



## Lloyds TSB Bank plc

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

### Lloyds TSB Bank plc

**£784,611,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019**

**£700,022,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2029**

**€532,111,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019**

On 18 September 2008, the Board of HBOS plc ("HBOS") announced that it had reached agreement with Lloyds TSB Group plc (re-named Lloyds Banking Group plc as at 16 January 2009) ("Lloyds TSB", the "Company" or the "Parent") on the terms of a recommended acquisition by Lloyds TSB of HBOS (the "Acquisition"). The terms of the Acquisition were subsequently amended as announced on 13 October 2008 and approved by shareholders of Lloyds TSB and HBOS on 19 November 2008 and 12 December 2008, respectively. Conditional upon the Acquisition becoming effective, Lloyds TSB Bank plc (the "Bank" or the "Issuer") has made an offer to the holders of certain subordinated debt securities issued by members of the HBOS group, the Bank and the Company to exchange such securities for the Capital Securities (as defined below) to be issued by the Bank (the "Exchange Offer").

This Prospectus relates to the Capital Securities to be issued by the Bank. The Capital Securities comprise £784,611,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019 (the "Series A Sterling Capital Securities"), £700,022,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2029 (the "Series B Sterling Capital Securities") and €532,111,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019 (the "Euro Capital Securities" and, together with the Series A Sterling Capital Securities and the Series B Sterling Capital Securities, the "Capital Securities"). The terms and conditions of the Capital Securities are set out more fully in "Terms and Conditions of the Series A Sterling Capital Securities", "Terms and Conditions of the Series B Sterling Capital Securities" and "Terms and Conditions of the Euro Capital Securities" (together, the "Terms and Conditions of the Capital Securities").

Interest on the Series A Sterling Capital Securities will be payable from and including 21 January 2009 to but excluding 22 January 2019 at the rate of 13 per cent. per annum, semi-annually in arrear on 21 January and 21 July in each year, save that the twentieth Coupon Payment Date (as defined below) shall fall on 22 January 2019. Following 22 January 2019, the Series A Sterling Capital Securities will bear interest at a rate, reset every five years, of 14 per cent. per annum above the gross redemption yield on a specified United Kingdom government security, payable semi-annually in arrear on 21 January and 21 July in each year, all as more particularly described in "Terms and Conditions of the Series A Sterling Capital Securities – 5. Coupon Payments".

Interest on the Series B Sterling Capital Securities will be payable from and including 21 January 2009 to but excluding the 22 January 2029 at the rate of 13 per cent. per annum, semi-annually in arrear on 21 January and 21 July in each year, save that the fortieth Coupon Payment Date (as defined below) shall fall on 22 January 2029. Following 22 January 2029, the Series B Sterling Capital Securities will bear interest at a rate, reset every five years, of 13.40 per cent. per annum above the gross redemption yield on a specified United Kingdom government security, payable semi-annually in arrear on 21 January and 21 July in each year, all as more particularly described in "Terms and Conditions of the Series B Sterling Capital Securities – 5. Coupon Payments".

Interest on the Euro Capital Securities will be payable from and including 21 January 2009 to but excluding the 22 January 2019 at the rate of 13 per cent. per annum, semi-annually in arrear on 21 January and 21 July in each year, save that the twentieth Coupon Payment Date (as defined below) shall fall on 22 January 2019. Following 22 January 2019, the Euro Capital Securities will bear interest at a rate reset quarterly of 14 per cent. per annum above the Euro-zone interbank offered rate for three-month euro deposits payable quarterly in arrear on the Coupon Payment Dates (as defined in "Terms and Conditions of the Euro Capital Securities") falling in 21 January, 21 April, 21 July and 21 October in each year, all as more particularly described in "Terms and Conditions of the Euro Capital Securities – 5. Coupon Payments".

Coupon Payments (as defined in the Terms and Conditions of the Capital Securities) may be deferred as described in Condition 4 "Coupon Deferral" of the Terms and Conditions of the Capital Securities and are subject to the condition to payment set out in Condition 2 "Status and Subordination" of the Terms and Conditions of the Capital Securities. Payments in respect of the Capital Securities will be made without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such deduction is required by law. In the event that any such withholding or deduction is made, the Capital Securities will be subject to grossing up by the Issuer, subject to certain exceptions as are more fully described under Condition 10 "Taxation" of the Terms and Conditions of the Capital Securities.

