal financial centre for such currency;
- (ii) in the case of euro, at the specified office of any Paying Agent outside the United States by a cheque payable in euro drawn on, or, at the option of the holder, by transfer to an account denominated in euro with, a bank in a city in which banks have access to the TARGET System; and
- (iii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

(b) *Registered Notes*

- (i) Payments of principal in respect of Registered Notes 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 and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes 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**”). Payments of interest on each Registered Note shall be made:
  - (a) in the case of a currency other than Renminbi, in the relevant currency by a cheque drawn on a bank in the principal financial centre of such currency, subject as provided in paragraph (a) above, and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of such currency; and
  - (b) in the case of Renminbi, by transfer to the registered account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(c) *Payments in the United States*

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

(d) *Payments subject to Fiscal Laws*

Save as provided in Condition 8, payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Bank or its respective Agents agree to be subject and the Bank will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements.

No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments. The Bank reserves the right to require a Noteholder or Couponholder to provide a Paying Agent, the Registrar or a Transfer Agent with such certification or information as may be required to enable the Bank to comply with the requirements of the United States federal income tax laws or any agreement between the Bank and any taxing authority.

(e) *Appointment of Agents*

The Issuing and Paying Agent, the other Paying Agents, the Registrar and the Transfer Agents initially appointed by the Bank and their respective specified offices are listed below. Subject as provided in the Trust Deed and the Agency Agreement, the Issuing and Paying Agent, the other Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Bank and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Bank reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Bank shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes which may be the Registrar, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in Europe, which, so long as the Notes are listed on the official list (the “**Official List**”) of the designated competent authority from time to time under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) and are admitted to trading on the London Stock Exchange plc’s Regulated Market, shall be in London, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case as approved by the Trustee and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to 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. In addition, the Bank shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders by the Bank in accordance with Condition 15.

(f) *Unmatured Coupons and unexchanged Talons*

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than any Fixed Rate Notes where the total value of the unmatured coupons appertaining thereto exceeds the nominal amount of such Note), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such

Coupon has become void pursuant to Condition 9). In relation to any Undated Subordinated Note, if any payment is to be made in respect of interest the Interest Payment Date for which falls on or after the date on which the winding-up of the Bank is deemed to have commenced, such payment shall be made only against presentation of the relevant Note and the Coupon for any such Interest Payment Date shall be void. In addition, any Undated Subordinated Note presented for payment after an order is made or an effective resolution is passed for the winding-up in England of the Bank must be presented together with all Coupons in respect of Arrears of Interest relating to Interest Payment Dates falling prior to such commencement of the winding-up of the Bank, failing which there shall be withheld from any payment otherwise due to the holder of such Undated Subordinated Note such proportion thereof as the Arrears of Interest due in respect of any such missing Coupon bears to the total of the principal amount of the relevant Undated Subordinated Note, all Arrears of Interest in respect thereof and interest (other than Arrears of Interest) accrued on such Undated Subordinated Note in respect of the Interest Period current at the date of the commencement of the winding-up.

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or (where the total value of the unmatured coupons exceeds the minimal amount of such Note) a Fixed Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Bank may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) *Non-Business Days*

If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph and paragraph 6(i) (*Payment of Alternative Currency Equivalent*) below, “**business day**” means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Additional Financial Centres” in the Final Terms and:

- (i) (in the case of a payment in a currency other than euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in Renminbi) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; or
- (iii) (in the case of a payment in euro) which is a TARGET Business Day.

(i) *Payment of Alternative Currency Equivalent*

Where Alternative Currency Equivalent is specified in the relevant Final Terms as being applicable to a Series of Notes, if (following a written request from the Bank that the Alternative Currency Adjudication Agent makes a determination pursuant to this Condition 6(i)), by reason of a Scheduled Payment Currency Disruption Event, it would, in the opinion of the Alternative Currency Adjudication Agent, be commercially impracticable for the Bank to satisfy any payment obligation in respect of the Notes when due in the Scheduled Payment Currency, then the Bank may take the action described in paragraph (a), (b), (c) or (d) below:

- (a) determine that the relevant payment of the Bank in respect of the Notes be postponed to a date which falls after the date on which the relevant Scheduled Payment Currency Disruption Event ceases to exist (in the determination of the Alternative Currency Adjudication Agent) provided that such postponement does not exceed the number of Business Days (such number, the “**Maximum Days of Postponement**”) specified in the relevant Final Terms, or, if that would not be commercially reasonable, as soon as commercially reasonable thereafter, in which case the relevant payment will be due on the date as so postponed, without any interest or other sum payable in respect of the postponement of the payment of such amount;
- (b) determine that the Bank’s obligation to make any payment in respect of the Notes in the Scheduled Payment Currency be replaced by an obligation to make payment of the Alternative Currency Equivalent of such payment, in which case, it will settle any such obligation by payment of the relevant Alternative Currency Equivalent on the due date for payment;
- (c) determine that the relevant payment in respect of the Notes be postponed to a date which falls after the date on which the relevant Scheduled Payment Currency Disruption Event ceases to exist (in the determination of the Alternative Currency Adjudication Agent) provided that such postponement does not exceed the Maximum Days of Postponement after the date on which the relevant Scheduled Payment Currency Disruption Event ceases to exist, or, if, in the determination of the Alternative Currency Adjudication Agent, that would not be commercially reasonable, as soon as commercially reasonable thereafter (such postponed payment date, the “**Postponed Payment Date**”), and that the Bank’s obligation to make payment in respect of the Notes in the Scheduled Payment Currency be replaced by an obligation to make payment of the Alternative Currency Equivalent, in which case, it will settle any such obligation by payment of the relevant Alternative Currency Equivalent on the Postponed Payment Date, without any interest or other sum payable in respect of the postponement of the payment of such amount; or
- (d) give notice to the Noteholders in accordance with Condition 15 and redeem all, but not some only, of the Notes on a date selected by the Bank, by payment of the Alternative Currency Equivalent of, or, if so specified in such notice, an amount in the Scheduled Payment Currency equal to, the Early Redemption Amount. Payment will be made in such manner as shall be notified to the Noteholders in accordance with Condition 15.

Any payment made in the Alternative Currency under such circumstances will constitute valid payment, and will not constitute a default in respect of the Notes.

Upon the occurrence of a Scheduled Payment Currency Disruption Event and the Alternative Currency Adjudication Agent making a determination that, by reason of such Scheduled Payment Currency Disruption Event, it would, in the opinion of the Alternative Currency Adjudication Agent, be commercially impracticable for the Bank to satisfy its payment obligations in respect of the Notes when due in the Scheduled Payment Currency, the Bank shall give notice as soon as practicable to Noteholders in accordance with Condition 15 stating the occurrence of the Scheduled Payment Currency Disruption Event, giving details thereof and the action proposed to be taken in relation thereto.

In making any determination in respect of any Scheduled Payment Currency Disruption Event, neither the Bank nor the Alternative Currency Adjudication Agent shall have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number), and, in particular, but without limitation, shall not have regard to the consequences of any such determination for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and no Noteholder shall be entitled to claim from the Bank, the Alternative Currency Adjudication Agent or any other person any indemnification or payment in respect of any tax consequences of any such determination upon individual Noteholders.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(i) by the Bank or the Alternative Currency Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Agents and all Noteholders.

As used herein:

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

“**Alternative Currency**” means the currency specified as such in the relevant Final Terms (or any lawful successor currency to that currency), or, if no Alternative Currency is specified in the relevant Final Terms, U.S. dollars;

“**Alternative Currency Adjudication Agent**” means the Alternative Currency Adjudication Agent specified in the relevant Final Terms (or any lawful successor to the Alternative Currency Adjudication Agent);

“**Alternative Currency Calculation Agent**” means (i) in the case of CMU Notes denominated in Renminbi, Citicorp International Limited (or any lawful successor thereto), unless otherwise specified in the relevant Final Terms; and (ii) in the case of all other Notes, the Alternative Currency Calculation Agent specified in the relevant Final Terms (or any lawful successor thereto);

“**Alternative Currency Equivalent**” means, (i) where the Alternative Currency is U.S. dollars, in respect of an amount denominated in the Scheduled Payment Currency, such amount converted into the Alternative Currency using the Spot Rate for the relevant Rate Calculation Date, all as determined by the Alternative Currency Calculation Agent, and (ii) where the Alternative Currency is a currency other than U.S. dollars, in respect of an amount denominated in the Scheduled Payment Currency, such amount converted into the Alternative Currency by (i) converting such amount into an amount expressed in U.S. dollars using the Spot Rate for the relevant Rate Calculation Date, and multiplying the resultant U.S. dollar amount by the

USD Spot Rate for the relevant Rate Calculation Date, all as determined by the Alternative Currency Calculation Agent;

“**Governmental Authority**” means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of the Scheduled Payment Currency Jurisdiction;

“**Illiquidity**” means (i) in respect of any payment obligation in respect of the Notes of any sum, foreign exchange markets for the Scheduled Payment Currency becoming illiquid (including, without limitation, the existence of any significant price distortion) or unavailable as a result of which it is impossible or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Bank and/or any of its Affiliates to obtain a sufficient amount of the Scheduled Payment Currency in order to satisfy any such obligation or (ii) it becomes impossible or impracticable to obtain a firm quote for exchange of the Scheduled Payment Currency into the Alternative Currency, in each case, as determined by the Alternative Currency Adjudication Agent in its sole and absolute discretion;

“**Inconvertibility**” means, in respect of any payment or obligation in respect of the Notes, the occurrence of any event that makes it impossible, illegal or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Bank and/or any of its Affiliates to convert any amount due in respect of the Notes in the foreign exchange markets for the Scheduled Payment Currency (including, without limitation, any event that has the direct or indirect effect of hindering, limiting or restricting convertibility by way of any delays, increased costs or discriminatory rates of exchange or any current or future restrictions on repatriation of one currency into another currency) other than where such impossibility or impracticability is due solely to the failure of the Bank and/or any of its Affiliates to comply with any law, rule or regulation enacted by any relevant Governmental Authority (unless such law, rule or regulation becomes effective on or after the Trade Date and it is impossible or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Bank, due to an event beyond its control, to comply with such law, rule or regulation);

“**Non-transferability**” means, in respect of any payment obligation in respect of the Notes, the occurrence of any event that makes it impossible or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Bank and/or any of its Affiliates to transfer the Scheduled Payment Currency in relation to any such payment obligation between accounts inside the Scheduled Payment Currency Jurisdiction or between an account inside the Scheduled Payment Currency Jurisdiction and an account outside the Scheduled Payment Currency Jurisdiction, other than where such impossibility or impracticability is due solely to the failure of the Bank and/or any of its Affiliates to comply with any law, rule or regulation enacted by any relevant Governmental Authority (unless such law, rule or regulation becomes effective on or after the Trade Date and it is impossible or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Bank and/or any of its Affiliates, due to an event beyond its control, to comply with such law, rule or regulation);

“**Rate Calculation Business Day**” means, unless otherwise specified in the relevant Final Terms, a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in the Rate Calculation Jurisdiction;

“**Rate Calculation Date**” means the day which is the number of Rate Calculation Business Days specified in the relevant Final Terms (which shall be two Rate Calculation Business Days where the Scheduled Payment Currency is Renminbi) before the due date for payment of the relevant amount under the Notes or, unless specified otherwise in the relevant Final Terms, if the relevant Spot Rate is not available on such

day, the last preceding Rate Calculation Business Day on which the relevant Spot Rate was most recently available, as determined by the Alternative Currency Calculation Agent;

“**Rate Calculation Jurisdiction**” means the jurisdiction(s) specified in the Final Terms, which shall include the Eurozone where the Scheduled Payment Currency is euro or Hong Kong where the Scheduled Payment Currency is Renminbi;

“**Scheduled Payment Currency**” means, the Specified Currency;

“**Scheduled Payment Currency Disruption Event**” means, in respect of a Scheduled Payment Currency:

- (i) Inconvertibility;
- (ii) Non-transferability;
- (iii) Illiquidity;
- (iv) the Bank and/or any of its Affiliates is unable, after using commercially reasonable efforts, to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) the Bank deems necessary to hedge the currency risk of the Bank issuing and performing its obligations with respect to the Notes or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s); and/or
- (v) any other event specified as a Scheduled Payment Currency Disruption Event in the relevant Final Terms;

“**Scheduled Payment Currency Jurisdiction**” means (i) other than in the case of euro or Renminbi, the primary jurisdiction for which the Scheduled Payment Currency is the lawful currency, (ii) in the case of euro, the Eurozone or (iii) in the case of Renminbi, Hong Kong;

“**Settlement Rate Option**” means, as specified in the relevant Final Terms, (i) such “**Settlement Rate Options**” as may be included from time to time in Annex A to the 1998 FX and Currency Option Definitions, published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association and the Foreign Exchange Committee or (ii) if “Alternative Currency Calculation Agent Determination” is specified as the Settlement Rate Option in the relevant Final Terms, such rate for the exchange of the Scheduled Payment Currency into U.S. dollars as determined by the Alternative Currency Calculation Agent, taking into consideration all available information that it deems relevant;

“**Spot Rate**” means, in respect of a Rate Calculation Date, the spot exchange rate for the purchase of U.S. dollars with the Scheduled Payment Currency determined in accordance with the Settlement Rate Option, provided that if such Spot Rate is not available, then the Alternative Currency Calculation Agent will determine the Spot Rate (or a method for determining the Spot Rate), taking into consideration all available information that it deems relevant;

“**Trade Date**” means each date on which the Bank concludes an agreement with one or more Dealers for the issue and sale of Notes which, in the case of a syndicated issue, shall be the execution date of the relevant subscription agreement;

“**USD Settlement Rate Option**” means, as specified in the relevant Final Terms, the USD Settlement Rate Option derived from such other “**Settlement Rate Options**”, as may be included from time to time in Annex A to the 1998 FX and Currency Option Definitions, published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association and the Foreign Exchange Committee or (ii) if “Alternative Currency Calculation Agent Determination” is specified as the USD Settlement Rate Option in the relevant Final Terms, such rate for the exchange of U.S. dollars into the

Alternative Currency as determined by the Alternative Currency Calculation Agent, taking into consideration all available information that it deems relevant; and

“**USD Spot Rate**” means, for a Rate Calculation Date, the spot exchange rate for the purchase of the Alternative Currency with U.S. dollars in accordance with the USD Settlement Rate Option specified, provided that if such USD Spot Rate is not available, then the Alternative Currency Calculation Agent will determine the USD Spot Rate (or a method for determining the USD Spot Rate), taking into consideration all available information that it deems relevant.

## **7 Subordinated Notes - Substitution or Variation following a Capital Event**

Where Capital Event Substitution and Variation is specified in the Final Terms in respect of Dated Subordinated Notes or Undated Subordinated Notes as being applicable and the Bank has satisfied the Trustee that a Capital Event (as defined in Condition 5(d)) has occurred and is continuing (in which regard, Condition 5(d)(ii) shall apply *mutatis mutandis*), then the Bank may, subject to the other provisions of this Condition 7 (without any requirement for the consent or approval of the Noteholders or the Trustee (subject to the notice requirements below)) either substitute all (but not some only) of the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) for, or vary the terms of the Dated Subordinated Notes or the Undated Subordinated Notes (as applicable) so that they remain or, as appropriate, become, Compliant Securities. Upon the expiry of the notice required by this Condition 7, the Bank shall either vary the terms of, or substitute, the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) in accordance with this Condition 7, as the case may be and, subject as set out below, the Trustee shall agree to such substitution or variation.

In connection with any substitution or variation in accordance with this Condition 7, the Bank shall comply with the rules of any stock exchange on which such Notes are for the time being listed or admitted to trading.

Any substitution or variation in accordance with this Condition 7 is subject to the Bank (i) obtaining the prior written consent of the PRA, provided that at the relevant time such consent is required to be given; (ii) both at the time of, and immediately following, the substitution or variation, being in compliance with its “Capital Resources Requirement” as provided in the Applicable Banking Regulations applicable to it from time to time (and a certificate from two authorised signatories of the Bank confirming such compliance shall be conclusive evidence of such compliance); and (iii) giving not less than 30 nor more than 60 calendar days’ notice to the Noteholders and the Couponholders (which notice shall be irrevocable), the Trustee and the Paying Agents, in accordance with Condition 15, which notice shall be irrevocable.

Any substitution or variation in accordance with this Condition 7 does not otherwise give the Bank an option to redeem the relevant Notes under the Conditions.

Prior to the publication of any notice of substitution or variation pursuant to this Condition 7, the Bank shall deliver to the Trustee a certificate signed by two authorised signatories of the Bank stating that the Capital Event giving rise to the right to substitute or vary has occurred and is continuing as at the date of the certificate and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the occurrence of a Capital Event in which event it shall be conclusive and binding on the Trustee, the Couponholders and the Noteholders.

The Trustee shall concur in the substitution of the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) for, or the variation of the terms of the relevant Notes so that they remain or become, Compliant Securities, provided that the Trustee shall not be obliged to concur in any such substitution or variation if the terms of the proposed alternative Compliant Securities or the concurring in such substitution or variation would impose, in the Trustee’s opinion, more onerous obligations upon it or

require the Trustee to incur any liability for which it is not indemnified and/or secured and/or pre-funded to its satisfaction.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation, certificate or any advice of any accountants, financial advisers, financial institutions or any other experts, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate or advice and such report, confirmation, certificate or advice shall be binding on the Bank, the Trustee, the Noteholders and the Couponholders.