Subject to giving prior written notice to, and receiving no objection from, the Financial Services Authority (the "FSA"), the Series A Sterling Capital Securities, the Series B Sterling Capital Securities and the Euro Capital Securities will be redeemable (at the option of the Issuer) in whole but not in part at their principal amount on 22 January 2019, 22 January 2029 and 22 January 2019, respectively, or in the case of the Series A Sterling Capital Securities and the Series B Sterling Capital Securities, on the Coupon Payment Dates falling on each respective fifth anniversary of such dates thereafter, and in the case of the Euro Capital Securities, on any relevant Coupon Payment Date thereafter. In addition, upon the occurrence of a Tax Event or a Regulatory Event (each as defined in the Terms and Conditions of the Capital Securities), the Capital Securities may (i) be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities (each as defined in the Terms and Conditions of the Capital Securities), or (ii) be redeemed, at the amounts specified, and otherwise more particularly described in Condition 7 "Redemption, Substitution, Variation or Purchase" of the Terms and Conditions of the Capital Securities. The Capital Securities will be unsecured securities of the Issuer and will be subordinated to the claims of all creditors.

Applications have been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the Capital Securities 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 Capital Securities to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Prospectus to Capital Securities being "listed" (and all related references) shall mean that such Capital Securities 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.

Certain information in relation to the Lloyds TSB Group and the HBOS Group has been incorporated by reference into this document, as set out in the section entitled "Documents Incorporated by Reference" on pages 4-7 of this document.

**You should read the whole of this document and the documents incorporated herein by reference. In particular, your attention is drawn to the risk factors described in the Risk Factors set out on pages 17-39 of this document, which you should read in full.**

The Capital Securities have not and will not be registered under the U.S. Securities Act of 1933, as amended, (the "Securities Act") and are subject to US tax law requirements. Subject to certain exceptions, Capital Securities may not be offered, sold or delivered within the United States or to U.S. Persons.

The Capital Securities are expected to be assigned, on issue, ratings from Moody's Investors Service Limited and Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies, Inc. 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.

*As discussed below under "Lloyds TSB Group – Recent Developments", the Acquisition became Effective on 16 January 2009, the HBOS Placing and Open Offer closed on 15 January 2009 and the Lloyds TSB Placing and Open Offer completed on 13 January 2009. Accordingly, information set out in, or incorporated by reference, into this document pertaining to the Acquisition, the HBOS Placing and Open Offer, the Lloyds TSB Placing and Open Offer and the respective conditions thereto should be read accordingly.*

Capitalised terms used but not otherwise defined in this Prospectus shall have the meanings given to them in the section "Definitions" on page 136.

This document comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Lloyds TSB Group (as defined below) and the Capital Securities which according to the particular nature of the Issuer and the Capital Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer (the “Responsible Person”) accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Capital Securities will be in bearer form and in the denominations specified in the relevant Terms and Conditions of the Capital Securities. Each tranche of Capital Securities will initially be represented by a temporary global capital security (the “Temporary Global Capital Security”), without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”) on or about the Issue Date specified in the relevant Final Terms. Each Temporary Global Capital Security will be exchangeable for interests in a permanent global capital security (the “Permanent Global Capital Security”), without interest coupons or talons, not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership. Interests in each Permanent Global Capital Security will be exchangeable for definitive securities only in certain limited circumstances, as described under “Summary of Provisions relating to the Capital Securities while in Global Form”.

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

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 Exchange Offer or the issue or offering of the Capital Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer. The delivery of this Prospectus shall not, under any circumstances, create any implication that there has been no change in the affairs of Lloyds TSB Group since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Exchange Offer 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 Exchange Offer (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 that any recipient of this Prospectus or any other information supplied in connection with the Exchange Offer should purchase any Capital Securities. Each investor contemplating participating in the Exchange Offer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the credit-worthiness, of the Bank. Neither this Prospectus nor any other information supplied in connection with the Exchange Offer constitutes an offer of, or an invitation by or on behalf of the Bank to any person to subscribe for or purchase, any Capital Securities.

This Prospectus does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or a solicitation of any offer to buy or subscribe for, the Capital Securities. The distribution of this document may nonetheless be restricted by law in certain jurisdictions. Persons into whose possession this document comes are required by the Bank to inform themselves about, and to observe, any such restrictions. This Prospectus does not constitute an offering in any circumstances in which such offering is unlawful. The Bank will not incur any liability for its own failure or the failure of any other person or persons to comply with the provisions of any such restrictions.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “pounds”, “sterling” and “pence” are to pounds sterling. References in this Prospectus to “€” or “euro” refer to the

lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam.