As used in this Condition 7:

“**Compliant Securities**” means securities issued directly or indirectly by the Bank that:

- (a) are issued by the Bank or any wholly-owned direct or indirect finance subsidiary of the Bank with a subordinated guarantee of such obligations by the Bank;
- (b) rank (or if guaranteed by the Bank benefit from a guarantee that ranks) equally with the ranking of the Dated Subordinated Notes or Undated Subordinated Notes (as the case may be);
- (c) have terms not materially less favourable to Noteholders than the terms of the Dated Subordinated Notes or the Undated Subordinated Notes, as the case may be, (as reasonably determined by the Bank in consultation with an independent investment bank of international standing, and provided that a certification to such effect of two Directors of the Bank shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that such securities
  - (1) contain terms such that they comply with the then current requirements of the PRA in relation to Tier 2 Capital;
  - (2) include terms which provide for the same (or, from a Noteholder’s perspective, more favourable) Rate of Interest from time to time, Interest Payment Dates, (in relation to any Dated Subordinated Notes) Maturity Date and Early Redemption Amount(s) as apply from time to time to the relevant Series of Dated Subordinated Notes or Undated Subordinated Notes (as the case may be) immediately prior to such substitution or variation;
  - (3) shall preserve any existing rights under the Conditions to any accrued interest (including, without limitation, Arrears of Interest), principal and/or premium which has not been satisfied;
  - (4) do not contain terms providing for the mandatory or voluntary deferral of payments of principal and/or (in the case of Dated Subordinated Notes) interest;
  - (5) do not contain terms providing for loss absorption through principal write-down, write-off or conversion to ordinary shares; and
  - (6) are otherwise not materially less favourable to Noteholders;
- (d) are listed on (i) the regulated market of the London Stock Exchange or (ii) such other Recognised Stock Exchange as selected by the Bank and approved in writing by the Trustee; and
- (e) where the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) which have been substituted or varied had a published rating from a Rating Agency immediately prior to their substitution or variation each such Rating Agency has ascribed, or announced its intention to

ascribe, an equal or higher published rating to the relevant Dated Subordinated Notes or the Undated Subordinated Notes (as applicable).

“**Rating Agency**” means Fitch Ratings Limited or Moody's Investors Service Ltd. or Standard & Poor's Credit Market Services Europe Limited 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.

## 8 Taxation

All payments of principal and/or interest by or on behalf of the Bank in respect of the Notes and the Coupons shall be made without withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts of principal and interest as will result (after such withholding or deduction) in receipt by the Noteholders and the Couponholders of the sums which would have been receivable (in the absence of such withholding or deduction) from it in respect of their Notes and/or Coupons, as the case may be; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) presented for payment by or on behalf of any holder who is liable to such tax, duty, assessment or governmental charge in respect of such Note or Coupon by reason of such holder having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (b) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a holder that is a partnership, or a holder that is not the sole beneficial owner of the Note or Coupon, or which holds the Note or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment at the expiry of such period of 30 days; or
- (e) 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

The “**Relevant Date**” in respect of any payment means the date on which such payment first becomes due or (if the full amount of the moneys payable has not been duly received by the Issuing and Paying Agent or

the Trustee on or prior to such date) the date on which notice is given to the Noteholders that such moneys have been so received.

References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 5 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to them and (iii) “**principal**” and/or “**interest**” (other than such interest as is referred to in Condition 10(g)) shall be deemed to include any additional amounts that may be payable under this Condition 8 or under any obligations undertaken in addition thereto or in substitution therefor under the Trust Deed.

## **9 Prescription**

Claims for payment of principal (excluding principal comprised in a withheld amount) will become void 12 years, and claims for payment of interest (other than interest comprised in, or accrued on, a withheld amount) will become void six years, after the Relevant Date (as defined in Condition 8) relating thereto. Claims in respect of principal comprised in a withheld amount and claims in respect of interest comprised in, or accrued on, a withheld amount will, in the case of such principal, become void 12 years and will, in the case of such interest, become void six years after the due date for payment thereof as specified in Condition 10(f) or, if the full amount of the moneys payable has not been duly received by the Issuing and Paying Agent, another Paying Agent, the Registrar, a Transfer Agent or the Trustee, as the case may be, on or prior to such date, the date of which notice is given in accordance with Condition 15 that the relevant part of such moneys has been so received.

The prescription period in respect of Talons shall be:

- (a) as to any Talon the original due date for exchange of which falls within the 12 years immediately prior to the due date for redemption (pursuant to Condition 5) of the Note to which it pertains, six years from the Relevant Date for the redemption of such Note, but so that the Coupon sheet for which it is exchangeable shall be issued without any Coupon itself prescribed in accordance with this Condition 9 or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Note and without a Talon; and
- (b) as to any other Talon, 12 years from the Relevant Date for payment of the last Coupon of the Coupon sheet of which it formed part.

## **10 Events of Default and Enforcement**

- (a) If the Bank shall not make payment (1) other than in the case of Undated Subordinated Notes, of any principal or any interest in respect of the Notes for a period of 14 days or more after the due date for the same, or (2) in the case of Undated Subordinated Notes only, in respect of such Notes (in the case of any payment of principal) for a period of 14 days or more after the due date for the same or (in the case of any payment of interest) for a period of 14 days or more after the date on which any payment of interest is due unless the Bank has opted not to pay interest on such date, the Trustee may:
  - (i) in respect of Senior Notes, at any time at its discretion and without notice institute such proceedings and/or take such other action as it may think fit against or in relation to the Bank to enforce its obligations under the Senior Notes; or
  - (ii) in respect of Dated Subordinated Notes and Undated Subordinated Notes, institute proceedings in England (but not elsewhere) for the winding-up of the Bank, but may take no other action in respect of such default,

provided that it shall not have the right to institute such proceedings and/or, as the case may be, to take such other action if the Bank withholds or refuses any such payment (A) (subject to Condition 8) in order to comply with any fiscal or other law or regulation, with the order of any court of competent jurisdiction or with any agreement between the Bank and any taxing authority, in each case applicable to such payment, the Bank, the relevant Paying Agent, Transfer Agent or Registrar or the holder of the Note or Coupon or (B) (subject as provided in the Trust Deed) in case of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice as to such validity or applicability given at any time during the said period of 14 days by independent legal advisers acceptable to the Trustee.

- (b) If, other than in the case of Undated Subordinated Notes, otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for winding-up the Bank, the Trustee may at its discretion give notice to the Bank that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount, together with accrued interest (calculated as provided in the Trust Deed).
- (c) The Trustee shall not be bound to institute proceedings and/or take the action referred to in paragraph (a) or (b) above or (d) below to enforce the obligations of the Bank in respect of the Notes and Coupons or to take any other actions under the Trust Deed unless (i) it shall have been so requested by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding (as defined in the Trust Deed) and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
- (d) No Noteholder or Couponholder shall be entitled to institute such proceedings and/or take such other action as is referred to in paragraph (a)(i) above or institute proceedings for the winding-up in England (but not elsewhere) of the Bank as is referred to in paragraph (a)(ii) above, or to prove in such winding-up, except that if the Trustee, having become bound to proceed against the Bank as aforesaid, fails to do so, or, being able to prove in such winding-up, fails to do so, in either case within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or take such other action or institute proceedings for the winding-up in England (but not elsewhere) of the Bank and/or prove in such winding-up to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do. In the case of Dated and Undated Subordinated Notes, no remedy against the Bank, other than the institution of proceedings for the winding-up of the Bank in England or, as the case may be, proving in the winding-up of the Bank in the manner and by the persons aforesaid, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Bank of any of its obligations under the Notes or the Trust Deed (other than for recovery of the Trustee's remuneration or expenses). The Bank has undertaken in the Trust Deed to pay English stamp and other duties (if any) on or in connection with the execution of the Trust Deed and English, Belgian, Luxembourg, (in the case of CMU Notes only) and Hong Kong stamp and other duties or taxes (if any) on the constitution and issue of the Notes in temporary global, permanent global or definitive form (provided such stamp and other duties or taxes result from laws applicable on or prior to the date 40 days after the Issue Date specified in the Final Terms of such Notes and, in the case of exchange of a global Note for Notes in definitive form, such tax results from laws applicable on or prior to the date of such exchange) and stamp and other duties or taxes (if any) payable in England (but not elsewhere) solely by virtue of and in connection with any permissible proceedings under the Trust Deed or the Notes, save that the Bank shall not be liable to pay any such stamp or other duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the holder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Bank will not be otherwise responsible for stamp or other duties or taxes otherwise imposed and in particular (but without prejudice to the generality of the foregoing) for any penalties arising on

account of late payment where due by the holder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Notes in temporary global, permanent global or definitive form or the Coupons or Talons (in each case other than as aforesaid) are the liability of the holders thereof.

- (e) If payment to any Noteholder of any amount due in respect of the Notes (other than interest) is improperly withheld or refused (any withholding or refusal effected in reliance upon the proviso to paragraph (a) of this Condition where the relevant law, regulation or order proves subsequently not to be valid or applicable shall be treated, for the purpose of ascertaining entitlement to accrued interest but not for any other purpose, as if it had been at all times an improper withholding or refusal), interest shall accrue until, but excluding, the date on which notice is given in accordance with Condition 15 that the full amount in the Specified Currency payable in respect of such Notes is available for payment or the date of payment, whichever first occurs and shall be calculated by applying the Rate of Interest determined in accordance with these Conditions on the first day of the then current Interest Period (and each relevant Interest Period (if any) thereafter) to such amount withheld or refused, multiplying the sum by the relevant Day Count Fraction for such Interest Period and rounding the resultant figure to the nearest unit (as such term is defined in Condition 4(g)(iii)).
- (f) If, in reliance upon the proviso to paragraph (a) above, payment of any amount (each a “**withheld amount**”) in respect of the whole or any part of the principal and/or any interest due in respect of the Notes, or any of them, is not paid or provided by the Bank to the Trustee or to the account of or with the Issuing and Paying Agent, or is withheld or refused by any of the Paying Agents, the Registrar or the Transfer Agents, in each case other than improperly within the meaning of paragraph (e) above, or which is paid or provided after the due date for payment thereof, such withheld amount shall, where not already an interest bearing deposit, if lawful, promptly be so placed, all as more particularly described in the Trust Deed. If subsequently it shall be or become lawful to make payment of such withheld amount in the Specified Currency, notice shall be given in accordance with Condition 15, specifying the date (which shall be no later than seven days after the earliest date thereafter upon which such interest bearing deposit falls or may (without penalty) be called due for repayment) on and after which payment in full of such withheld amount (or that part thereof which it is lawful to pay) will be made. In such event (but subject in all cases to any applicable fiscal or other law or regulation or the order of any court of competent jurisdiction), the withheld amount or the relevant part thereof, together with interest accrued thereon from, and including, the date the same was placed on deposit to, but excluding, the date upon which such interest bearing deposit was repaid, shall be paid to (or released by) the Issuing and Paying Agent for payment to the relevant holders of Notes and/or Coupons, as the case may be (or, if the Issuing and Paying Agent advises the Bank of its inability to effect such payment, shall be paid to (or released by) such other Paying Agent, Registrar or Transfer Agent (as the case may be) as there then may be or, if none, to the Trustee, in any such case for payment as aforesaid). For the purposes of paragraph (a) above, the date specified in the said notice shall become the due date for payment in respect of such withheld amount or the relevant part thereof. The obligations under this paragraph (f) shall be in lieu of any other remedy otherwise available under these Conditions, the Trust Deed or otherwise in respect of such withheld amount or the relevant part thereof.
- (g) Any interest payable as provided in paragraph (f) above shall be paid net of any taxes applicable thereto and Condition 8 shall not apply in respect of the payment of any such interest.

## **11 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Bank and/or any subsidiary and/or any holding company of the Bank and/or any other subsidiary of any such holding company without accounting for any profit resulting therefrom.

## 12 Meetings of Noteholders, Modification, Waiver and Substitution

### (a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any of the provisions of the Notes, the Coupons or the Trust Deed, except that certain provisions of the Trust Deed may only be modified subject to approval by Extraordinary Resolution passed at a meeting of Noteholders to which special quorum provisions shall have applied. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes.

### (b) *Modification of the Trust Deed*

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable in accordance with Condition 15.

### (c) *Substitution – Senior Notes*

The Trustee shall agree, if requested by the Bank and subject to such amendment of the Trust Deed and such other conditions as the Trustee may reasonably require, but without the consent of the Noteholders or the Couponholders, to the substitution, subject to the Notes and the Coupons being unconditionally and irrevocably guaranteed by the Bank on an unsubordinated basis, of a subsidiary of the Bank or a holding company of the Bank or another subsidiary of any such holding company in place of the Bank as principal debtor under the Trust Deed, the Notes and the Coupons and as a party to the Agency Agreement.

### (d) *Substitution – Subordinated Notes*

The Trustee shall agree, if requested by the Bank and subject to such amendment of the Trust Deed and such other conditions as the Trustee may reasonably require, but without the consent of the Noteholders or the Couponholders, to the substitution, subject to the Notes and the Coupons being irrevocably guaranteed by the Bank on a subordinated basis equivalent to that mentioned in Condition 3(c) or 3(d), as the case may be, of a subsidiary of the Bank or a holding company of the Bank or another subsidiary of any such holding company in place of the Bank as principal debtor under the Trust Deed, the Notes and the Coupons and as a party to the Agency Agreement and so that the claims of the Noteholders and the Couponholders may, in the case of the substitution of a holding company of the Bank or a banking company (as defined in the Trust Deed) in the place of the Bank, also be subordinated to the rights of (i) in the case of Dated Subordinated Notes, depositors and other unsubordinated creditors of that holding company or banking company but not further or otherwise or (ii) in the case of Undated Subordinated Notes, Senior Creditors (as defined in Condition 3(d), but with the substitution of references to “that holding company” or to “that subsidiary” in place of references to “the Bank” together with such consequential amendments as are appropriate).

(e) *Change of Governing Law*

In the case of a substitution pursuant to Condition 12(c) or Condition 12(d) the Trustee may in its absolute discretion agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed and/or the Agency Agreement provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(f) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders 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 Noteholder or Couponholder shall, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim, and the Trustee shall not be entitled to require, from the Bank any indemnification or payment in respect of any tax or other consequence of any such exercise upon individual Noteholders or Couponholders except to the extent provided for by Condition 8.

### 13 Replacement of Notes, Certificates, Coupons and Talons

(a) If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other place of which notice shall be given in accordance with Condition 15 in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Bank on demand the amount payable by the Bank in respect of such Note, Certificate, Coupon or further Coupons) and otherwise as the Bank may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued. In addition, the Bank may require the person requesting delivery of a replacement Note, Certificate, Coupon or Talon to pay, prior to delivery of such replacement Note, Certificate, Coupon or Talon, any stamp or other tax or governmental charges required to be paid in connection with such replacement. No replacement Note shall be issued having attached thereto any Coupon or Talon, claims in respect of which shall have become void pursuant to Condition 9.

(b) Where:

- (i) a Talon (the “**relevant Talon**”) has become prescribed in accordance with Condition 9; and
- (ii) the Note to which the relevant Talon pertains has not become void through prescription; and
- (iii) no Coupon sheet (or part thereof, being (a) Coupon(s) and/or a Talon, hereinafter called a “*part Coupon sheet*”), which Coupon sheet would have been exchangeable for the relevant Talon or for any subsequent Talon bearing the same serial number pertaining to such Note, has been issued; and
- (iv) either no replacement Coupon sheet or part Coupon sheet has been issued in respect of any Coupon sheet or part Coupon sheet referred to in (iii) above or, in the reasonable opinion of the Bank, there is no reasonable likelihood that any such replacement has been issued,

then upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity or security as the Bank may reasonably require there may be obtained at the

specified office of the Issuing and Paying Agent (or such other place of which notice shall be given in accordance with Condition 15) a Coupon sheet or Coupon sheets or part Coupon sheet(s), as the circumstances may require, issued:

- (A) in the case of a Note that has become due for redemption (x) without any Coupon itself prescribed in accordance with Condition 9 or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Note, and (y) without any Talon or Talons, as the case may be; or
- (B) in any other case, without any Coupon or Talon itself prescribed in accordance with Condition 9 and without any Talon pertaining to a Coupon sheet the Relevant Date of the final Coupon of which falls on or prior to the date when the Coupon sheet(s) or part Coupon sheet(s) is (are) delivered to or to the order of the claimant, but in no event shall any Coupon sheet be issued the original due date for exchange of which falls after the date of delivery of such Coupon sheet(s) as aforesaid.

For the avoidance of doubt, the provisions of this Condition 13(b) shall not give, or revive, any rights in respect of any Talon that has become prescribed in accordance with Condition 9.

#### **14 Further Issues**

The Bank may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further notes shall be consolidated and form a single Series with the Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition and forming a single Series with the Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series in certain circumstances where the Trustee so decides.

#### **15 Notices**

Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be the Financial Times). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in the United Kingdom, approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and shall be deemed to have been given on the weekday (being a day other than a Saturday or a Sunday) after the date of mailing provided that, if at any time by reason of the suspension or curtailment (or expected suspension or curtailment) of postal services within the United Kingdom or elsewhere the Bank is unable effectively to give notice to holders of Registered Notes through the post, notices to holders of Registered Notes will be valid if given in the same manner as other notices as set out above.

#### **16 Governing Law**

The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

#### **17 Third Party Rights**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person that exists or is available apart from that Act.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### 1 Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the relevant Final Terms to be issued in NGN form or if they are to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes 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.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository (as defined below) or, in respect of a Global Note or a Global Certificate representing CMU Notes, to a sub-custodian nominated by the HKMA as operator of the CMU Service (the “**CMU Operator**”).

Upon the initial deposit of a Global Note in CGN form with a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository or the Common Safekeeper, as the case may be, may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

A Global Note or Global Certificate representing CMU Notes will be held for the account of any members of the CMU Service (each, a “**CMU Member**”) who have accounts with the CMU Operator, or the CMU participants. Persons holding a beneficial interest in the CMU Notes through Euroclear or Clearstream, Luxembourg will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg with the CMU Operator. Interests in a Global Note or Global Certificate representing CMU Notes will only be shown on, and transfers of interests will be effected through, records maintained by the CMU Operator.

### 2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (“**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or such Alternative Clearing System as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such nominal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than in respect of the payment

of principal and interest on such Notes, the right to which shall be vested, as against the Bank and the Trustee, solely in the bearer of the relevant Global Note or the registered holder of the relevant Global Certificate in accordance with and subject to its terms and the terms of the Trust Deed. Accountholders shall have no claim directly against the Bank in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Bank will be discharged by payment to or to the order of the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

While a Global Note or a Global Certificate representing CMU Notes is held by or on behalf of the CMU Operator, payments of interest or principal will be made to the persons for whose account a relevant interest in such Global Note or Global Certificate is credited as being held by the CMU Operator at the relevant time, as notified to the CMU Issuing and Paying Agent by the CMU Operator in a relevant CMU Instrument Position Report (as defined in the rules of the CMU Service) or in any other relevant notification by the CMU Operator. Such payment will discharge the Bank's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Payments, transfers, exchanges and other matters relating to interests in a Global Note or a Global Certificate representing a CMU Note may be subject to various policies and procedures adopted by the CMU Operator from time to time. None of the Bank, the Dealers, the Trustee, the CMU Issuing and Paying Agent, the Registrar, the CMU Lodging Agent, nor any of their respective agents will have any responsibility or liability for any aspect of the CMU Operator's records relating to, or for payments made on account of, interests in a Global Note or Global Certificate representing a CMU Note, or for maintaining, supervising or reviewing any records relating to such interests.

### **3 Exchange**

#### **3.1 Temporary Global Notes**

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined in paragraph 3.6 ("Exchange Date") below):

- (i) if the relevant Final Terms indicates that such temporary Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "Overview of the Programme — Selling Restrictions"), in whole, but not in part, for the Definitive Notes, as defined and described below<sup>\*</sup>; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

The CMU Service may require that any such exchange for a permanent Global Note is made in whole and not in part, and in such event no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may

---

<sup>\*</sup> In relation to any issue of Notes which are expressed to be Temporary Global Notes exchangeable for Definitive Notes in accordance with this paragraph 3.6, such Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the minimum Specified Denomination provided herein and multiples thereof).

be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

### 3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 (“Partial Exchange of Permanent Global Notes”), in part for Definitive Notes or, in the case of paragraph 3.2(iii) below, Registered Notes:

- (i) by the Bank giving notice to the Noteholders, the Trustee and the Issuing and Paying Agent of its intention to effect such exchange (unless principal in respect of any Notes has not been paid when due);<sup>†</sup>
- (ii) if the relevant Final Terms provides that the permanent Global Note is exchangeable at the request of the holder, by the holder (acting on the instructions of the person(s) with beneficial interest(s) in such permanent Global Note) giving notice to the Issuing and Paying Agent of its election for such exchange;<sup>‡</sup>
- (iii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder (acting on the instructions of the person(s) with beneficial interest(s) in such permanent Global Note) giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such permanent Global Note for Registered Notes; and
- (iv) otherwise, (i) upon the happening of any of the events defined in the Trust Deed as “Events of Default”; or (ii) if Euroclear or Clearstream, Luxembourg or the CMU Service or an Alternative Clearing System is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available.

### 3.3 Global Certificates

If the relevant Final Terms state that the Notes are to be represented by a Global Certificate on issue, transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) upon the happening of any of the events defined in the Trust Deed as “Events of Default”; or
- (ii) if such Notes are held on behalf of Euroclear or Clearstream, Luxembourg or the CMU Service or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available; or
- (iii) with the consent of the Bank,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the holder of the Registered Notes has given the Registrar not less than 30 days’ notice at its specified office of the holder of the Registered Notes’ intention to effect such transfer.

### 3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (1) for

---

<sup>†</sup> Not applicable to Notes with a minimum Specified Denomination plus a higher integral multiple of a smaller amount.

<sup>‡</sup> Not applicable to Notes with a minimum Specified Denomination plus a higher integral multiple of a smaller amount.

Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes if principal in respect of any Notes is not paid when due.

A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

### **3.5 Delivery of Notes**

If the Global Note is a CGN, on or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the relevant Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Bank will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or (iii) if the Global Note is a NGN, the Bank will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Prospectus, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them, if applicable, all Coupons in respect of interest that has not already been paid on the Global Note and, if applicable, a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Bank will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### **3.6 Exchange Date**

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

## **4 Amendment to Conditions**

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions. The following is a summary of certain of those provisions:

### **4.1 Payments**

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement (provided that, in respect of CMU Notes, the crediting of interests in the relevant Global Note in the CMU Service shall be deemed to be presentation of such Global Note) and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each

payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. If the Global Note is a NGN, or if the Global Certificate is held under the NSS, the Bank shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Bank's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "**business day**" set out in Condition 6(h) (Non-Business Days).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

While a Global Note or a Global Certificate representing the CMU Notes is held by or on behalf of the CMU Operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the Global Certificate is credited as being held by the CMU Operator at the relevant time, as notified to the relevant Paying Agent by the CMU Operator in a relevant CMU Instrument Position Report or in any other relevant notification by the CMU Operator. Such payment will discharge the Bank's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants. Unless otherwise specified in the relevant Final Terms, while a CMU Note is lodged with the CMU Service, "**business day**" and "**Business Day**" shall mean a business day or Business Day (as each term is defined in the Conditions) on which, in addition to the requirements set out in the Conditions or in the relevant Final Terms, the CMU Service is also operating.

Payments, transfers, exchanges and other matters relating to interests in a Global Note or a Global Certificate representing CMU Notes may be subject to various policies and procedures adopted by the CMU Operator from time to time. None of the Bank, the Dealers, the Trustee, the CMU Issuing and Paying Agent, the Registrar or the CMU Lodging Agent, or any of their respective agents, will have any responsibility or liability for any aspect of the CMU Operator's records relating to, or for payments made on account of, interests in such a Global Note or Global Certificate, or for maintaining, supervising or reviewing any records relating to such interests.

#### **4.2 Prescription**

Claims against the Bank in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 12 years (in the case of principal) or six years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

#### **4.3 Cancellation**

Cancellation of any Note represented by a Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Global Note.

#### **4.4 Purchase**

Notes represented by a permanent Global Note may only be purchased by the Bank, or any of its subsidiaries or any holding company of the Bank or any other subsidiary of any such holding company if they are purchased together with the right to receive all future payments of interest (if any) thereon.

#### **4.5 Bank's Option**

Any option of the Bank provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Bank giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the certificate numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Bank is exercised in respect of some but not all of the Notes of any Series, the rights of Accountholders in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

#### **4.6 Noteholders' Options**

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent (electronically or otherwise) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of, or containing substantially similar information as contained in, the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is a NGN, or where the Global Certificate is held under the NSS, the Bank shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

#### **4.7 NGN Nominal Amount**

Where the Global Note is a NGN, the Bank shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

#### **4.8 Trustee's Powers**

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its Accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such Accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

#### **4.9 Notices**

Subject to the immediately following paragraph, so long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to the relative Accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate. Any such notice shall be deemed to have been given to the holders of the Notes on the second business day after such notice is delivered to that clearing system for communication by it to the holders.

For so long as all CMU Notes are represented by a Global Note or a Global Certificate and the Global Note or Global Certificate is held on behalf of the CMU Operator, notices to holders of the CMU Notes may, in substitution for publication as required by the Conditions, be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report (as defined in the rules of the CMU Service) issued by the CMU Operator on the business day preceding the date of despatch of such notice as holding interests in such Global Note or Global Certificate for communication to the CMU participants. Any such notice shall be deemed to have been given to the holders of CMU Notes on the second business day after such notice is delivered to the persons shown in the relevant CMU Instrument Position Report as aforesaid. Indirect participants will have to rely on the CMU participants (through whom they hold the CMU Notes, in the form of interests in a Global Note or a Global Certificate) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU participants.

## 5 CMU

The CMU Operator is under no obligation to maintain or continue to operate the CMU Service nor to perform or continue to perform the procedures described above. Accordingly, the CMU Service and such procedures may be discontinued or modified at any time. None of the Bank, the Dealers, the Trustee, the CMU Issuing and Paying Agent, the Registrar, the CMU Lodging Agent, nor any of their respective agents will have any responsibility for the performance by the CMU Operator or the CMU participants of their respective obligations under the rules and procedures governing their operations.

A Global Note or Global Certificate representing CMU Notes will be held for the account of CMU Members who have accounts with the CMU Operator, or the CMU participants. Interests in such Global Note or Global Certificate will only be shown on, and transfers of interests will be effected through, records maintained by the CMU Operator.

## 6 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (i) approval of a resolution proposed by the Bank or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes (an “**Electronic Consent**” as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum requirements were satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and
- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Bank and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Bank and/or the Trustee, as the case may be, by Accountholders in the clearing system with entitlements to such Global Note or Global Certificate or, where the Accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the Accountholder or via one or more intermediaries and provided that, in each case, the Bank and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter

following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an Accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the Accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Bank shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

## **USE OF PROCEEDS**

The net proceeds of each issue of Notes will be used for the general business purposes of Lloyds Banking Group.

## REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

### Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (the “**Circular**”), pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts was expanded to cover 20 provinces and cities including Beijing, and (iii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in designated pilot districts in the PRC). In August 2011, the PRC government further expanded Renminbi cross-border trade settlement across the PRC.

As a new regulation, the Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Circular and impose conditions for settlement of current account items.

### Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Settlements for capital account items are generally required to be made in currencies other than Renminbi. For example, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contract and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or the relevant PRC parties are also generally required to make capital item payments, including payment of (i) proceeds arising from liquidations, transfers of shares and reductions of capital and (ii) interest and principal repayments to foreign investors in a foreign currency. However, the relevant PRC authorities may allow a foreign entity to make a capital contribution or a shareholder’s loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for such foreign invested enterprise to make related interest payments and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. Such foreign invested enterprise may be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances are authorised.

On 7 April 2011, the State Administration of Foreign Exchange (“**SAFE**”) published the Circular on Issues Concerning the Capital Account Items in Connection with Cross-border Renminbi (國家外匯管理局綜合司關於

規範跨境人民幣資本項目業務操作有關問題的通知) (the “**SAFE Circular**”), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to contribute towards an onshore enterprise or to make payment for the purchase of any equity interest in an onshore enterprise from a PRC resident, such onshore enterprise shall be required to (i) submit the prior written consent obtained from the relevant Ministry of Commerce (“**MOFCOM**”) to the relevant local branches of SAFE that oversee such onshore enterprise and (ii) register for foreign invested enterprise status. Furthermore, the SAFE Circular states that any foreign debts borrowed, and any external guarantees provided, by an onshore entity (including a financial institution) denominated in RMB shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 12 October 2011, MOFCOM published the Circular on Issues in Relation to Cross-border RMB Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的通知) (the “**MOFCOM RMB FDI Circular**”). In accordance with the MOFCOM RMB FDI Circular, MOFCOM and its local counterparts are authorised to approve RMB foreign direct investment (“**FDI**”) in accordance with existing PRC laws and regulations regarding foreign investment, with certain exceptions which require the preliminary approval of the applicable local counterpart of MOFCOM and the consent of MOFCOM: (i) RMB FDI with a capital contribution in Renminbi of RMB300 million or more; (ii) RMB FDI in financing guarantee, financing lease, micro financing or auction industries; (iii) RMB FDI in foreign invested investment companies, venture capital or equity investment enterprises; or (iv) RMB FDI in cement, iron & steel, electrolytic aluminium, shipbuilding or other policy sensitive sectors. In addition, RMB FDI in real estate sector is allowed following the existing rules and regulations of foreign investment in real estate, although Renminbi foreign debt remains unavailable to foreign invested real estate enterprises. The MOFCOM RMB FDI Circular also states that the proceeds of RMB FDI may not be used for investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placements or share transfers by agreement under the PRC strategic investment regime.

On 13 October 2011, PBOC published the Measures on Administration of RMB Settlement in Relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the “**PBOC RMB FDI Measures**”), pursuant to which special approval for RMB FDI and shareholder loans which was previously required by PBOC is no longer necessary. In some cases however, post-event filing with PBOC is still necessary.

Among others things, the PBOC RMB FDI Measures provide that (i) foreign invested enterprises are required to register with the local branch of PBOC within ten working days of obtaining the relevant business licences for the purpose of Renminbi settlement, (ii) a foreign investor is allowed to open a Renminbi expense account (人民幣銷項費用專用存款賬戶) to reimburse certain expenses before the establishment of a foreign invested enterprise, and the balance in such an account can be transferred to the Renminbi capital account (人民幣資金專用存款賬戶) of such foreign invested enterprise when it is established, (iii) commercial banks can remit a foreign investor’s Renminbi proceeds from any distributions (in the form of dividends or otherwise) by its PRC subsidiaries out of the PRC after reviewing certain requisite documents, (iv) if a foreign investor intends to use its Renminbi proceeds from any distributions (in the form of dividends or otherwise) by its PRC subsidiaries, such foreign investor may open a Renminbi re-investment account (人民幣再投資專用賬戶) to pool the Renminbi proceeds and (v) PRC parties selling stakes in domestic enterprises to foreign investors can open Renminbi accounts and receive the purchase price in Renminbi paid by such foreign investors.

The PBOC RMB FDI Measures also state that the foreign debt quota of a foreign invested enterprise constitutes its Renminbi debt and foreign currency debt owed to its offshore shareholders, offshore affiliates and offshore financial institutions, and that a foreign invested enterprise may open a Renminbi account (人民幣一般存款賬戶) to receive Renminbi proceeds borrowed offshore by submitting the applicable Renminbi loan

contract to the relevant commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the such commercial bank.

On 14 June 2012, PBOC promulgated the Notice on Implementation Rules of Renminbi settlement in Relation to Foreign Direct Investment which stipulated detailed provisions on the PBOC RMB FDI Measures.

As new regulations, the SAFE Circular, the MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures will be subject to interpretation and application by the relevant PRC authorities. Furthermore, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

## CLEARING AND SETTLEMENT

### **Book-Entry Ownership**

#### ***Bearer Notes***

The Bank may make applications to Clearstream, Luxembourg and/or Euroclear for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note in bearer form without coupons may be deposited with a common depository or common safekeeper, as the case may be, for Clearstream, Luxembourg and/or Euroclear or an Alternative Clearing System (including, in the case of CMU Notes, the CMU Service) as agreed between the Bank and Dealer. Transfers of interests in such temporary Global Notes or permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream, Luxembourg and Euroclear or, if appropriate, the Alternative Clearing System. Each Global Note deposited with a common depository or common safekeeper, as the case may be, on behalf of Euroclear and Clearstream, Luxembourg will have an ISIN and a Common Code. Global Notes deposited with a common depository or nominee or custodian of an Alternative Clearing System may have additional or alternative identifiers, as set out in the relevant Final Terms.

#### ***Registered Notes***

The Bank may make applications to Clearstream, Luxembourg and/or Euroclear and/or an Alternative Clearing System (including, in the case of CMU Notes, the CMU Service) for acceptance in their respective book-entry systems in respect of the Registered Notes to be represented by a Global Certificate. Each Global Certificate deposited with a nominee for Clearstream, Luxembourg and/or Euroclear will have an ISIN and a Common Code. Global Certificates registered in the name of a nominee for an Alternative Clearing System may have additional or alternative identifiers, as set out in the relevant Final Terms.

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will only be available in amounts specified in the applicable Final Terms.

#### ***Transfers of Registered Notes***

Transfers of interests in Global Certificates within Clearstream, Luxembourg, Euroclear and the CMU Service will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and/or Euroclear and/or the CMU Service will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg, Euroclear and the CMU Service will need to have an agreed settlement date between the parties to such transfer.

#### **Individual Certificates**

Registration of title to Registered Notes in a name other than a depository or its nominee for Clearstream, Luxembourg, Euroclear and the CMU Service or for an Alternative Clearing System will be permitted only in the circumstances set forth in "Summary of Provisions Relating to the Notes while in Global Form – Exchange – Global Certificates". In such circumstances, the Bank will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions

and such other information as the Bank and the Registrar may require to complete, execute and deliver such individual Certificates.

### **CREST Depository Interests**

Following their delivery into a clearing system, interests in Notes may be delivered, held and settled in CREST by means of the creation of CDIs representing the interests in the relevant Underlying Notes. The CDIs will be issued by the CREST Depository to CDI Holders and will be governed by English law.

The CDIs will represent indirect interests in the interest of CREST International Nominees Limited (the “**CREST Nominee**”) in the Underlying Notes. Pursuant to the CREST Manual (as defined below), Notes held in global form by the Common Depository may be settled through CREST, and the CREST Depository will issue CDIs. The CDIs will be independent securities, constituted under English law which may be held and transferred through CREST.

Interests in the Underlying Notes will be credited to the CREST Nominee's account with Euroclear and the CREST Nominee will hold such interests as nominee for the CREST Depository which will issue CDIs to the relevant CREST participants.

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

Transfers of interests in Underlying Notes by a CREST participant to a participant of Euroclear or Clearstream, Luxembourg will be effected by cancellation of the CDIs and transfer of an interest in such Notes underlying the CDIs to the account of the relevant participant with Euroclear or Clearstream, Luxembourg.

The CDIs will have the same ISIN as the ISIN of the Underlying Notes and will not require a separate listing on the Official List.

Prospective subscribers for Notes represented by CDIs are referred to Chapter 3 of the CREST Manual which contains the form of the CREST Deed Poll to be entered into by the CREST Depository. The rights of the CDI Holders will be governed by the arrangements between CREST, Euroclear, Clearstream, Luxembourg and the Bank including the CREST Deed Poll (in the form contained in Chapter 3 of the CREST International Manual (which forms part of the CREST Manual)) executed by the CREST Depository. These rights may be different from those of holders of Notes which are not represented by CDIs.

If issued, CDIs will be delivered, held and settled in CREST, by means of the CREST International Settlement Links Service (the “**CREST International Settlement Links Service**”). The settlement of the CDIs by means of the CREST International Settlement Links Service has the following consequences for CDI Holders:

- (i) CDI Holders will not be the legal owners of the Underlying Notes. The CDIs are separate legal instruments from the Underlying Notes to which they relate and represent an indirect interest in such Underlying Notes.
- (ii) The Underlying Notes themselves (as distinct from the CDIs representing indirect interests in such Underlying Notes) will be held in an account with a custodian. The custodian will hold the Underlying Notes through a clearing system. Rights in the Underlying Notes will be held through custodial and depository links through the appropriate clearing systems. The legal title to the Underlying Notes or to interests in the Underlying Notes will depend on the rules of the clearing system in or through which the Underlying Notes are held.