### **Forward-Looking Statements**

This document and the information incorporated by reference in this document include certain “forward-looking statements”. Statements that are not historical facts, including statements about the Lloyds TSB Group’s or the HBOS 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”, “plans”, “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 future circumstances that may or may not occur, many of which are beyond the Issuer’s control and all of which are based on the Issuer’s current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Lloyds TSB, HBOS or the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Lloyds TSB’s, HBOS’ and the Enlarged Group’s present and future business strategies and the environment in which the Enlarged Group will operate in the future. These forward-looking statements speak only as at the date of this document.

Investors should specifically consider all of the information set out in, and incorporated by reference into, this document before making any investment decision. In particular, investors should consider the risks, uncertainties and other factors as set out in the section Risk Factors of this document, which include general risks relating to the Lloyds TSB Group and, if the Acquisition becomes effective, the Enlarged Group, risks relating to the Acquisition, risks relating to the Placing and Open Offer and to investment in Lloyds TSB Shares, and risks relating to the Capital Securities.

Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, the Issuer expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document or incorporated by reference into this document to reflect any change in the Issuer’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Capitalised terms in this section “Forward-Looking Statements” unless otherwise defined herein shall have the meanings set out in the Definitions section of the Lloyds TSB Placing and Open Offer Prospectus as incorporated by reference herein.

## **DOCUMENTS INCORPORATED BY REFERENCE**

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

- (i) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2006, together with the audit report thereon, as set out on pages 6 to 73 of the Issuer's Annual Report and Accounts 2006;
- (ii) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2007, together with the audit report thereon, as set out on pages 8 to 100 of the Issuer's Annual Report and Accounts 2007;
- (iii) the audited consolidated annual financial statements of Lloyds TSB Group plc for the financial year ended 31 December 2007 as set out on pages 76 to 147 of Lloyds TSB Group plc's Annual Report and Accounts 2007 together with the audit report thereon, including the information regarding Risk Management set out on pages 36 to 56, which is audited except for such information set out on page 51;
- (iv) pages 25 to (and including) 40 of the Issuer's Interim Management Report (the "Issuer's Interim Management Report") for the half-year to 30 June 2008, published on 30 July 2008;
- (v) pages 30 to (and including) 45 of Lloyds TSB Group plc's Interim Results News Release (the "2008 Company Interim Results") for the half-year to 30 June 2008, published on 30 July 2008;
- (vi) the following items from an announcement (the "Acquisition Announcement") published by Lloyds TSB Group plc on 18 September 2008 regarding the recommended acquisition of HBOS plc by Lloyds TSB Group plc to be implemented by means of a scheme of arrangement under sections 895 to 899 of the Companies Act 2006:
  - (A) From the section entitled "Introduction" to (and including) the section entitled "General" save that the following should be excluded:
    - (x) the second paragraph of the section titled "Introduction";
    - (y) the first sentence of the fifth paragraph, the sixth paragraph, the second sentence of the seventh paragraph and the eighth paragraph of the section entitled "Background to and reasons for the Acquisition"; and
    - (z) the first, tenth, twelfth and thirteenth paragraphs of the section entitled "Synergies, financial effects and pro forma financials";
  - (B) Appendix I entitled "Conditions to the Implementation of the Scheme and the Acquisition";
  - (C) Appendix II entitled "Sources and Bases of Information"; and
  - (D) Appendix III entitled "Definitions" only to the extent that such defined terms are used in the documents or information incorporated pursuant to (A) through (C) above;
- (vii) the announcement (the "Acquisition and Capital Announcement") published by Lloyds TSB Group plc on 13 October 2008 regarding revised terms for the acquisition of HBOS plc and raising £5.5 billion of new capital, save that the fourth and fifth paragraphs (including the italicised wording in the fifth paragraph) thereof shall not be incorporated by reference in, or form part of, this Prospectus;
- (viii) the Lloyds TSB Group plc interim management statement (the "Management Statement") published on 3 November 2008;