- (iii) Rights under the Underlying Notes cannot be enforced by CDI Holders except indirectly through the intermediary depositories and custodians described above. The enforcement of rights under the Underlying Notes will therefore be subject to the local law of the relevant intermediary. The rights of CDI Holders to the Underlying Notes are represented by the entitlements against the CREST Depository which (through the CREST Nominee) holds interests in the Underlying Notes. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Underlying Notes in the event of any insolvency or liquidation of the relevant intermediary, in particular where the Underlying Notes held in clearing systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of the relevant intermediaries.
- (iv) The CDIs issued to CDI Holders will be constituted and issued pursuant to the CREST Deed Poll. CDI Holders will be bound by all provisions of the CREST Deed Poll and by all provisions of or prescribed pursuant to, the CREST International Manual dated 14 April 2008 as amended, modified, varied or supplemented from time to time (the “CREST Manual”) and the CREST Rules (the “CREST Rules”) (contained in the CREST Manual) applicable to the CREST International Settlement Links Service and CDI Holders must comply in full with all obligations imposed on them by such provisions.
- (v) Potential investors should note that the provisions of the CREST Deed Poll, the CREST Manual and the CREST Rules contain indemnities, warranties, representations and undertakings to be given by CDI Holders and limitations on the liability of the issuer of the CDIs, the CREST Depository.
- (vi) CDI Holders may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the money invested by them. The attention of potential investors is drawn to the terms of the CREST Deed Poll, the CREST Manual and the CREST Rules, copies of which are available from CREST at 33 Cannon Street, London EC4M 5SB or by calling +44 (0) 207 849 0000 or from the CREST website at [www.euroclear.com/site/public/EUI](http://www.euroclear.com/site/public/EUI).
- (vii) Potential investors should note CDI Holders may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service. These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the Notes through the CREST International Settlement Links Service.
- (viii) Potential investors should note that neither the Bank, the Trustee nor any Paying Agent will have any responsibility for the performance by any intermediaries or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.
- (ix) Potential investors should note that Notes issued in temporary global form exchangeable for a Permanent Global Security will not be eligible for CREST settlement as CDIs. As such, investors investing in the Underlying Notes through CDIs will only receive the CDIs after such Temporary Global Security is exchanged for a Permanent Global Security, which could take up to 40 days after the issue of the Notes.

## **CMU**

The CMU Service is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the CMU Members of capital markets instruments

(“**CMU Instruments**”) which are specified in the CMU Manual (as defined in the Trust Deed) as capable of being held within the CMU Service.

The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, “authorised institutions” under the Banking Ordinance (Cap. 155) of Hong Kong and other domestic and overseas financial institutions at the discretion of the HKMA.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members.

Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from a CMU Instrument Position Report obtained by request from the HKMA for this purpose.

## **LLOYDS BANKING GROUP**

### **Overview**

The businesses of Lloyds Banking Group are in or owned by the Bank and the Bank is wholly-owned by the Company. Accordingly, set out below is information relating both to the Group and the Bank which is necessary in order for investors to understand the business of the Bank and the relevance of its relationship with the Company.

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers.

### **History and development of Lloyds Banking Group**

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

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

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

The HBOS Group had been formed in September 2001 by the merger of Halifax plc and Bank of Scotland. The Halifax business began with the establishment of the Halifax Permanent Benefit Building Society in 1852; the society grew through a number of mergers and acquisitions including the merger with Leeds Permanent Building Society in 1995 and the acquisition of Clerical Medical in 1996. In 1997, the Halifax converted to plc status and floated on the London stock market. Bank of Scotland was founded in July 1695, making it Scotland's first and oldest bank.

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

Pursuant to two placing and open offers which were completed by the Company in January and June 2009 and the Rights Issue completed in December 2009, the UK Government acquired 43.4 per cent. of the Company's

issued ordinary share capital. Following further issues of ordinary shares, the UK Government's holding has been reduced to approximately 38.8 per cent. as at 1 May 2013.

## **Ratings**

As at the date of this Prospectus: (i) long-term senior obligations of the Bank are rated "A" by S&P, "A2" by Moody's and "A" by Fitch; and (ii) short-term obligations of the Bank are rated "A-1" by S&P, "P-1" by Moody's and "F1" by Fitch. Each of Fitch, Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

### *Expected ratings in relation to Notes issued by the Bank under the Programme*

S&P is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more "A"; Senior Notes issued by the Bank with a maturity of less than one year "A-1"; Dated Subordinated Notes issued by the Bank "BBB-"; and Undated Subordinated Notes issued by the Bank "BB+".

Fitch is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more "A"; and Senior Notes issued by the Bank with a maturity of less than one year "F1". Subordinated Notes issued by the Bank will be rated by Fitch on a case-by-case basis.

Moody's is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more "A2"; Senior Notes issued by the Bank with a maturity of less than one year "P-1"; Dated Subordinated Notes issued by the Bank "Baa3"; and Undated Subordinated Notes issued by the Bank "Ba1".

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody's, each of which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) on credit rating agencies will be disclosed in the relevant Final Terms.

A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating agency.

For detail on credit ratings risks see "Risk Factors – Financial soundness related risks". In particular, see "Risk Factors – Financial soundness related risks – The Group's borrowing costs and access to the capital markets is dependent on a number of factors, including any reduction in the Group's longer-term credit rating, and increased costs or reduction in access could materially adversely affect the Group's results of operations, financial condition or prospects."

## **Strategy of Lloyds Banking Group**

The Group is a well diversified UK financial services group providing a wide range of banking and financial services to personal, commercial and corporate customers. The main focus of the Group remains the financial service markets in the UK and the Group has leading positions in many of the markets in which it participates, a comprehensive distribution capability, well recognised brands and a large customer base.

The Group's corporate strategy is built around becoming the best bank for personal and commercial customers across the UK and creating value by investing in areas that make a real difference to these customers. Customer leadership driven by superior customer insight, tailored products, better service and relationship focus is

the overriding priority. There are a number of other key elements to the strategy announced in June 2011, including simplifying the business, improving its agility and efficiency whilst focusing on core markets which offer strong returns and attractive growth, maintaining a prudent approach to risk and further strengthening the Group's balance sheet.

The four key elements of the action plan to deliver the strategy are:

*Reshape the business portfolio to fit the Group's assets, capabilities and risk appetite*

In reshaping its business the Group is focusing on the continued reduction of assets outside of its risk appetite, the continued application of a conservative approach to, and a prudent appetite for, risk and the streamlining of its international presence.

*Strengthen the Group's balance sheet and liquidity position*

The Group continues to strengthen its balance sheet with the aim of ensuring the financial strength and security of the Group. The Group is enhancing its capital ratios and ensuring that it exceeds regulatory liquidity requirements, whilst maintaining a stable funding base and ensuring loan to deposit ratios remain close to its long term targets.

*Simplify the Group to improve agility and efficiency*

The simplification programme aims to release savings for the Group through a fundamental review of operations and processes, the creation of a more efficient distribution platform and increased use of digital channels, optimising sourcing and creating a more agile organisation through delayering the management structure, centralising control functions and simplifying the legal structures.

The programme had delivered run-rate cost savings of £847 million at the end of 2012. The simplification programme is central to the successful delivery of the Group's strategy and the Group continues to make progress in driving further cost savings and efficiencies through the business whilst improving the customer experience.

*Invest to be the best bank for customers*

The Group intends to increase the investment in its business with a focus on becoming the best bank for customers, becoming the best partner for its business customers and enhancing its insurance proposition.

The Group will invest in core areas which offer strong returns and attractive growth: these are businesses which are capital and liquidity efficient, with sustainable competitive advantages, and which are central to the Group's core customer strategy.

*Summary*

The Group is looking to create a simpler, more agile, efficient and responsive organisation with a real focus on operating sustainably and responsibly. Whilst focusing on core markets, which offer strong returns and active growth, the Group will maintain a prudent approach to risk and further strengthen its balance sheet.

The Group believes that the successful execution of its strategy to be the best bank for customers will enable delivery of strong and sustainable returns for shareholders.

## **Businesses and Activities of Lloyds Banking Group**

Following a reorganisation during 2012, the Group's activities are now organised into four segments: Retail; Commercial Banking; Wealth, Asset Finance and International; and Insurance.

The impact of this reorganisation was as follows:

- (i) the Group's Wholesale and Commercial divisions have been combined to form Commercial Banking;

- (ii) the Asset Finance business unit, previously reported within Wholesale, is now reported within the Wealth, Asset Finance and International segment; and
- (iii) the Group's Continental European wholesale business and the wholesale Australian business have been transferred from Wealth, Asset Finance and International to Commercial Banking.

## **Retail**

The Retail division operates the largest retail bank in the UK and is a leading provider of current accounts, savings, personal loans, credit cards and mortgages.

The division is focused on improving customer service and advocacy and becoming the best bank for customers. With its strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland and Cheltenham & Gloucester, it serves over 30 million customers through one of the largest branch and fee free ATM networks in the UK and a comprehensive digital, telephony and mobile proposition.

In meeting the financial needs of its customers, the division provides a comprehensive product range to ensure differing customer requirements can be effectively met. This includes a range of current accounts including packaged accounts and basic banking accounts. It is also the largest provider of personal loans in the UK, as well as being the UK's leading credit card issuer. Retail provides approximately one in four new residential mortgages and provided over 55,000 mortgages to help first time buyers in 2012, making it one of the leading UK mortgage lenders. Retail is the largest private sector savings provider in the UK. It is also a major general insurance and bancassurance distributor, offering a wide range of long-term savings, investment and general insurance products.

## **Commercial Banking**

Commercial Banking was created in the fourth quarter of 2012 bringing SMEs together with larger corporate UK and global clients to ensure consistent and effective client coverage. The Commercial division was combined with the Wholesale division and the Australian and European corporate businesses previously reported in the International segment of Wealth, International and Asset Finance.

The division continues to re-segment client coverage, driven by evolving client behaviours. For SME and mid-market clients, the division is strengthening the face-to-face banking proposition as well as working to improve product delivery through enhanced digital capability. For larger corporate clients, the division is strengthening product capability through investment in transaction banking services at the same time as enriching the core proposition in financial markets and capital markets to improve fee generating solutions.

Clients are at the centre of the business model and the division will lead the business through four coverage segments: SMEs, mid-markets, global corporates and financial institutions. The division will meet clients' needs with a suite of core banking products from lending services and transaction banking to financial markets and capital markets, delivering the full capability of the bank to clients.

## **Wealth, Asset Finance and International**

The Wealth, Asset Finance and International division comprises the Group's private banking and asset management activities, its international retail businesses and its UK and international asset finance and online deposit businesses.

The business segments of the division have been aligned during 2012 to reflect the operating model:

- *Wealth* - UK and International Wealth businesses, Scottish Widows Investment Partnership and St James's Place;
- *Asset Finance* - UK and International Asset Finance and on-line deposit businesses; and

- *International* - banking businesses in Ireland, Europe, Asia and the rest of the world (excluding businesses transferred to the Commercial Banking division in 2012).

## **Insurance**

The Insurance division provides long-term savings, protection and investment products and general insurance products to customers in the UK and Europe and consists of the following elements:

### *Life, Pensions and Investments*

The UK Life, Pensions and Investments business provides long-term savings, protection and investment products distributed through the bancassurance, intermediary and direct channels of the Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows brands. The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands.

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

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

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

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

### *General Insurance*

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

## **Competitive Environment**

The Group provides financial services to personal and commercial customers, predominantly in the UK but also overseas. The main business activities of the Group are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

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

In the competitive open market in which the Group operates there is an increasing range of products and services available to customers and, with the current public scrutiny of banks, the expectations and demands of customers continue to increase.

For more information see “Risk Factors – Competition related risks – The Group remains subject to various regulatory developments and increased governmental scrutiny which could result in further proposals or initiatives to increase competition in markets which the Group operates in.” and “Risk Factors – Business and economic risks – The Group’s businesses are conducted in highly competitive environments and the Group’s financial performance depends upon management’s ability to respond effectively to competitive pressures.”.

## **Regulation**

### ***Overview of UK Regulation***

The Financial Services Act 2012 received Royal Assent on 19 December 2012 and provides a new framework for financial regulation in the UK. The Act (and the necessary secondary legislation that will support it) provides for the creation of a new UK regulatory architecture, including the replacement of the FSA by the FCA and PRA. With effect from 1 April 2013, the Bank and the Group are regulated by both the PRA and the FCA and must comply with the rules and guidance of the PRA and FCA under FSMA.

The PRA is a subsidiary of the Bank of England, with responsibility for carrying out the prudential regulation of banks, insurance companies and certain large investment firms. The PRA’s primary purpose and objective is to promote the safety and soundness of the firms it regulates.

The FCA regulates the conduct of every authorised firm (including firms who are also regulated firms by the PRA). The FCA’s primary purpose and its “operational objectives” will be to protect and enhance confidence in the UK financial system by securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting competition in consumers’ interests. The FCA is obliged to discharge its general functions in a way that promotes competition, something which the FSA was not required to do prior to the Financial Services Act 2012 coming into effect.

The Financial Services Act 2012 also creates the Financial Policy Committee (the “**FPC**”), which is a sub-committee of the court of directors at the Bank of England, and which will have powers and responsibilities in relation to systemic risk within the financial services sector, responding to sectoral issues that could threaten economic and financial stability. The FPC will have powers to give directions to the PRA and the FCA.

While it is not presently anticipated that the structural reorganisation and reallocation of the FSA’s regulatory responsibilities will by itself lead to material substantive changes in the prudential and conduct of business rules and guidance which have been made or were consulted on by the FSA, changes will be made to the structure and composition of the FSA Handbook to accommodate the division of responsibilities between the FSA’s successor regulatory authorities. The FSA Handbook set out rules and guidance across a range of issues with which financial institutions were required to comply including prudential rules relating to capital adequacy and liquidity, high level principles of business and detailed conduct of business standards and reporting standards. Most provisions in the FSA Handbook have been or will be adopted (or “designated”) by the FCA and PRA into their respective handbooks, according to each regulator’s scope and powers. Secondary legislative measures under the new Financial Services Act 2012 set out how the current UK regulatory regime will be transitioned to the new regime.

The Financial Services Act 2012 provides for specific powers for the PRA and the FCA which are additional to the powers previously held by the FSA, including:

- (i) the ability for the FCA to intervene in order to ban financial products from sale or to ban a firm from selling a widely accepted product if it determines such firm’s sale processes to be unacceptable; and

- (ii) the ability for the PRA to direct an unregulated UK holding company to take particular action, or refrain from taking a particular action, and to censure or fine such company if it does not so comply.

It is possible that the nature of, or policies for, prudential and conduct of business supervision as performed by the FCA and/or PRA could differ from the previous approach taken by the FSA, including the possibility of higher capital requirements and restrictions on certain types of transaction structures. There are risks and uncertainties as to how the FCA and PRA will interact with each other over the regulation of the same legal entities. While the Group will seek to ensure that it is prepared for this new system of regulation, there are risks associated with whether the new system will result in more intrusive and intensive regulation, adding additional burdens on the Group's resources. For instance, it is unclear how the FCA intends to apply its powers in respect of the sale of financial products, and, if there is any change in regulatory focus in the UK on product regulation, it may also impact on the Group's ability to sell certain products in the future, which may adversely affect the Group's distribution arrangements.

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

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

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

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

The FOS provides customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes for eligible persons that cover most financial products and services provided in (or from) the UK. The jurisdiction of the FOS extends to include firms conducting activities under the Consumer Credit Act. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on regulated firms.

#### *The Financial Services Compensation Scheme (the "FSCS")*

The FSCS was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. Companies within the Group are responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on authorised firms, including companies within the Group.

#### *Lending Standards Board*

The Lending Standards Board (formerly the Banking Code Standards Board) is responsible for monitoring and enforcing compliance with the Lending Code introduced on 1 November 2009 (as last amended in May 2012), which relates to lending to private customers and small businesses.

### *UK Office of Fair Trading (the “OFT”)*

The OFT is the UK’s consumer and competition authority. Its regulatory and enforcement powers impact the banking sector in a number of ways, including powers to investigate and prosecute a number of criminal offences under competition and consumer law.

### *UK Information Commissioner’s Office*

The UK Information Commissioner’s Office is responsible for overseeing implementation of the Data Protection Act 1998. This Act regulates, among other things, the retention and use of data relating to individual customers. The Freedom of Information Act 2000 (the “FOIA”) sets out a scheme under which any person can obtain information held by, or on behalf of, a ‘public authority’ without needing to justify the request. A public authority will not be required to disclose information if certain exemptions set out in the FOIA apply.

### *Independent Commission on Banking (the “ICB”)*

The UK Government appointed the ICB to review possible measures to reform the banking system and promote stability and competition. The ICB published its final report on 12 September 2011, putting forward recommendations to require ring-fencing of the retail activities of banks from their investment banking activities and additional capital requirements beyond those required under current drafts of the Capital Requirements Directive IV. The report also made recommendations in relation to the competitiveness of the UK banking market, including enhancing the competition remit of the new FCA, implementing a new industry-wide switching solution by September 2013, and improving transparency. The ICB, which following the final report completed its remit, had the authority only to make recommendations, which the UK Government could choose to accept or reject.

The ICB specifically recommended in relation to the Group’s European Commission mandated branch disposal (“**Project Verde**”), that, to create a strong challenger in the UK banking market, the entity which results from the divestment should have, or have the capability to achieve, a share of the personal current account (“**PCA**”) market of at least 6 per cent. (although this does not need to arise solely from the current accounts acquired from the Group) and a funding position at least as strong as its peers. The ICB did not specify a definitive timeframe for the divested entity to achieve a 6 per cent. market share of PCAs but recommended that a market investigation should be carefully considered by competition authorities if ‘a strong and effective challenger’ has not resulted from the Group’s divestment by 2015. The ICB did not recommend explicitly that the Group should increase the size of the Project Verde disposal agreed with the European Commission but recommended that the UK Government prioritise the emergence of a strong new challenger over reducing market concentration through a ‘substantially enhanced’ divestment by the Group.