- (ix) the following sections of the Lloyds TSB Group plc circular dated 3 November 2008 sent, with certain exceptions, to its shareholders (the “Share Circular”) (page references are to the relevant page(s) of the Share Circular unless the context otherwise requires):
- page 2: the section entitled “Presentation of Information”;
  - page 7: the section entitled “Expected Timetable of Principal Events”;
  - pages 47-52: the section entitled “Part III, Principal Terms of the Acquisition”, save for sub-sections 9 and 11 thereof;
  - pages 53-56: the section entitled “Part IV, Principal Terms of the Placing and Open Offer”, save for sub-sections 5 and 6 thereof;
  - pages 57-58: the section entitled “Part V, Conditions relating to the Proposed Government Funding”;
  - pages 59-60: the section entitled “Part VI, Principal Terms of the Capitalisation Issue”, save for sub-sections 5 and 6 thereof;
  - page 66: section 5 (“Summary of Total Income, Net of Insurance Claims, by Division”) of the section entitled “Part VII, Information on the Lloyds TSB Group”;
  - pages 67-71: section 7 (“Current Trading, Trends and Prospects”) of the section entitled “Part VII, Information on the Lloyds TSB Group”;
  - pages 72-74: the section entitled “Part VIII, Information on the HBOS Group”;
  - pages 75-212: the section entitled “Part IX, Historical Financial Information relating to HBOS plc, Part A – Financial Information for the three years ended 31 December 2007”;
  - pages 213-234: the section entitled “Part IX, Historical Financial Information relating to HBOS plc, Part B – Unaudited Interim Financial Information”;
  - pages 235-237: the section entitled “Part X, Reconciliation of Accounting Policies”;
  - pages 254-262: section 9.1 (“Material Contracts — Lloyds TSB Material Contracts”) of the section entitled “Part XII, Additional Information”;
  - pages 271-273: the section entitled “Part XIII, HBOS Interim Management Statement 3 November 2008”; and
  - for the purposes of incorporating by reference the foregoing parts of the Share Circular, defined terms used (and not otherwise defined) in such parts of the Share Circular shall have the meanings set out in the section entitled “Definitions” on pages 274–282 of the Share Circular, which shall be deemed to be incorporated by reference herein for this purpose;
- (x) the following sections of the Lloyds TSB Group plc prospectus published on 18 November 2008 regarding the proposed placing and open offer of 2,596,653,203 open offer shares at 173.3 pence per open offer share and proposed issue of up to 7,873,180,756 consideration shares in connection with the proposed acquisition of HBOS plc (the “Lloyds Placing and Open Offer Prospectus”) (page references are to the relevant page(s) of the Lloyds TSB Placing and Open Offer Prospectus unless the context otherwise requires):

- pages: 42-58: sub-sections 1-12 (inclusive) (but excluding sub-section 5) and sub-section 15 of the section entitled “Part VI, Information on the Acquisition, Part A: Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc”;
  - pages: 145-151, the section entitled “Part XVIII, Unaudited Pro Forma Net Assets Statement of the Enlarged Group as at 30 June 2008”;
  - pages: 194-197, section 8 (“Material Contracts”) of the section entitled “Part XXI, Additional Information”;
  - pages 214-224: the section entitled “Part XXIII, Definitions” provided that, such section shall only be incorporated by reference for the purposes of construing defined terms set out in: (i) the information incorporated by reference herein from the Lloyds Placing and Open Offer Prospectus; (ii) the section entitled “Forward-Looking Statements” on page 3 herein; (iii) the section entitled “Risk factors relating to the Lloyds TSB Group” on pages 17-39 herein; (iv) the sections entitled “Lloyds TSB Group – Regulation and Supervision in the United Kingdom”, “Lloyds TSB Group – Capital, Liquidity and Funding Arrangements” and “Lloyds TSB Group – Legal actions” set out in the section “Lloyds TSB Group” on pages 105-130 herein;
- (xi) the following sections of the prospectus published by HBOS plc on 18 November 2008 relating to the placing and open offer of 7,482,394,366 open offer shares at 113.6 pence per open offer share (the “HBOS Placing and Open Offer Prospectus”):
- sections 17.1.2, 17.1.3, 17.1.5 and 17.1.6 (“Material Contracts – HBOS”) of the section entitled “Part XXII, Additional Information”;
  - section 18.1 (Litigation - HBOS) (except for the second paragraph of sub-section 18.1.4) of the section entitled “Part XXII, Additional Information”; and
  - for the purposes of incorporating by reference Part IV of the Lloyds TSB Supplementary Placing and Open Offer Prospectus (as described in (xiii) below) only, the section entitled Part XXIII (“Definitions”);
- (xii) section 18 (“Litigation”) of Part XVIII (“Additional Information”) on pages 185 and 186 of the prospectus published by HBOS plc on 19 June 2008 relating to the 2 for 5 rights issue of 1,499,662,328 new shares at a price of 275 pence per share (the “HBOS Rights Issue Prospectus”);
- (xiii) the following sections of the supplemental prospectus published on 17 December 2008 relating to the Lloyds TSB Placing and Open Offer Prospectus (the “Lloyds TSB Supplementary Placing and Open Offer Prospectus”):
- pages 9-10: Part IV (“HBOS Trading Update”). Defined terms used in Part IV (and not otherwise defined therein) shall have the meanings set out in the section entitled Part XXIII (“Definitions”) of the HBOS Placing and Open Offer Prospectus, as incorporated by reference herein; and
  - page 11: Part V (“Update on the Acquisition and the Placing and Open Offer, Payment Protection Insurance and Certain Other Matters”);
- (xiv) the announcement (the “Acquisition Update Announcement”) published by Lloyds TSB on 19 January 2009 containing, *inter alia*, an update as to the Acquisition and the trading position of Lloyds TSB and HBOS, save that the first five paragraphs thereof shall not be incorporated by reference in, or form part of, this Prospectus,

all of which have been previously published and filed with the Financial Services Authority and which shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statements 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 information or documents incorporated by reference in the above listed documents does not form any part of this Prospectus unless expressly incorporated herein by reference.

The Issuer 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 attention of the Investor Relations department of the Issuer at 25 Gresham Street, London EC2V 7HN, United Kingdom, telephone: +44 207 356 1273, e-mail: [investor.relations@ltsbfinance.co.uk](mailto:investor.relations@ltsbfinance.co.uk).

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## OVERVIEW

*The following overview must be read as an introduction to this document. Any decision to invest in the Capital Securities should be based on a consideration by an investor of this document as a whole, including the documents incorporated by reference. Capitalised terms used herein but not otherwise defined shall have the meanings as set out under the relevant terms and conditions of the Capital Securities.*

<b>Issuer</b>	Lloyds TSB Bank plc.
<b>Parent</b>	Lloyds Banking Group plc (formerly Lloyds TSB Group plc).
<b>Issue</b>	<p>£784,611,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019.</p> <p>£700,022,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2029.</p> <p>€532,111,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019.</p>
<b>Coupons</b>	<p>Interest on the Series A Sterling Capital Securities will be payable from and including 21 January 2009 to but excluding 22 January 2019 at the rate of 13 per cent. per annum, semi-annually in arrear on 21 January and 21 July in each year. Following 22 January 2019, the Series A Sterling Capital Securities will bear interest at a rate, reset every five years, of 14 per cent. per annum above the gross redemption yield on a specified United Kingdom government security, payable semi-annually in arrear on 21 January and 21 July in each year, all as more particularly described in “Terms and Conditions of the Series A Sterling Capital Securities – 5. Coupon Payments”.</p> <p>Interest on the Series B Sterling Capital Securities will be payable from and including 21 January 2009 to but excluding 22 January 2029 at the rate of 13 per cent. per annum, semi-annually in arrear on 21 January and 21 July in each year. Following 22 January 2029, the Series B Sterling Capital Securities will bear interest at a rate, reset every five years, of 13.40 per cent. per annum above the gross redemption yield on a specified United Kingdom government security, payable semi-annually in arrear on 21 January and 21 July in each year, all as more particularly described in “Terms and Conditions of the Series B Sterling Capital Securities – 5. Coupon Payments”.</p> <p>Interest on the Euro Capital Securities will be payable from and including 21 January 2009 to but excluding 22 January 2019 at the rate of 13 per cent. per annum, semi-annually in arrear on 21 January and 21 July in each year. Following 22 January 2019, the Euro Capital Securities will bear interest at a rate reset quarterly of 14 per cent. per annum above the Euro-zone interbank offered rate for three-month euro deposits payable quarterly in arrear on the Coupon Payment Dates (as defined in</p>

**Additional Amounts**

the Terms and Conditions of the Euro Capital Securities) falling on 21 January, 21 April, 21 July and 21 October in each year, all as more particularly described in “Terms and Conditions of the Euro Capital Securities – 5. Coupon Payments”.

All payments in respect of the Capital Securities will be made without withholding or deduction for or on account of United Kingdom taxes, unless the withholding or deduction is required by law. In such event (subject to customary exceptions), the Issuer will pay such additional amounts as will be necessary to ensure that the net amount received by Holders or Couponholders, after the withholding or deduction, will equal the amount which would have been receivable in the absence of the withholding or deduction.