The UK Government published its response to the ICB recommendations on 19 December 2011 and a White Paper in June 2012. The UK Government has endorsed the ICB’s proposals to ring-fence retail banking operations as part of a wider regulatory framework including capital and liquidity and effective macro- and micro-prudential supervision, which aims to remove any implicit taxpayers’ guarantee for the ring-fenced entities. The White Paper suggests that a broader range of customers, products and geographies could be allowed inside the ring-fenced bank and recommends 2019 as an implementation deadline. The UK Government no longer considers it necessary to give authorities the power to impose a separate resolution buffer to ensure that banks have adequate loss-absorbing capacity. Given that the Group is predominantly a retail and commercial bank, it would expect to be less affected by the implementation of a retail ring-fence, but believes it will be important for any transition period to be flexible in order to minimise any impact on economic growth, and for banks to implement the required structural changes.

The ICB also recommended that ring-fenced banks should hold a common equity capital base of at least 10 per cent. and primary loss-absorbing capacity of at least 17 per cent. to absorb the impact of potential losses or financial crises.

In October 2012, the UK Government published the draft Financial Services (Banking Reform) Bill which will give effect to the recommendations of the ICB covering banking structural reforms ('ring-fencing' of retail banking activities), bail-in of senior debt and depositor preference. The draft Bill was scrutinised by the Parliamentary Commission on Banking Standards and the UK Government made a series of amendments based on their recommendations. The Bill was introduced to Parliament on 4 February 2013. Lloyds Banking Group is continuing to engage constructively and actively with HM Treasury with regard to the proposals in the Bill.

#### *EU Regulation*

A High Level Expert Group, chaired by Erkki Liikanen, considered whether there is a need for structural reforms of the EU banking sector and to make relevant proposals as appropriate, with the objective of establishing a stable and efficient banking system serving the needs of citizens, the economy and the internal market. The High Level Expert Group presented its recommendations to the EU Commissioner on 2 October 2012. They recommended a set of five measures that augment and complement the set of regulatory reforms already enacted or proposed by the EU, the Basel Committee and national governments. First, proprietary trading and other significant trading activities should be assigned to a separate legal entity if the activities to be separated amount to a significant share of the bank's business. This would ensure that trading activities beyond the threshold are carried out on a stand-alone basis and separate from the deposit bank. The other measures include: emphasising the need for banks to draw up and maintain effective and realistic recovery and resolutions plans; supporting the use of designated bail out instruments; applying more robust weights in the determination of minimum capital standards; and augmenting existing corporate governance reforms such as strengthening boards and management, promoting the risk management function, reining in compensation for bank management and staff, improving risk disclosure and strengthening sanctioning powers.

The UK has implemented all of the directives introduced under the Financial Services Action Plan. However, these directives are regularly reviewed at EU level and could be subject to change. The Group will continue to monitor the progress of these initiatives, provide specialist input on their drafting and assess the likely impact on its business.

#### *U.S. Regulation*

In the United States, Lloyds TSB Bank plc maintains a branch in New York and an agency in Miami, licensed and subject to regulation and examination by the New York State Department of Financial Services and the Florida Office of Financial Regulation, respectively. Bank of Scotland plc maintains a state licensed branch in New York and maintains representative offices in Chicago, Houston and Los Angeles. The branch, agency and representative offices of Lloyds TSB Bank plc and Bank of Scotland plc are subject to extensive federal and state supervision and regulation relating to their operations.

The licensing authority of each U.S. branch and agency has the authority, in certain circumstances, to take possession of the business and property of Lloyds TSB Bank plc and Bank of Scotland plc located in the state of the office it licenses. Such circumstances generally include violations of law, unsafe business practices and insolvency.

The existence of branch, agency and representative offices in the United States subjects Lloyds Banking Group plc and its subsidiaries doing business or conducting activities in the United States to oversight by the Board of Governors of the Federal Reserve System (the "**Federal Reserve Board**").

Each of Lloyds Banking Group plc, Lloyds TSB Bank plc, HBOS plc and Bank of Scotland plc is treated as a bank holding company under the US Bank Holding Company Act of 1956 and has elected to be treated as a financial holding company.

Financial holding companies may engage in a broader range of financial and related activities than are permitted to bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. To maintain financial holding company status, Lloyds Banking Group plc, Lloyds TSB Bank plc, HBOS plc and Bank of Scotland plc are required to meet certain capital ratios and be deemed to be ‘well managed’ for the purposes of the Federal Reserve Board’s regulations. The Group’s direct and indirect activities and investments in the United States are limited to those that are ‘financial in nature’ or ‘incidental’ or ‘complementary’ to a financial activity, as determined by the Federal Reserve Board. The Group is also required to obtain the prior approval of the Federal Reserve Board before acquiring, directly or indirectly, the ownership or control of more than 5 per cent. of any class of the voting shares of any U.S. bank or bank holding company.

The Group’s U.S. broker dealer, Lloyds Securities Inc., is subject to regulation and supervision by the SEC and the Financial Industry Regulatory Authority with respect to its securities activities, including sales methods, trade practices, use of safekeeping of customers’ funds and securities, capital structure, recordkeeping, the financing of customers’ purchases and conduct of directors, officers and employees.

A major focus of U.S. governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with U.S. economic sanctions, with serious legal and reputational consequences for any failures arising in these areas. The Group engages, or has engaged, in a limited amount of business with counterparties in certain countries which the U.S. State Department currently designates as state sponsors of terrorism, including Iran, Syria, Cuba, and Sudan. The Group continues to reduce its outstanding exposures to such states which have arisen through historical business activity. In accordance with this, the Group intends to engage only in new business in such jurisdictions only in very limited circumstances where the Group is satisfied concerning legal, compliance and reputational issues.

As at 31 December 2012, the Group does not believe the Group’s business activities relating to countries designated as state sponsors of terrorism were material to its overall business.

The Group estimates that the value of the Group’s business in respect of such states represented less than 0.01 per cent. of the Group’s total assets and, for the year ended 31 December 2012, the Group believes that the Group’s revenues from all activities relating to such states were less than 0.002 per cent. of its total income, net of insurance claims. This information has been compiled from various sources within the Group, including information manually collected from relevant business units, and this has necessarily involved some degree of estimate and judgement.

For more information, see “Risk Factors – Regulatory and legal risks”.

#### *Dodd-Frank Act*

In July 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”), which provides a broad framework for significant regulatory changes that extend to almost every area of U.S. financial regulation. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions in the U.S., over-the-counter derivatives, restrictions on the ability of banking entities (subject to certain limited exceptions, including one available to certain non-U.S. affiliates of foreign banking organisations with respect to activities conducted solely outside the U.S.) to engage in proprietary trading activities and make investments in certain private equity and hedge funds (known as the ‘**Volcker Rule**’), asset securitisation activities and securities market conduct and oversight.

Under the so-called swap ‘push-out’ provisions of the Dodd-Frank Act, the derivatives activities of U.S. banks and U.S. branch offices of foreign banks will be restricted, which may necessitate changes to how the Group conducts its derivatives activities. Entities that are swap dealers and major swap participants must register with the U.S. Commodity Futures Trading Commission, and entities that are security-based swap dealers or major security-based swap participants will be required to register with the SEC. Entities that register in any of these categories become subject to additional requirements relating to capital, margin, business conduct and recordkeeping, among others.

Furthermore, the Dodd-Frank Act requires the SEC to cause issuers with listed securities, which may include foreign private issuers such as the Group, to establish a “clawback” policy to recoup previously awarded employee compensation in the event of an accounting restatement. The Dodd-Frank Act also grants the SEC discretionary rule-making authority to impose a new fiduciary standard on brokers, dealers and investment advisers, and expands the extraterritorial jurisdiction of U.S. courts over actions brought by the SEC or the United States with respect to violations of the antifraud provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

U.S. regulators are implementing many provisions of the Dodd-Frank Act through detailed rulemaking, and the implementation process will likely continue for several more years. Among many other proposals, U.S. regulators have issued proposed rules implementing the Volcker Rule, but final rules have not yet been adopted.

In December 2012, pursuant to the Dodd-Frank Act’s systemic risk regulation provisions, the Federal Reserve Board proposed to apply enhanced prudential standards to the U.S. operations of large foreign banking organisations, including the Group. Under the Federal Reserve Board’s proposal, a number of large foreign banking organisations would be required to establish a separately capitalised top-tier U.S. intermediate holding company (“IHC”) that would hold all of the large foreign banking organisation’s U.S. bank and non-bank subsidiaries, except its U.S. branches and agencies. However, this requirement would not apply to a large foreign banking organisation with combined U.S. assets of less than U.S.\$10 billion, excluding assets held by its U.S. branches and agencies. The Group does not anticipate that the requirement to form an IHC, if adopted in its current form, would apply to the Group, however the Group is monitoring the Federal Reserve Board’s proposal as it develops. In addition, under the proposal, U.S. branches and agencies of large foreign banking organisations would be subject to liquidity, single counterparty credit limits, and, in certain circumstances, asset maintenance requirements. The Federal Reserve Board is currently accepting comments on its proposal, which would become effective on 1 July 2015.

The details of the Dodd-Frank Act’s numerous implementing regulations will depend on the final regulations ultimately adopted by various U.S. regulatory authorities. Once fully implemented, the Dodd-Frank Act and related rules are expected to result in additional costs and impose certain limitations and restrictions on the way that the Group conducts its business, although uncertainty remains about the final details, impact and timing of many provisions.

## **Legal Actions and Regulatory Matters**

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

### *Interchange fees*

On 24 May 2012, the General Court of the European Union (the “**General Court**”) upheld the European Commission’s 2007 decision that an infringement of EU competition law had arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee (“**MIFs**”) in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card.

MasterCard has appealed the General Court's judgment to the Court of Justice of the European Union. MasterCard is supported by several card issuers, including Lloyds Banking Group. Judgment is not expected until late 2013 or later.

In parallel:

- (i) the European Commission is also considering further action, including introducing legislation to regulate interchange fees, following its 2012 Green Paper (Towards an integrated European market for cards, internet and mobile payments) consultation;
- (ii) the European Commission is pursuing an investigation with a view to deciding whether arrangements adopted by VISA for the levying of the MIF in respect of cross-border credit card payment transactions also infringe European Union competition laws. In this regard, VISA reached an agreement (which expires in 2014) with the European Commission to reduce the level of interchange fees for cross-border debit card transactions to the interim levels agreed by MasterCard;
- (iii) the UK Government is consulting on its intention to introduce a new regulatory framework for the UK MIFs. The consultation (Opening Up UK Payments, HMT, March 2013) envisages that the powers of a new regulator of UK payment systems would include the ability to directly set prices for interchange fees; and
- (iv) the OFT has placed on hold its examination of whether the levels of interchange fees paid by retailers in respect of MasterCard and VISA credit cards, debit cards and charge cards in the UK infringe competition law. The OFT has indicated its intention to renew the investigation if the Court of Justice upholds the General Court's judgment.

The ultimate impact of the investigations and any regulatory developments on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings and once regulatory proposals are more certain.

#### *Payment Protection Insurance*

Following the unsuccessful legal challenge by the British Bankers' Association (the "BBA") against the FSA and the FOS, the Group held discussions with the FSA with a view to seeking clarity around the detailed implementation of the FSA Policy Statement, which set out evidential provisions and guidance on the fair assessment of a complaint and the calculation of redress in respect of payment protection insurance ("PPI") sales standards. As a result, the Group concluded that there are certain circumstances where customer redress will be appropriate. Accordingly, the Group made a provision in the Company's 2011 Annual Report of £3,200 million in respect of the anticipated costs of such redress, including administration expenses.

During the first half of 2012 there was an increase in the volume of complaints received and, although the level of complaints declined during the second half of 2012, they were higher than had been anticipated at 31 December 2011. As a consequence, the Group concluded that it was appropriate to increase its provision by a further £3,575 million at 31 December 2012. This increases the total estimated cost of redress, including administration expenses, to £6,775 million; redress payments made and expenses incurred on the 1.15 million claims paid to the end of December 2012 amounted to £4,344 million. The volume of PPI complaints has continued to fall in line with expectations with average weekly complaints now at approximately 15,000, down 28 per cent on the last quarter and less than half the level experienced in the second quarter of 2012. However, there are still a number of uncertainties as to the eventual redress costs, in particular the total number of complaints and the activities of claims management companies and regulatory bodies.

#### *Interbank offered rate setting investigations*

A number of government agencies in the UK, U.S. and elsewhere, including the PRA, the FCA, the U.S. Commodity Futures Trading Commission, the SEC, the U.S. Department of Justice and a number of State Attorneys General, as well as the European Commission, are conducting investigations into submissions made by panel members to the bodies that set various interbank offered rates including the BBA London Interbank Offered Rates (“LIBOR”) and the European Banking Federation’s Euro Interbank Offered Rate (“EURIBOR”). Certain Group companies were (at the relevant times) and remain members of various panels whose members make submissions to these bodies including the BBA LIBOR panels. No Group company is or was a member of the Euribor panel. Certain Group companies have received subpoenas and requests for information from certain government agencies and the Group is co-operating with their investigations. In addition, certain Group companies, together with other panel banks, have been named as defendants in private lawsuits, including purported class action suits in the U.S. with regard to the setting of LIBOR. It is currently not possible to predict the scope and ultimate outcome of the various regulatory investigations or private lawsuits, including the timing and scale of the potential impact of any investigations and private lawsuits on the Group.

#### *Litigation in relation to insurance branch business in Germany*

Clerical Medical Investment Group Limited (“CMIG”) has received a number of claims in the German courts, relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. In the Company’s 2011 Annual Report, the Group recognised a provision of £175 million with respect to this litigation and, following decisions in July 2012 from the Federal Court of Justice (“FCJ”) in Germany, the Group recognised a further provision of £150 million with respect to this litigation in its third quarter results, increasing the total provision to £325 million.

However, there are still a number of uncertainties as to the full impact of the FCJ’s decisions and the implications with respect to the claims facing CMIG. As a result, the ultimate financial effect, which could be significantly different to the provision recognised by the Group, will only be known once there is further clarity with respect to a range of legal issues involved in these claims and/or all relevant claims have been resolved.

#### *Interest rate hedging products*

In June 2012, a number of banks, including the Group, reached agreement with the FSA to carry out a thorough assessment of sales made since 1 December 2001 of interest rate hedging products (“IRHP”) to certain small and medium-sized businesses. The Group agreed that on conclusion of this review it would provide redress to any of these customers where appropriate.

Following the completion of a pilot review of IRHP sales to small and medium-sized businesses and the agreement reached with the FSA on 30 January 2013 on the principles to be adopted during the course of the wider review, the Group has revised its estimate of the cost of redress and related administration costs and increased its provision by £310 million, bringing the total amount charged in 2012 to £400 million. At 31 December 2012, £20 million of the provision had been utilised. A number of uncertainties remain as to the eventual costs given the inherent difficulties in determining the number of customers within the scope of the review and the average compensation to customers.

#### *Shareholder complaints*

In November 2011, the Group and two former members of the Group’s Board of Directors were named as defendants in a purported securities class action filed in the United States District Court for the Southern District of New York. The complaint asserted claims under the Securities Exchange Act of 1934 in connection with alleged material omissions from statements made in 2008 in connection with the acquisition of HBOS.

No quantum is specified. In October 2012, the court dismissed the complaint. An appeal against this decision has been filed. The Group continues to consider that the allegations are without merit.

#### *FSA investigation into Bank of Scotland and report on HBOS*

In 2009, the FSA commenced a supervisory review into HBOS. The supervisory review was superseded when the FSA commenced an enforcement investigation into Bank of Scotland plc in relation to its Corporate division between 2006 and 2008. These proceedings have now concluded. The FSA published its Final Notice on 9 March 2012. No financial penalty was imposed on the Group or Bank of Scotland plc. The FSA committed to producing a public interest report on HBOS and indicated that the report is expected to be published in the summer of 2013.

#### *Other Legal Actions and Regulatory Matters*

In addition, during the ordinary course of business the Group is subject to other threatened and actual legal proceedings (which may include class action lawsuits brought on behalf of customers, shareholders or other third parties), regulatory investigations, regulatory challenges and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such matters. However, the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

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

#### ***Major Shareholders***

At 1 May 2013, The Solicitor for the Affairs of Her Majesty's Treasury had a direct interest of 38.8 per cent. (27,608,563,642 ordinary shares) in the Company's issued share capital with rights to vote in all circumstances at general meetings (31 December 2012: 39.2 per cent.; 31 December 2011: 40.1 per cent.). No other notification has been received that anyone has an interest of 3 per cent. or more in the Company's issued ordinary share capital. Further information on The Solicitor for the Affairs of Her Majesty's Treasury's shareholding in the Company is provided above under "– History and development of Lloyds Banking Group" and below under "– Information about the Lloyds Banking Group's relationship with the UK Government".

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

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

The Group, as at 31 December 2012, had related party transactions with 26 key management personnel and certain of its pension funds, OEICs and joint ventures and associates. See note 52 to the Company's 2012 Annual Report. In addition, material contracts with HM Treasury are described below under "– Information about the Lloyds Banking Group's relationship with the UK Government".

The UK Government, through HM Treasury, became a related party of the Group in January 2009, and from 1 January 2011, in accordance with IAS 24, UK Government-controlled entities became related parties of the Group. The Group regards the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc, Northern Rock (Asset Management) plc and Bradford & Bingley plc, as related parties.

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

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

The Group also engages in numerous transactions on arm’s length commercial terms in the ordinary course of its business with the UK Government and its various departments and agencies, as well as with other companies in which the UK Government has invested. This includes financings, lending, banking, asset management and other transactions with UK financial institutions in which the UK Government has invested. During 2010, 2011 and 2012, the Group made use of these measures in order to maintain and improve a stable funding position.