**Subordination**

The Capital Securities constitute direct, unsecured and subordinated securities of the Issuer and rank *pari passu* without any preference among themselves.

No payment of principal or interest in respect of the Capital Securities shall be due and payable except to the extent that the Issuer is solvent and could make such payment and still be solvent immediately thereafter, in each case except in the event of the winding-up or administration of the Issuer.

For these purposes the Issuer will be solvent if (x) it is able to pay its debts to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors).

The sole remedy against the Issuer available to the Trustee or any Holder for recovery of amounts owing in respect of any sum which has become due from the Issuer in respect of the Capital Securities will be the institution of proceedings for the winding-up of the Issuer in England (but not elsewhere) and/or proving in any winding-up of the Issuer.

**Winding-up or Administration**

In the event of the winding-up or administration of the Issuer, the Holders will be treated as if, save as mentioned below, on the day prior to the commencement of the winding-up or administration and thereafter, they were the holders of one of a class of preference shares in the capital of the Issuer (“Notional Preference Shares”) ranking *pari passu* as to a return of assets on a winding-up or administration with, the holders of Other Tier 1 Securities of the Issuer and the holders of that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors and junior to any other notional class of preference shares in the capital of

**Coupon Deferral**

the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up or administration of the Issuer is determined.

On any Coupon Payment Date (save as provided herein following a Capital Disqualification Event), the Issuer shall have the option to defer Coupon Payments on the Capital Securities.

Deferred Coupon Payments, if any, may be made by the Issuer at any time but shall become due only on the first of the following to occur: (i) redemption of the Capital Securities pursuant to the Issuer's call option; (ii) redemption, substitution or variation of the Capital Securities following a Tax Event; and (iii) redemption, substitution or variation of the Capital Securities following a Regulatory Event. Deferred Coupon Payments will also become due on the commencement of the winding-up or administration of the Issuer.

Except as provided in "Suspension" below or in a winding-up or administration of the Issuer, Deferred Coupon Payments may only be satisfied by means of the ACSM.

Except in the limited circumstances provided under "Market Disruption" below, no interest will accrue on any Deferred Coupon Payments.

**Dividend and Capital Restriction**

If, on any Coupon Payment Date, payment of all Coupon Payments scheduled to be made on such date is not made in full, neither the Issuer nor the Parent shall:

- (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital other than, in the case where the Issuer has elected to defer a Coupon Payment, a dividend (other than a dividend which is, or is expressed to be, an extraordinary or special dividend), distribution or other payment which has been declared, paid or made by the Issuer or the Parent on any Junior Share Capital prior to the date on which the decision to defer the relevant Coupon Payment is notified to Holders; or
- (b) redeem, purchase, cancel, reduce or otherwise acquire any Junior Share Capital or any Other Tier 1 Securities (except in certain circumstances),

in each case unless or until the Coupon Payments due and payable during the following 12 months on all outstanding Capital Securities have been paid in full.

**Alternative Coupon Satisfaction Mechanism (ACSM)**

Investors will receive payments in respect of the Capital Securities in cash. However, if the Issuer defers a Coupon Payment, the Issuer must (except as provided in "Suspension"

below or in a winding-up of the Issuer) appoint a Calculation Agent (if it has not already done so) and satisfy its obligation to make the relevant ACSM Payment (being any Deferred Coupon and/or any Accrued Coupon Payment, as more fully described in the Terms and Conditions of the Capital Securities) by operation of the ACSM. The Issuer shall (subject to it having the necessary corporate authorisations in place) issue Payment Issuer Shares and issue and allot them in favour of the Trustee or its agent.

In that event, the Parent will issue ordinary shares (“Payment Ordinary Shares”) to the Trustee or its agent in exchange for the Payment Issuer Shares. Such issue of Payment Issuer Shares shall satisfy in full the Issuer’s obligation to make the relevant Deferred Coupon Payment. When sold, the Payment Ordinary Shares will provide a cash amount which, when converted into sterling or euro (as the case may be), the Paying Agent on behalf of the Trustee, will pay to the Holders in respect of the relevant Deferred Coupon Payment.

The number of Payment Ordinary Shares required to be issued will be such number of ordinary shares as, in the determination of the Calculation Agent, have a market value as near as practicable to, but not less than, the relevant Deferred Coupon Payment. The Trustee will use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. If the proceeds of the sale of the Payment Ordinary Shares will not in the opinion of the Calculation Agent result in a sum at least equal to the relevant Deferred Coupon Payment being available to make the necessary payment in full, the Issuer, the Parent, the Trustee and the Calculation Agent will take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Payment Issuer Shares and Payment Ordinary Shares and following, *mutatis mutandis*, the procedures described above, a sum as near as practicable to, and at least equal to, the relevant Deferred Coupon Payment will be available in full on the relevant due date.

In addition, any Accrued Coupon Payment which accrues pursuant to Condition 6(e) must be satisfied by operation, *mutatis mutandis*, of the ACSM as described herein.

#### **Market Disruption Event**

If, in the opinion of the Issuer, a Market Disruption Event exists on or after the 15th Business Day preceding any ACSM Payment Date, the relevant ACSM Payment may be deferred until, in the opinion of the Issuer, the Market Disruption Event no longer exists. Any such deferred ACSM Payments shall bear interest if the Market Disruption Event continues such that the relevant ACSM Payment is not satisfied for 14 days or more after the relevant ACSM Payment Date and such interest shall itself be satisfied by the operation of the ACSM.

**Insufficiency**

The Issuer shall not be entitled to exercise its option to redeem, substitute or vary the terms of any of the Capital Securities as described herein unless both the Issuer and the Parent have available, and the Directors of both the Issuer and the Parent have the corresponding authority to allot, a sufficient number of authorised but unissued Issuer Shares or ordinary shares of the Parent, as the case may be, to be able to satisfy the Issuer's obligation to make any Deferred Coupon Payment and any other ACSM Payment by the operation of the ACSM.

**Suspension**

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement, the Parent or any subsequent New Owner ceases to be the ultimate holding company of Lloyds TSB Group, then, unless a Permitted Restructuring Arrangement shall be put in place, such amendments to the documentation relating to the Capital Securities as determined by an independent investment bank, merchant bank, commercial bank, stockbroker or financial institution (selected by the Issuer and approved by the Trustee) to be appropriate in order to (a) preserve substantially the economic effect, for the Holders, of a holding of the Capital Securities prior to the Suspension; and (b) replicate the ACSM in the context of the capital structure of the New Owner, will be made by the Issuer and the Trustee, and pending such amendments, the ACSM shall be suspended (the "Suspension"). If such institution is unable to determine appropriate amendments then the Capital Securities shall at the option of the Issuer either (in each case subject to the Issuer complying with applicable regulatory requirements as may be in force from time to time) be exchanged or have their terms varied in accordance with Condition 8 of the Terms and Conditions of the Capital Securities or be redeemed at their principal amount together with all Payments which are Outstanding thereon.

**Optional Redemption**

The Capital Securities are perpetual securities and have no maturity date. The Capital Securities are not redeemable at the option of the Holders at any time. The Series A Sterling Capital Securities, Series B Sterling Capital Securities and Euro Capital Securities may be redeemed in whole (but not in part) at the option of the Issuer on 22 January 2019, 22 January 2029 and 22 January 2039, respectively or, in the case of the Series A Sterling Capital Securities and Series B Sterling Capital Securities, on the Coupon Payment Dates falling on each respective fifth anniversary of such dates thereafter, and in the case of the Euro Capital Securities, on any Coupon Payment Date thereafter, in each case at their principal amounts together with any Payments which are Outstanding thereon.

**Tax Event**

Upon the occurrence of a Tax Event, the Issuer may, subject to giving prior written notice to, and receiving no objection from, the FSA:

- (i) redeem at any time (in the case of the Series A Sterling Capital Securities and the Series B Sterling Capital Securities) or at any time prior to the First Reset Date (in the case of the Euro Capital Securities) all, but not some only, of the Capital Securities at their principal amount plus accrued interest (if any), together with any Payments which are Outstanding thereon (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by the operation of the ACSM); or
- (ii) substitute at any time all (and not some only) of the Capital Securities for, or vary the terms of the Capital Securities so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities. In connection therewith, the new Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities will preserve the rights to all accrued but unpaid Coupon Amounts on the Capital Securities and all Deferred Coupon Payments (if any) on the Capital Securities will be satisfied by the operation of the ACSM.

“Tax Event” is deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making any payments on the Capital Securities, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Capital Securities and the Issuer cannot avoid the foregoing in connection with the Capital Securities by taking measures reasonably available to it; or
- (ii) in respect of the Issuer’s obligation to make any Coupon Payment on the next following Coupon Payment Date, there is a more than insubstantial risk that Coupon Payments on the Capital Securities including, for the avoidance of doubt, the issue of Payment Issuer Shares and Payment Ordinary Shares pursuant to Condition 6, may be treated as “distributions” within the meaning of Section 832(1) of the Income and Corporation Taxes Act 1988 (or such other Section and/or Act as may from time to time supersede or replace Section 832(1) of the Income and Corporation Taxes Act 1988 for the purposes of such definition) and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate; or
- (iii) in respect of the Issuer’s obligation to make any Coupon

Payment on the next following Coupon Payment Date, (a) there is more than an insubstantial risk that the Issuer would not be entitled to claim a deduction in respect thereof when computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced or (b) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist) or (c) the Issuer would not, as a result of the Capital Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be so grouped; and in any such case the Issuer cannot avoid the foregoing in connection with the Capital Securities by taking measures as it (acting in good faith) deems appropriate.

**Withholding Tax and Additional Amounts**

The Issuer will pay such Additional Amounts as may be necessary in order that the net payment received by each Holder in respect of the Capital Securities, after withholding for any taxes imposed by tax authorities in the United Kingdom upon payments made by or on behalf of the Issuer in respect of the Capital Securities, will equal the amount which would have been received in the absence of any such withholding taxes, subject to customary exceptions (see also “Tax Event” above).

**Regulatory Event**

If a Regulatory Event occurs and is continuing, the Issuer may, subject to giving prior written notice to, and receiving no objection from, the FSA:

- (i) redeem at any time (in the case of the Series A Sterling Capital Securities and the Series B Sterling Capital Securities) or at any time prior to the First Reset Date (in the case of the Euro Capital Securities) all, but not some only, of the Capital Securities at their Make Whole Redemption Price, together with any Payments which are Outstanding thereon (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by the operation of the ACSM); or
- (ii) substitute at any time all (and not some only) of the Capital Securities for, or vary the terms of the Capital Securities so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities. In connection therewith, all Deferred Coupon Payments (if any) on the Capital Securities will be satisfied by the operation of the ACSM.

**Form and Denomination**

A “Regulatory Event” is deemed to have occurred if as a result of a change of law or regulation or interpretation thereof, the FSA has determined that securities of the nature of the Capital Securities cease to qualify as Tier 1 Capital (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

The Series A Sterling Capital Securities will be issued in bearer form in the denomination of £100,000 and integral multiples of £1,000 in excess thereof.

The Series B Sterling Capital Securities will be issued in bearer form in the denomination of £100,000 and integral multiples of £1,000 in excess thereof.

The Euro Capital Securities will be issued in bearer form in the denomination of €50,000 and integral multiples of €1,000 in excess thereof.

Each tranche of Capital Securities will be represented initially by a Temporary Global Capital Security which will be deposited with a common depositary for Clearstream, Luxembourg and Euroclear on or about the Issue Date. Each Temporary Global Capital Security will be exchangeable for interests in a Permanent Global Capital Security without interest coupons or talons on or after a date which is expected to be 40 days after the Issue Date upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the relevant Temporary Global Capital Security. Save in limited circumstances, Capital Securities in definitive bearer form with coupons and a talon attached on issue will not be issued in exchange for interests in a Permanent Global Capital Security.

**Listing**

Applications have been made for the Capital Securities to be admitted to listing on the Official List of the FSA and to trading on the regulated market of the London Stock Exchange.

**Governing Law**

The Capital Securities will be governed by, and construed in accordance with, English law.

**Clearing Systems**

Euroclear and Clearstream, Luxembourg.

**Risk Factors**

There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Capital Securities. These are set out under “Risk Factors”.



## **RISK FACTORS**

*Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Capital Securities. Prospective investors should also note that the risks described below are not the only risks that the Issuer faces. The Issuer has described only those risks that it considers material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware, and any of these risks could have a material adverse effect on the Issuer's business, operations, financial condition or prospects, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Capital Securities. In addition, each of the risks highlighted below could adversely affect the trading price of the Capital Securities or the rights of investors under the Capital Securities and, as a result, investors could lose some or all of their investment.*

*The Lloyds TSB Group's and/or following the Acquisition, the Enlarged Group's operating results, financial condition and prospects could be materially and adversely affected by any of the risks described in the section entitled "Risk factors relating to the Lloyds TSB Group" below. The