### ***Information about the Lloyds Banking Group’s relationship with the UK Government***

#### *HM Treasury Shareholding*

As at 1 May 2013, The Solicitor for the Affairs of Her Majesty’s Treasury (as nominee for HM Treasury) had a direct interest of 38.8 per cent. in the Company’s issued share capital with rights to vote in all circumstances at general meetings.

HM Treasury’s shareholding in the Company is a consequence of its subscription for equity securities of the Company and of HBOS (prior to the acquisition of HBOS by the Company) in the 2008 placing and open offer and preference share subscription, the concomitant placing and open offer by HBOS, the 2009 placing and open offer and the Company’s 2009 Rights Issue.

HM Treasury’s shareholding in the Company is currently managed by UKFI on behalf of HM Treasury. This relationship falls within the scope of the revised framework document between HM Treasury and UKFI published on 1 October 2010 – for more information see “Risk Factors – Government related risks – The Commissioners of HM Treasury is the largest shareholder of the Company. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business.”.

The goals of the framework document are consistent with the stated public policy aims of HM Treasury, as articulated in a variety of public announcements (as at 6 May 2011). In the publication “An Introduction: Who We Are, What We Do and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury”, it is stated that UKFI is to “develop and execute an investment strategy for disposing of the investments in the banks in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition”. It further states that UKFI will manage the shareholdings of UK financial institutions in which HM Treasury holds an interest ‘on a commercial basis and will not intervene in day-to-day management

decisions of the Investee Companies (as defined therein) (including with respect to individual lending or remuneration decisions)'.

The Company and HM Treasury in January 2009 entered into a registration rights agreement granting customary demand and 'piggyback' registration rights in the United States under the United States Securities Act 1933, as amended, to HM Treasury with respect to any ordinary shares of the Group held by HM Treasury. The agreement was amended in June 2009 to include as registrable securities the new shares subscribed for by HM Treasury in the 2009 placing and open offer, any other securities in the Company called by HM Treasury to be issued by any person and any securities issued by HM Treasury which are exchangeable for, convertible into, give rights over or are referable to any such securities. The Company also in June 2009 entered into a resale rights agreement with HM Treasury in which it agreed to provide its assistance to HM Treasury in connection with any proposed sale by HM Treasury of ordinary shares, other securities held by HM Treasury in the Company or any securities of any description caused by HM Treasury to be issued by any person which are exchangeable for, convertible into, give rights over or are referable to such ordinary shares or other securities issued by the Group, to be sold in such jurisdictions (other than the United States) and in such manner as HM Treasury may determine.

#### *Other Related Party Transactions with the UK Government*

##### **Government and central bank facilities**

During the year ended 31 December 2012, the Group participated in a number of schemes operated by the UK Government and central banks and made available to eligible banks and building societies.

##### **Credit Guarantee Scheme**

HM Treasury launched the Credit Guarantee Scheme in October 2008. The drawdown window for the Credit Guarantee Scheme closed for new issuance at the end of February 2010. At 31 December 2011, the Group had £23.5 billion of debt in issue under the Credit Guarantee Scheme. During the year ended 31 December 2012, fees of £59 million paid to HM Treasury in respect of guaranteed funding were included in the Group's income statement (2011: £291 million). At 31 December 2012, the Group had fully repaid all debt issued under the Credit Guarantee Scheme.

##### **National Loan Guarantee Scheme**

The Group is participating in the UK Government's National Loan Guarantee Scheme, which was launched on 20 March 2012. Through the scheme, the Group is providing eligible UK businesses with discounted funding, subject to continuation of the scheme and its financial benefits, and based on the Group's existing lending criteria. Eligible businesses who take up the funding will benefit from a 1 per cent. discount on their funding rate for a certain period of time.

##### **Business Growth Fund**

In May 2011, the Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300 million of equity investment by subscribing for shares in the Business Growth Fund plc, which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association's Business Taskforce Report of October 2010. At 31 December 2012, the Group had invested £50 million (31 December 2011: £20 million) in the Business Growth Fund and carried the investment at a fair value of £44 million (31 December 2011: £16 million).

##### **Big Society Capital**

In January 2012 the Group agreed, together with The Royal Bank of Scotland plc (and two other non-related parties), to commit up to £50 million each of equity investment into the Big Society Capital Fund. The

Fund, which was created as part of the Project Merlin arrangements, is a UK social investment fund. The Fund was officially launched on 3 April 2012 and the Group invested £12 million in the Fund during 2012.

### **Funding for Lending**

In August 2012, the Group announced its support for the UK Government's Funding for Lending Scheme and confirmed its intention to participate in the scheme. The Funding for Lending Scheme represents a further source of cost effective secured term funding available to the Group. The initiative supports a broad range of UK based customers, providing householders with more affordable housing finance and businesses with cheaper finance to invest and grow. The Group drew down £3.0 billion during 2012.

### **Central Bank Facilities**

In the ordinary course of business, the Group may from time to time access market-wide facilities provided by central banks.

### **GAPS Withdrawal Deed**

In November 2009, following its withdrawal from its proposed participation in GAPS, the Company entered into the GAPS Withdrawal Deed with HM Treasury pursuant to which, among other matters, the Company paid HM Treasury £2,500 million in recognition of the benefits to the Group's trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group and, in addition, reimbursed HM Treasury various costs.

The GAPS Withdrawal Deed contained certain undertakings given by the Group to HM Treasury in connection with the state aid approval obtained from the European Commission (on which see the sub-section entitled "– State Aid" below) and its withdrawal from its proposed participation in GAPS. In particular, the Group is required to do all acts and things necessary to ensure the UK Government's compliance with its obligations under the European Commission decision approving state aid to the Group. This undertaking includes an obligation to: (i) comply with the restructuring measures that the Group agreed to undertake; (ii) comply with the terms of the Restructuring Plan; and (iii) provide certain information to HM Treasury and do such acts as are necessary to enable compliance with the state aid approval to be monitored. The GAPS Withdrawal Deed also provides for the Group's restructuring obligations to be modified in certain limited circumstances (without prejudice to any challenge to such state modifications). However, HM Treasury has undertaken that it will not, without the consent of the Company, agree modifications to the Group's undertakings with respect to state aid which are significantly more onerous to the Company than those granted in order to obtain the state aid approval.

It was also agreed that if the European Commission adopted a decision that the United Kingdom must recover any state aid, the Group would repay all such state aid (subject to the Group's right to challenge any such decision in the European courts).

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

- (i) acknowledged its commitment to the principle that it should be at the leading edge of implementing the G20 principles, the FSA Code on remuneration and any remuneration provisions accepted by the UK Government from the Walker Review, provided that this principle shall always be applied in such a way as to allow the Company to operate on a level playing field with its competitors;
- (ii) reaffirmed its lending commitments;
- (iii) agreed to implement a (now published) customer charter for lending to businesses;
- (iv) committed:

- (a) to ensure that its public financial statements comply with best industry practice; and
- (b) to enter into discussions with HM Treasury with a view to ensuring that such public financial statements: (A) enable investors to assess the quality of the assets and liabilities of banking institutions, the financial position and performance of banking institutions and the nature and extent of risks arising from financial instruments to which banking institutions are exposed; and (B) are comparable as between similar banking institutions;
- (v) agreed to develop with the FSA, and implement, a medium term funding plan aimed at reducing dependence on short term funding to be regularly reviewed by the FSA (now the FCA), the Bank of England (now including the PRA) and HM Treasury (together, the “**Tripartite Authorities**”); and
- (vi) agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry: (A) as detailed in the OFT’s report “Personal current accounts in the UK – a follow up report, October 2009” and (B) relating to fees and charges, and the terms and conditions of personal current accounts where any such measures are within the scope of current negotiations with respect thereto.

### **State Aid**

As part of the European Commission’s decision approving state aid to the Group, the Group was required to submit the Restructuring Plan to the European Commission in the context of a state aid review. The plan was required to support the long-term viability of the Group and remedy any distortion of competition and trade in the European Union arising from the state aid received by the Group. The College of Commissioners announced its formal approval of the state aid on 18 November 2009 and concluded that the Restructuring Plan was appropriate to achieve the aforementioned aims.

The Restructuring Plan consists of the following principal elements: (i) the disposal of a retail banking business with at least 600 branches, a 4.6 per cent. share of the personal current accounts market in the UK and up to 19.2 per cent. of Lloyds Banking Group’s mortgage assets; (ii) an asset reduction programme to achieve £181 billion reduction in certain parts of its balance sheet by the end of 2014; and (iii) behavioural commitments, including commitments which restrict the Group’s ability to make certain acquisitions for approximately three to four years and not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31 January 2010 until 31 January 2012, which prevented Lloyds Banking Group from paying dividends on its ordinary shares for the same duration.

The Group continues to work closely with the European Commission, HM Treasury and the Monitoring Trustee appointed by the European Commission to ensure the implementation of the Restructuring Plan. In line with strengthening of the balance sheet, the Group has made excellent progress against its asset reduction commitment and reached the reduction total required in December 2012, two years ahead of the mandated completion date. The Group is currently working with the European Commission to achieve formal release from this commitment.

In June 2011, the Group issued an information memorandum to potential bidders for the retail banking business, which the European Commission confirmed met the requirements to commence the formal sale process for the sale no later than 30 November 2011. In December 2011, the Group announced that, having reviewed the formal offers made, its preferred option was for a direct sale and that it was entering exclusive discussions with the Co-operative. On 19 July 2012, the Group announced that it had agreed non-binding heads of terms with the Co-operative for the disposal of the Verde business. As announced on 24 April 2013, following the withdrawal of the Co-operative from the sale process, the Group now intends to divest the Verde business through an IPO, subject to regulatory and EC approval, having maintained this option

throughout the process to ensure best value for shareholders and certainty for customers and colleagues. The Group has already made good progress in the creation of the Verde business as a stand-alone bank. Detailed plans are in place for a rebranding of the business as TSB which is expected to be visible to retail customers from 2013, at which point the TSB Bank (Verde) will operate as a separate business within Lloyds Banking Group.

#### *Other Relationships with the UK Government*

The Group, in common with other financial institutions, is also working closely with a number of UK Government departments and agencies on various industry-wide initiatives that are intended to support the UK Government's objective of economic recovery and greater stability in the wider financial system.

For more detail on industry-wide initiatives see “- Business Growth Fund” and “- Big Society Capital” above.

### **Liquidity Management**

#### *Long-Term Refinancing Operation*

On 29 February 2012, the European Central Bank (the “**ECB**”) made available to the European banking sector its second Long-Term Refinancing Operation (the “**LTRO**”). The Group drew €13.5 billion (the sterling equivalent of which at the date of drawdown was £11.2 billion). In February 2013 the Group repaid €10 billion of this, with the remaining €3.5 billion repaid in May 2013. The LTRO borrowings have now been fully repaid. Any future use of the LTRO and/or other open market operations of central banks will be based on prudent liquidity management.

### **Directors**

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

<b>Name</b>	<b>Principal outside activities</b>
<b>Sir Winfried Bischoff</b> Chairman	A non-executive director of Eli Lilly and Company, and The McGraw-Hill Companies Inc. in the United States. A member of the Akbank International Advisory Board and Chairman of the Advisory Council of TheCityUK.
<b>Executive directors</b>	
<b>António Horta-Osório</b> Group Chief Executive	A non-executive director of Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal and a governor of the London Business School.
<b>George Culmer</b> Group Finance Director	None
<b>Non-executive directors</b>	
<b>Lord Blackwell</b>	Chairman of Interserve plc, a non-executive director of Ofcom and Halma plc and a member of the board of the Centre for Policy Studies.
<b>Carolyn Fairbairn</b>	Non-executive director of The Vitec Group plc (also serves as a member of the Audit, Nominations and Remuneration Committees of The Vitec Group plc) and a

trustee of Marie Curie Cancer Care.

**Anita Frew**

Chairman of Victrex Plc. Senior non-executive director of Aberdeen Asset Management Plc and Non-Executive director of IMI Plc.

**Nicholas Luff**

Group finance director of Centrica plc.

**David Roberts**

None.

(Deputy Chairman)

**Anthony Watson CBE**

A non-executive director of Hammerson, Vodafone and Witan Investment Trust. Chairman of Lincoln's Inn investment committee and the Marks & Spencer trustees.

(Senior Independent Director)

**Sara Weller**

Non-executive director of United Utilities Group plc (also serves as chairperson of the Remuneration Committee of United Utilities Group plc).

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

## TAXATION

### United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and H.M. Revenue & Customs practice (which may not be binding on H.M. Revenue & Customs) and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons (such as dealers) to whom special rules may apply. Any Noteholders who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

### Taxation of Interest

While the Notes are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007 (the “Act”), payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for the purposes of section 1005 of the Act. Securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List (within the meaning of and in accordance with the provisions of Part VI of the Financial Services and Markets Act 2000) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange.

The Bank, provided that it continues to be a bank within the meaning of section 991 of the Act, and provided that the interest on the Notes is paid in the ordinary course of its business within the meaning of section 878 of the Act, will be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax. Interest will not be regarded as being paid in the ordinary course of business where the borrowing relates to the capital structure of the Bank. The borrowing will be regarded as relating to the capital structure of the Bank if it conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the PRA, whether or not the borrowing actually counts towards tier 1, 2 or 3 capital for regulatory purposes.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom tax where at the time interest on the Notes is paid, the Bank reasonably believes either:

- (a) that the beneficial owner is a United Kingdom resident company or is a non-United Kingdom resident company which is within the charge to United Kingdom corporation tax as regards the payment of interest; or
- (b) that the payment is made to one of the bodies or persons, and in accordance with any applicable conditions, set out in sections 935 to 937 of the Act,

provided that H.M. Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on Notes with a maturity date of less than a year after the issue date may be paid without withholding or deduction on account of United Kingdom tax provided that interest is not payable in respect of a debt which is intended to be outstanding for a year or more.

In all other cases, an amount must generally be withheld from payments of yearly interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary by H.M. Revenue & Customs under an applicable double taxation treaty.

H.M. Revenue & Customs has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest (including the amount payable on the redemption of a deeply discounted security); and securities transactions.

The persons from whom H.M. Revenue & Customs can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information H.M. Revenue & Customs can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. H.M. Revenue & Customs is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. This limitation does not apply to H.M. Revenue & Customs' power to obtain information about payments derived from securities.

H.M. Revenue & Customs has indicated that it will not use its information-gathering power on interest to obtain information about amounts payable on the redemption of deeply discounted securities which are paid before 6 April 2014.

In certain circumstances the information which H.M. Revenue & Customs has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

Interest with a United Kingdom source may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction for or on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable or (in the case of companies) such persons carry on a trade in the United Kingdom through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable, in which case United Kingdom tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent.

Where interest has been paid under deduction of United Kingdom income tax (for example, if the Notes ceased to be listed and the interest is not paid in the ordinary course of the Bank's business), Noteholders who are not resident in the United Kingdom for tax purposes may be able to recover all or part of the tax deducted under an applicable double taxation treaty.

Noteholders should recognise that the provisions relating to additional amounts referred to in "Terms and Conditions of the Notes — Taxation" would not apply if H.M. Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

## **EU Savings Directive**

Under the EU Savings Directive, each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its

jurisdiction to, or collected by such a person for, an individual resident or certain other persons in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories have adopted similar measures.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

### Summary of Programme Agreement

Subject to the terms and on the conditions contained in a Programme Agreement originally dated 4 October 1996 and amended and restated on 7 June 2013 (as modified and/or supplemented and/or restated as at the date of the issue of the Notes, the “**Programme Agreement**”) between the Bank, the Dealers (the “**Permanent Dealers**”) and such additional persons that are appointed as dealers in respect of the Programme (and whose appointment has not been terminated), as the case may be, and the Arranger, the Notes will be offered on a continuous basis by the Bank to the Permanent Dealers and any such additional dealers. However, the Bank has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Bank through the Dealers, acting as agents of the Bank. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Bank may pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Bank has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment and update of the Programme.

The Bank has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Bank.

### Other Relationships

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Bank or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank’s affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Bank’s securities, including potentially any Notes which may be offered under the Programme. Any such short positions could adversely affect future trading prices of any Notes offered under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## SELLING RESTRICTIONS

### United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes 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 United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Bank for use in connection with the offer and sale of the Notes outside the United States. The Bank and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

### United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA would not, if the Bank was not an authorised person, apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## Argentina

The Notes are not registered with the Comisión Nacional de Valores (the Argentine securities commission or the “CNV”) nor is the Bank an authorised issuer registered with the CNV. Consequently, no public offering of the Notes is authorised in Argentina and the Notes may not be sold under the Argentine Capital Markets Law No. 26,831, as amended (“**Law 26,831**”).

Accordingly, any transactions involving the Notes must be done privately, in circumstances that do not constitute a public offering or distribution under Argentine law and regulations.

Each Dealer has represented and warranted, and each further Dealer appointed under the Programme will be required to represent and warrant, that it will not (i) engage in any invitation to the general Argentine public, or certain sectors or groups in Argentina, made through personal offers, newspaper advertisements, radio or television broadcasts, films, billboards, signs, programmes, circulars, printed notices or by any other means, to enter into any transaction involving the Notes, or (ii) offer or sell the Notes to any other person for re-sale, directly or indirectly in Argentina, unless in compliance with Law No. 26,831, as amended, any regulations issued thereunder, and any other applicable Argentine laws and regulations.

## Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the “**Australian Corporations Act**”) in relation to the Programme or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission (“**ASIC**”). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, unless the relevant Final Terms (or a relevant supplement to this Prospectus) otherwise provides, it:

- (a) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale 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, this Prospectus or any other offering material or advertisement relating to the Notes in Australia,

unless:

- (i) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;
- (ii) the offer or invitation does not constitute an offer to a “retail client” for the purposes of section 761G and 761GA of the Australian Corporations Act;
- (iii) such action complies with any other applicable laws, regulations and directives in Australia; and
- (iv) such action does not require any document to be lodged with ASIC.

## Belgium

The Notes may not be distributed in Belgium by way of an offer of securities to the public, as defined in Article 3 §1 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on regulated markets, as amended from time to time, (the “**Prospectus Law**”), save in those circumstances set out in Article 3 §2 of the Prospectus Law.

The offering is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and this Prospectus or any other offering material relating to the Notes has not been and will not be approved by, the Belgian Financial Services and Markets Authority (*Autorité des Services et Marchés Financiers / Autoriteit voor Financiële Diensten en Markten*).

Accordingly, the offering may not be advertised and each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than:

- (i) qualified investors, as defined in Article 10 of the Prospectus Law;
- (ii) investors required to invest a minimum of €50,000 (per investor and per transaction) (or, once Belgium has implemented the 2010 PD Amending Directive, €100,000); and
- (iii) in any other circumstances set out in Article 3 §2 of the Prospectus Law.

This Prospectus has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the offering of Notes. Accordingly, the information contained herein may not be used for any other purpose nor disclosed to any other person in Belgium.

## **Bermuda**

This Prospectus and the Notes offered hereby have not been, and will not be, filed or registered under the laws and regulations of Bermuda, nor has any regulatory authority in Bermuda passed comment upon or approved the accuracy or adequacy of this Prospectus. The Notes offered hereby may not be offered to the public in Bermuda, except in compliance with the provisions of the Investment Business Act 2006 of Bermuda which regulates the sale of securities in Bermuda and neither this Prospectus, which has not been submitted to the Bermuda Minister of Finance, the Bermuda Registrar of Companies or the Bermuda Monetary Authority, nor any offering material or information contained herein relating to the Notes, may be supplied to the public in Bermuda or used in connection with any offer for the subscription or sale of Notes to the public in Bermuda.

## **Brazil**

Neither the Bank nor any of the Notes have been or will be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*) (the “CVM”). Any public offering or distribution of the Notes in Brazil, as defined under Brazilian laws and regulations, requires prior registration under Law No. 6,385, of 7 December 1976, as amended, and Instruction No. 400, issued by the CVM on 29 December 2003, as amended. Documents relating to an offering of the Notes by this Prospectus, as well as information contained therein, may not be distributed to the public in Brazil, nor be used in connection with any offer for subscription or sale of the Notes to the public in Brazil. The Notes may not be offered or sold in Brazil and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Brazil, except in circumstances that do not constitute a public offering, placement, negotiation or distribution under Brazilian laws and regulations.

## Cayman Islands

No offer or invitation by, or on behalf of, the Bank to subscribe for the Notes may be made from a place of business in the Cayman Islands to the public in the Cayman Islands.

## Chile

The Notes have not been and will not be registered with or by the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros*, or “SVS”) under Law No. 18,045, as amended, (*Ley de Mercado de Valores*, or the “**Securities Law**”), and, accordingly, may not be offered or sold to persons in Chile, directly or indirectly, other than in circumstances that do not constitute a public offering under Chilean securities law and applicable rules and regulations from the SVS. Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the Notes.

Pursuant to the Securities Law and *Norma de Carácter General* (Rule) no. 336, dated 27 June 2012, issued by the SVS (“**Rule 336**”), the Notes may be privately offered to certain qualified investors identified as such by Rule 336 (which in turn are further described in Rule no. 216, dated 12 June 2008, of the SVS). Accordingly, the offering may not be advertised and each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Chile other than to certain qualified investors identified as such by Rule 336.

Rule 336 requires the following information to be made to prospective investors in Chile:

- (i) the offer of the Notes is subject to *Norma de Carácter General* (Rule) no. 336, dated 27 June 2012, issued by the Securities and Insurance Commission or SVS;
- (ii) the subject matter of this offer are securities not registered with the *Registro de Valores* (Securities Registry) of the SVS, nor with the *Registro de Valores Extranjeros* (Registry of Foreign Securities) of the SVS, due to the Notes not being subject to the oversight of the SVS;
- (iii) since the Notes are not registered in Chile there is no obligation on the Bank to deliver public information about the Notes in Chile; and
- (iv) the Notes may not be sold in a public offering in Chile unless they are registered in the Securities Registry or the Registry of Foreign Securities of the SVS.

As a result of the above restrictions, purchasers of Notes in Chile are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

## Colombia

This Prospectus does not constitute a public offer in the Republic of Colombia. It is being distributed under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. The distribution of this Prospectus is made to less than one hundred specifically identified potential Colombian investors. Potential Colombian investors should make their own decision whether this financial product meets their investment objectives and risk tolerance level. Each potential Colombian investor should make its own inquiries and consult its own advisors as to this financial product and the Bank, including the merits and risks involved, and as to legal, tax and related matters

concerning an investment in the Notes. This Prospectus is marketed in Colombia or provided to Colombian residents in compliance with decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign financial and/or securities related products or services in Colombia. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may only be promoted to Colombian residents in compliance with decree 2555 of 2010 and under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations.

Colombian residents acknowledge and confirm Colombian laws and regulations (in particular, foreign exchange, securities and tax regulations) applicable to any solicitation of foreign financial products and represent that they are the sole liable party for full compliance with any such laws and regulations. In addition, the Colombian residents ensure that the Bank will have no responsibility, liability or obligation in connection with any consent, approval, filing, proceeding, authorisation or permission required by the investor or any actions taken or to be taken by the investor in connection with the offer, sale or delivery of the Notes under Colombian law.

### **Dubai International Financial Centre**

This Prospectus relates to an Exempt Offer in accordance with the Markets Rules of the Dubai Financial Services Authority (“**DFSA**”). This Prospectus is intended for distribution only to Professional Clients (as defined by the DFSA) who are not natural persons. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set out in it, and has no responsibility for it. The Notes to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

### **Ecuador**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) to the extent the Notes qualify as securities within the meaning of article 2 of the Stock Market Law (“**SML**”), it will not publicly offer, sell or advertise the Notes in or from Ecuador, as such term is defined or interpreted under the SML; and
- (ii) to the extent the Notes could also qualify as banking products within the meaning of the General Law on Financial Institutions (the “**GLFI**”), it will not publicly offer, sell or advertise the Notes in or from Ecuador, as such term is defined or interpreted under the GLFI.

Neither this Prospectus nor any other documents related to the Notes constitute a prospectus in the sense of article 12(3) of the SML and neither this Prospectus nor any other documents related to the Notes may be publicly distributed or otherwise made publicly available in Ecuador. The Bank has not applied for a listing of the Notes on the Stock Market Registry nor in any regulated securities market in Ecuador, and consequently, the information presented in this Prospectus does not necessarily comply with the information standards set out in the SML.

## France

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) Offer to the public in France:

it has only made and will only make an offer of Notes to the public in France in the period beginning on the date of notification to the *Autorité des marchés financiers* (“AMF”) of the approval of the prospectus relating to those Notes by the competent authority of a member state of the European Economic Area, other than the AMF, which has implemented the EU Prospectus Directive 2003/71/EC (as amended by Directive 2010/73/EU), all in accordance with Articles L.412-1 and L.621-8 of the French Code *monétaire et financier* and the *Règlement général* of the AMF, and ending at the latest on the date which is 12 months after the date of the approval of such prospectus; or

- (ii) Private placement in France:

it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d’investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*) as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

## Gibraltar

Gibraltar is part of the European Economic Area, having joined under the United Kingdom in 1973 (as a European territory for whose external relations a Member State is responsible). Gibraltar has implemented the Prospectus Directive.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including 2 August 2005 (the “**Gibraltar Implementation Date**”), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in Gibraltar except that it may, with effect from and including the Gibraltar Implementation Date, make an offer of such Notes to the public in Gibraltar if:

- (i) the Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 6(4) of the Gibraltar Prospectuses Act 2005 (the “GPA”) in Gibraltar (a “**Gibraltar Non-Exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the Gibraltar Financial Services Commission (the “GFSC”) or, where appropriate, approved in another Relevant Member State and notified to the GFSC, in accordance with the GPA, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Gibraltar 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 and the Bank has consented in writing to its use for the purpose of a Gibraltar Non-Exempt Offer;

- (ii) the offer is addressed only to “qualified investors” as defined in the GPA;
- (iii) the offer is addressed to fewer than 150 persons per Member State, other than qualified investors;
- (iv) at any time in any other circumstances falling within section 6(4) of the GPA;

provided that no such offer of Notes referred to in paragraphs (ii) to (iv) above shall require the Bank 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 or require the Bank to comply with the procedures stipulated under the Gibraltar Companies Act 1930 concerning prospectuses.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) with respect to anything done by it in relation to the Notes, in, from or otherwise involving Gibraltar, it has complied and will continue to comply with all provisions applicable to it under the Gibraltar Financial Services (Investment and Fiduciary Services) Act 1989, the Gibraltar Financial Services (Markets in Financial Instruments) Act 2006 and the Gibraltar Financial Services (Banking) Act 1992; and
- (ii) it will not issue or cause to be issued, make or cause to be made, any investment advertisement or promotion in or from within Gibraltar, unless:
  - (a) it is authorised and/or approved to do so under the provisions applicable to it under the Gibraltar Financial Services (Investment and Fiduciary Services) Act 1989, the Gibraltar Financial Services (Markets in Financial Instruments) Act 2006, the Gibraltar Financial Services (Banking) Act 1992 and the Gibraltar Financial Services (Advertisements) Regulations 1991;
  - (b) an advertisement for a Gibraltar Non-Exempt Offer, is in accordance with section 17 of the GPA; and
  - (c) it has received the prior written approval of the Bank.

## **Guernsey**

The Notes are not being offered to the public in Guernsey and the Notes will not be offered to the public unless all the relevant legal and regulatory requirements of Guernsey law have been complied with. This Prospectus may not be generally distributed in Guernsey. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, on terms to this effect.

## **Hong Kong**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**Securities and Futures Ordinance**”) other than (a) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (b) in other circumstances which do not result in the

document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

## **Ireland**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (i) it will not offer, underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended) including, without limitation, Regulations 7 and 152 thereof or any codes of conduct issued in connection therewith, and the provisions of the Investor Compensation Act 1998;
- (ii) it will not offer, underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Banks Acts 1942 to 2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- (iii) it will not offer, underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland (the “**Central Bank**”);
- (iv) it will not offer, underwrite the issue of, place, or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 (as amended) and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank; and
- (v) no Notes will be offered or sold with a maturity of less than 12 months except in full compliance with Notice BSD C 01/02 issued by the Central Bank.

## **Isle of Man**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has only engaged in, and will only engage in, investment activity with Isle of Man persons, and that it has only communicated or caused to be communicated and will only communicate or cause to be communicated to, Isle of Man persons invitations or inducements to engage in investment activity, in the circumstances permitted in terms of paragraph 2(d) of Schedule 1 to the Isle of Man Regulated Activities Order 2011, or if it has otherwise complied and will otherwise comply with all applicable Isle of Man laws and regulations with respect to anything done by it in relation to any Notes in, from or otherwise involving the Isle of Man.

This Prospectus has not been, and is not required to be, filed or lodged with any regulatory or other authority in the Isle of Man. The Bank is not subject to regulatory approval in the Isle of Man and holders of Notes are not protected by any statutory compensation arrangements in the event of the Bank's failure. The Isle of Man Financial Supervision Commission does not vouch for the financial soundness of the Bank or the correctness of any statements made or opinions expressed with regard to it.

## **Israel**

The Notes offered hereby are not being sold pursuant to a prospectus that has been qualified with the Israeli Securities Authority. As such, the Notes may not be offered in Israel or to Israeli residents other than to persons who have confirmed in writing prior to and in connection with their investment that (i) they are among the types of investors listed in Appendix 1 of the Securities Law, 5728-1968, of the State of Israel (an "**Exempted Investor**"), (ii) they are aware of the legal consequences of their qualifying as an Exempted Investor, and (iii) they are purchasing the Notes for their own account, for investment purposes, and without a present intention of resale.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## **Jersey**

An offer for subscription, sale or exchange of the Notes will not be circulated in Jersey and this Prospectus will not be circulated in Jersey unless all the relevant legal and regulatory requirements of Jersey law have been complied with prior to such circulation. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, on terms to this effect.

## **Malta**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: (i) it has not issued or caused to be issued and it will not issue or cause to be issued any investment advertisement, as defined in the Investment Services Act (Chapter 370 of the Laws of Malta) (the "**ISA**"), in relation to the Notes or the offer of Notes, in or from within Malta, except that it may issue or cause to be issued such investment advertisement in or from within Malta if it is issued or its contents have been approved by a licence holder in terms of the ISA or if and to the extent that an exemption from the requirements set out in article 11(1)(b) of the ISA applies under Maltese law; and (ii) if any offer of Notes is made to the public in Malta and/or any advertisement or any other document or information in relation to an offer of Notes or the Notes is issued or caused to be issued in or from Malta, such offer will be made and/or such advertisement, document or information will be so issued or caused to be issued in accordance with Maltese law.

Each Dealer has further represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not issue or cause to be issued any investment advertisement, as defined in the ISA, in relation to the Notes or the offer of Notes, in or from within Malta, unless it is authorised to do so by the Bank.

## **Mexico**

The Notes have not and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) of Mexico and they may not be publicly offered in Mexico. The Notes may, however, be privately offered in Mexico in the context of one of the private placement exceptions included in the Mexican Securities Market Law (*Ley del Mercado de Valores*).

## **Monaco**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that the Notes shall not be marketed, offered or sold, directly or indirectly, to the public in Monaco other than, by a Monaco duly authorised intermediary acting as a professional institutional investor which has such knowledge and experience in financial and business matters as to be capable of evaluating the risks and merits of an investment in the Notes. Consequently, the Notes may only be communicated to banks duly licensed by the *Autorité de Contrôle Prudentiel* and by the *Ministère d'Etat* and/or to fully licensed portfolio management companies the said licence being granted by the *Commission de Contrôle des Activités Financières* by virtue of Law n° 1.338 of 7 September 2007.

The recipient of this Prospectus is perfectly fluent in English and waives the possibility to a French version of the Programme.

*Les destinataires du présent document reconnaissent être à même d'en prendre connaissance en langue anglaise et renoncent expressément à une traduction française.*

## **Panama**

These Notes have not been and will not be registered with the Superintendence of the Securities Market of the Republic of Panama under Decree Law N°1 of 8 July 1999 (the “**Panamanian Securities Act**”) and may not be publicly offered or sold within Panama, except in certain limited transactions exempt from the registration requirements of the Panamanian Securities Act. The Notes do not benefit from the tax incentives provided by the Panamanian Securities Act and are not subject to regulation or supervision by the Superintendence of the Securities Market of the Republic of Panama.

## **Paraguay**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been registered and are not being distributed and will not be distributed in Paraguay by way of a public offer, as defined in Article 4 of Law N° 1284/98 (*Ley del Mercado de Valores*).

The Notes offered herein were issued outside of Paraguay. Accordingly, the Paraguayan Central Bank (*Banco Central del Paraguay*), the Paraguayan Stock Exchange Commission (*Comisión Nacional de Valores del Paraguay*) and the Paraguayan Banking Superintendency (*Superintendencia de Bancos del Banco Central del Paraguay*) do not regulate the offering of these Notes or any obligations that may arise from such offering.

The Paraguayan Deposit Insurance legislation (*Ley 2.334/2003 de Garantía de Depósitos*) does not insure investments in the offered Notes.

### **People's Republic of China**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

### **Peru**

Neither this Prospectus nor the Notes have been registered with the Peruvian Securities Market Regulator ("**Superintendencia del Mercado de Valores**"). Accordingly, each Dealer has further represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it and each of its affiliates has not offered or sold, and will not offer or sell, any Notes in Peru except that they may offer Notes in circumstances which do not constitute a public offering under Peruvian laws and regulations.

The Notes will not be registered in the Registro Público del Mercado de Valores. As a result, the offering of the Notes is limited to the restrictions set forth in the Peruvian Securities Market Law. Noteholders are not permitted to transfer the Notes in Peru unless said transfer involves an institutional investor or the Notes are previously registered in the Registro Público del Mercado de Valores.

### **Republic of Korea**

The Notes have not been and will not be registered with the Financial Services Commission of Korea for public offering in Korea under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively the "**FSCMA**"). The Notes may not be offered, sold or delivered, directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law and its subordinate decrees and regulations (collectively, the "**FETL**"). Without prejudice to the foregoing, the number of the Notes offered in Korea or to a resident in Korea shall be less than fifty, and for a period of one year from the Issue Date of the Notes, none of the Notes may be divided resulting in an increased number of the Notes. Furthermore, the Notes may not be resold to Korean residents unless the purchaser of the Notes complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the FETL) in connection with the purchase of the Notes.

### **San Marino**

This Prospectus has not been registered with the Central Bank of San Marino ("**Banca Centrale della Repubblica di San Marino**", also "**BCSM**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may only be offered or sold to the public in San Marino pursuant to and in compliance with the Law 2005/165 "*Legge sulle imprese e sui servizi bancari, finanziari ed assicurativi*", the BCSM Rule 2007/07 and BCSM Rules 2006-03, as amended, and any regulation issued thereunder. Therefore, no offer will be made to the public,

whether directly or indirectly, in San Marino unless it is in compliance with the LISF and BCSM Rules 2006-03 and 2007/07 and any regulation issued thereunder.

## **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. 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 Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **Spain**

This Prospectus has not been registered with the Spanish Securities Market Regulator (*Comisión Nacional del Mercado de Valores*). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may only be offered to the public in Spain pursuant to and in compliance with Law 24/1988 and Royal Decree 1310/2005, both as amended, and any regulation issued thereunder.

## **Sweden**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no offer will be made to the public in Sweden unless it is in compliance with the Swedish Financial Instruments Trading Act (*Sw. lag (1991:980) om handel med finansiella instrument*) and any other applicable Swedish law.

## **Switzerland**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except where explicitly permitted by the relevant Final Terms:

(i) it will not publicly offer the Notes in or from Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations (“**CO**”); and

(ii) to the extent the Notes qualify as structured products (the “**Structured Products**”) within the meaning of the Swiss Collective Investment Schemes Act (the “**CISA**”), it will not offer, sell, advertise or distribute the Notes in or from Switzerland, as such terms are defined or interpreted under the CISA, except to qualified investors as defined in article 10 CISA (the “**Qualified Investors**”).

The Notes may not be publicly offered in or from Switzerland, except in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland. Offering or marketing material relating to Notes, the Final Terms of which do not explicitly permit a public offer in Switzerland, may not be publicly distributed or otherwise made publicly available in Switzerland.

To the extent the Notes qualify as Structured Products, the Notes may not be offered, sold, advertised or distributed, directly or indirectly, in or from Switzerland, except (i) to Qualified Investors or (ii) in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland. Offering or marketing material relating to Notes, which qualify as Structured Products and the Final Terms of which do not explicitly permit a public offer in Switzerland, may not be distributed or otherwise made available in Switzerland, except (i) to Qualified Investors or (ii) in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland.

The Notes do not constitute participations in a collective investment scheme within the meaning of the CISA. Therefore, the Notes are not subject to the approval of, or supervision by, the Swiss Financial Market Supervisory Authority FINMA (“**FINMA**”), and investors in the Notes will not benefit from protection under the CISA or supervision by FINMA.

## **Taiwan**

The Notes may be made available outside the PRC for purchase by PRC incorporated or resident investors making such purchase outside the PRC but are not permitted to be offered, sold, issued in the PRC. No person or entity in the PRC has been authorised to offer, sell, give advice regarding or otherwise intermediate the offering or sale of the Notes in the PRC.

## **United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

## **Uruguay**

The Notes have not been registered with the Superintendence of Financial Services in Uruguay and were not and will not be traded on any Uruguayan stock exchange.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to the public in Uruguay, except pursuant only to a private offer of securities.

## **Venezuela**

Neither this Prospectus nor the Notes have been registered with the Venezuelan Securities Market Regulator (“Superintendencia Nacional de Valores”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that will not conduct a Public Offer of the Notes in Venezuela. For the sole purpose of this selling restriction with respect to Venezuela, “Public Offer” is the offer of Notes made to the public, particular sectors or groups through any publicity or diffusion means in Venezuela.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that will not privately place or offer the Notes within the Venezuela.

## **General**

These selling restrictions may be modified by the agreement of the Bank and the Dealers following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any Dealer(s) will be required to comply will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Neither the Bank nor the Dealers represent that Notes may at any time lawfully be sold in compliance with any appropriate registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it shall, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and, that it will, obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws, regulations and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sale or deliveries, and neither the Bank nor any other Dealer shall have responsibility therefor.

## TRANSFER RESTRICTIONS

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period (as used in “**Selling Restrictions**”), by its acceptance of such Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (as such terms are defined in Regulation S) and (b) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate.
- (ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (iii) It understands that the Bank, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (iv) It understands that the Notes offered in reliance on Regulation S will be represented by a Global Certificate or a Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Global Certificate or the Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Global Certificate or the Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (v) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

## FORM OF FINAL TERMS

Final Terms dated [●]

**Lloyds TSB Bank plc**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the £50,000,000,000

Euro Medium Term Note Programme

### PART A — CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [date] and set forth in the Prospectus dated [date] [and the supplemental Prospectus[es] dated [date[s]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus[es]] [is] [are] available for viewing at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] [and the supplemental Prospectus[es] dated [date[s]]] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus[es] dated [date[s]]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus[es]] are available for viewing at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.]

- |   |   |  |
|---|---|--|
| 1 | Issuer:   | Lloyds TSB Bank plc  |
| 2 | (i) Series Number:  | [●]  |
|   | (ii) [Tranche Number:]  | [●]  |
|   | (iii) [Date on which Notes will be consolidated and form a single Series] | [The Notes will be consolidated and form a single Series with [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, which is expected to occur on or about [●]]/Not Applicable] |
| 3 | Specified Currency:   | [●]  |
| 4 | Aggregate Nominal Amount:   | [●]  |

	(i) [Series:]	[●]
	(ii) [Tranche:]	[●]
<b>5</b>	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
<b>6</b>	(i) Specified Denominations:	[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●]]
	(ii) Calculation Amount:	[●]
	[(iii) Minimum Consideration Payable]	[The Notes will not be issued to a subscriber of the Notes unless the aggregate consideration payable by the subscriber is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates)]
<b>7</b>	(i) [Issue Date:]	[●]
	(ii) [Interest Commencement Date:]	[Issue Date/[●]/Not Applicable]
<b>8</b>	Maturity Date:	[[●]/Interest Payment Date falling in or nearest to [●]]
<b>9</b>	Interest Basis:	[● per cent. Fixed Rate] [● per cent. to be reset on [●] [[and [●]] and every [●] anniversary thereafter Fixed Rate Reset] [[LIBOR/EURIBOR] +/- ● per cent. Floating Rate] [Zero Coupon]
<b>10</b>	Redemption Basis:	[Redemption at par/Redemption at [●] per Calculation Amount]
<b>11</b>	Change of Interest or Redemption/Payment Basis:	[[●]/Not Applicable]
<b>12</b>	Alternative Currency Equivalent:	[Not Applicable/Applicable]
	(i) Alternative Currency:	[●]
	(ii) Alternative Currency Adjudication Agent:	[●]
	(iii) Alternative Currency Calculation Agent:	[●]
	(iv) Rate Calculation Jurisdiction(s):	[●]
	(v) Rate Calculation Business Days:	[●]
	(vi) Scheduled Payment Currency Disruption Events:	As specified in the Conditions [and [●]]

- (vii) Settlement Rate Option: [[●]/Alternative Currency Adjudication Agent Determination]
- (viii) USD Settlement Rate Option: [[●]/Alternative Currency Adjudication Agent Determination/Not Applicable]
- (ix) Maximum Days of Postponement: [●]
- 13** Put/Call Options: [Put Option]  
[Call Option]  
[(further particulars specified below)]
- 14** Status of the Notes: [Senior/[Dated/Undated]/Subordinated]
- PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**
- 15 Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi annually/ quarterly/ monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [from and including [●]][until and excluding [●]]
- [Provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payment and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong.]
- (iii) Fixed Coupon Amount[(s)]: [[●] per Calculation Amount]
- Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, with CNY0.005 being rounded upwards.]
- (iv) Broken Amount(s): [[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]
- (v) Day Count Fraction: [Actual/365]  
[Actual/365 (fixed)]  
[Actual/360]

	[30/360]
	[30E/360]
	[30E/360 (ISDA)]
	[Actual/Actual ICMA]
(vi) Determination Dates:	[[●] in each year/Not Applicable]
(vii) [Business Day Convention:	[Applicable - Modified Following Business Day Convention/Not Applicable]
<b>16 Fixed Rate Reset Note Provisions</b>	[Applicable/Not Applicable]
(i) Initial Rate of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly] in arrear]
(ii) Interest Payment Date(s):	[●] [and [●]] in each year [from and including [●]][until and excluding [●]]
(iii) First Reset Date:	[●]
(iv) Second Reset Date:	[[●]/Not Applicable]
(v) Anniversary Date(s):	[[●]/Not Applicable]
(vi) Reset Determination Dates:	[●]
(vii) Reset Rate:	[[semi-annual][annualised]Mid-Swap Rate] [Benchmark Gilt Rate]
(viii) Swap Rate Period:	[[●]/Not Applicable]
(ix) Screen Page:	[ISDAFIX1]/[ISDAFIX2]/[ISDAFIX3]/ [ISDAFIX4]/[ISDAFIX5]/[ISDAFIX6]/[Not Applicable]
(x) Margin(s):	[+/-] [●] per cent. per annum
(xi) Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date:	[[●] per Calculation Amount]
(xii) Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]
(xiii) Day Count Fraction:	[Actual/365] [Actual/365 (fixed)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)] [Actual/Actual ICMA]
(xiv) Determination Dates:	[[●] in each year/Not Applicable]
(xv) Calculation Agent:	[●]

<b>17</b>	<b>Floating Rate Note Provisions</b>	[Applicable/Not Applicable]
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●][from and including [●]][until and excluding [●]]
	(iii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention[●]]
	(iv) Business Centre(s):	[●]
	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
	(vii) Screen Rate Determination:	
	– Reference Rate:	[LIBOR/EURIBOR]
	– Interest Determination Date(s):	[●] [TARGET/[●]] Business Days [in [●]] prior to the [●] day in each Interest Accrual Period/each Interest Payment Date
	– Relevant Screen Page:	[●]
	– Relevant Time:	[●]
	(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:	[Actual/365] [Actual/365 (fixed)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)] [Actual/Actual ICMA]
<b>18</b>	<b>Zero Coupon Note Provisions</b>	[Applicable/Not Applicable]
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Amortisation Yield compounding basis:	[Compounded/Non-compounded]

- [annually/semi-annually/other]
- (iii) Reference Price: [●]
- (iv) Any other formula/basis of determining amount payable: [●]

#### PROVISIONS RELATING TO REDEMPTION

- 19 Call Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s): [[●] per Calculation Amount/Early Redemption Amount]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [●]
- (b) Maximum Redemption Amount: [●]
- (iv) Notice period: [●]/[Not less than five nor more than [●] days]
- 20 Put Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s): [[●] per Calculation Amount/Early Redemption Amount]
- (iii) Notice period: [●]
- 21 Capital Event Call** [Applicable/Not Applicable]
- 22 Final Redemption Amount** [[●] per Calculation Amount/[●]/see Appendix]
- 23 Early Redemption Amount**
- Early Redemption Amount(s) payable on redemption for taxation reasons, following a Capital Event or on event of default or other early redemption: [[●] per Calculation Amount / [●]/see Appendix]
- 24 Capital Event Substitution and Variation** [Applicable/Not Applicable]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 25 Form of Notes:**
- Bearer Notes:**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for

Definitive Notes on [●] days' notice]

[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Registered Notes – Global Certificate — [Euroclear/Clearstream Luxembourg]/[CMU Service]]

[CREST Depositary Interests (“CDIs”) representing the Notes may also be issued in accordance with the usual procedures of Euroclear UK & Ireland Limited (“CREST”).]

- 26** New Global Note: [Yes]/[No]
- 27** Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/[●]]
- 28** Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes. As the Notes have more than 27 coupon payments, [a] Talon[s] may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
- 29** Consolidation provisions: [Not Applicable/The provisions in [Condition 14] [annexed to these Final Terms] apply]

#### **DISTRIBUTION**

- 30** U.S. Selling Restrictions: [Reg S Category 2; TEFRA C/TEFRA D/TEFRA not applicable]
- 31** Additional selling restrictions: [Not Applicable/[●]]

#### **LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required for issue and admission to trading of the Notes described herein pursuant to the £50,000,000,000 Euro Medium Term Note Programme of Lloyds TSB Bank plc.

Signed on behalf of the Bank:

By: [●]  
Duly authorised

## PART B – OTHER INFORMATION

### 1 LISTING

- (i) Listing: [London/Luxembourg]
- (ii) Admission to trading: Application [has been made/is expected to be made] for the Notes to be admitted to trading on [●] with effect from [●].
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2 RATINGS

- Ratings: [The Notes to be issued have not been rated.]  
[The Notes to be issued [have been rated/are expected to be rated]:  
[S & P: [●]]  
[Moody's: [●]]  
[Fitch: [●]]]

### 3 [NOTIFICATION

The[UK Listing Authority/[●]] [has been requested to provide/has provided] the [●] 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

Save as discussed in [“Subscription and Sale”], so far as the Bank is aware, no person involved in the issue of the Notes has an interest material to the issue.”]

### 5 [Fixed Rate Notes only — YIELD

Indication of yield: [●]

### 6 [Floating Rate Notes only — HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].]

### 7 OPERATIONAL INFORMATION

- ISIN Code: [●]
- Common Code: [●]
- Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/[●]].  
[The Notes will [also] be made eligible for CREST via the issue of CDIs representing the Notes.]  
[The Notes will be cleared through the CMU Service. CMU Instrument Number: [●].  
Persons holding a beneficial interest in the Notes through Euroclear or Clearstream, Luxembourg will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg (as applicable) with the CMU Operator.]

Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	<input type="checkbox"/> /[Not Applicable]
Name and address of Calculation Agent:	<input checked="" type="checkbox"/> /[Not Applicable]
Intended to be held in a manner which would allow Eurosystem eligibility:	<input type="checkbox"/> [Yes] <input type="checkbox"/> [No]. [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee for the common safekeeper,] and does not necessarily mean that the Notes 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.]

## GENERAL INFORMATION

1. Application has been made to the UK Listing Authority for the Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on its Regulated Market. It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued upon submission to the UK Listing Authority and to the London Stock Exchange of the relevant Final Terms and any other information required by the UK Listing Authority or any other relevant authority, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 12 June 2013. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.
2. The Bank has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment and update of the Programme and the issue and performance of the Notes. The establishment of the Programme was authorised by resolutions of the Chairman’s Committee of the Board of Directors of the Bank passed on 26 September 1996 and the update of the Programme and the issue of Notes under it was authorised by resolutions of the Board of Directors of the Bank passed on 29 November 2012 and 28 February 2013.
3. There has been no significant change in the financial or trading position of Lloyds TSB Bank Group since 31 December 2012, the date to which Lloyds TSB Bank Group’s last published audited financial information (as set out in the Bank’s 2012 Annual Report) was prepared. There has been no material adverse change in the prospects of the Bank since 31 December 2012, the date to which Lloyds TSB Bank Group’s last published audited financial information (as set out in the Bank’s 2012 Annual Report) was prepared.
4. Save as disclosed in the sub-sections entitled “Interchange fees”, “Payment Protection Insurance”, “Interbank offered rate setting investigations”, “Litigation in relation to insurance branch business in Germany”, “Interest rate hedging products” and “Shareholder complaints” of the section “Lloyds Banking Group – Legal Actions and Regulatory Matters” on pages 114 to 117 of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of the Bank or Lloyds TSB Bank Group.
5. Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
6. Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). Interests in the Notes may also be held through CREST through the issuance of CDIs representing Underlying Notes. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L- 1855 Luxembourg and the address

of CREST is Euroclear UK & Ireland, 33 Cannon Street, London, EC4M 5SB. The address of any alternative clearing system will be specified in the applicable Final Terms. The address of CMU Service is 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

7. CMU Notes have been accepted for clearance through the CMU Service. For persons seeking to hold a beneficial interest in CMU Notes through Euroclear or Clearstream, Luxembourg, such person will hold their interests in an account opened and held by Euroclear or Clearstream, Luxembourg with the CMU Operator.
8. Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Bank is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
9. For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN:
  - 9.1 the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
  - 9.2 the Memorandum and Articles of Association of the Bank;
  - 9.3 the Annual Report and Accounts of the Bank for the two financial years ended 31 December 2011 and 31 December 2012;
  - 9.4 each Final Terms; and
  - 9.5 a copy of this Prospectus together with any Supplemental Prospectus or drawdown prospectus.
10. Unless otherwise stated in the applicable Final Terms, the Bank does not intend to provide post-issuance information in connection with any issue of Notes.
11. This Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).
12. Copies of the latest audited consolidated Report and Accounts of the Bank and copies of the Trust Deed will be available for inspection at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.
13. PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors (members of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the annual consolidated published accounts of the Bank for the two financial years ended 31 December 2011 and 31 December 2012.

**REGISTERED OFFICE OF THE BANK**

25 Gresham Street  
London EC2V 7HN  
Tel: +44 20 7626 1500

**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**

Fifth Floor  
100 Wood Street  
London EC2V 7EX

**ISSUING AND PAYING AGENT, CALCULATION AGENT, REGISTRAR AND TRANSFER AGENT**

**Citibank, N.A., London Branch**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**CMU LODGING AGENT AND CMU ISSUING AND PAYING AGENT**

**Citicorp International Limited**

9/F, Two Harbourfront  
22 Tak Fung Street  
Hung Hom, Kowloon  
Hong Kong

**PAYING AGENT AND TRANSFER AGENT**

**Citigroup Global Markets Deutschland AG**

Reuterweg 16 60323  
Frankfurt AM Main  
Germany

## DEALERS

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**Crédit Agricole Corporate and Investment Bank**  
9 Quai du Président Paul Doumer  
92920 Paris La Défense Cedex  
France

**Daiwa Capital Markets Europe Limited**  
5 King William Street  
London EC4N 7AX

**DZ BANK AG Deutsche Zentral-Genossenschaftsbank,  
Frankfurt am Main**  
Platz der Republik  
60265 Frankfurt am Main  
Federal Republic of Germany

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ

**Lloyds TSB Bank plc**  
10 Gresham Street  
London EC2V 7AE

**Mizuho International plc**  
Bracken House  
One Friday Street  
London EC4M 9JA

**Nomura International plc**  
1 Angel Lane  
London EC4R 3AB

**SMBC Nikko Capital Markets Limited**  
One New Change  
London EC4M 9AF

**The Royal Bank of Scotland plc**  
135 Bishopsgate  
London EC2M 3UR

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA

**Commerzbank Aktiengesellschaft**  
Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Federal Republic of Germany

**Credit Suisse Securities (Europe) Limited**  
One Cabot Square  
London E14 4QJ

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP

**Merrill Lynch International**  
2 King Edward Street  
London EC1A 1HQ

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
Canary Wharf  
London E14 4QA

**RBC Europe Limited**  
Riverbank House  
2 Swan Lane  
London EC4R 3BF

**Standard Chartered Bank**  
One Basinghall Avenue  
London EC2V 5DD

**UBS Limited**  
1 Finsbury Avenue  
London EC2M 2PP

**UniCredit Bank AG**  
Arabellastrasse 12  
81925 Munich  
Federal Republic of Germany

**Wells Fargo Securities International Limited**  
One Plantation Place  
30 Fenchurch Street  
London EC3M 3BD

**AUDITORS**

**PricewaterhouseCoopers LLP**  
7 More London Riverside  
London SE1 2RT

**LEGAL ADVISERS**

*To the Bank  
as to English law*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ

*To the Dealers and the Trustee  
as to English law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD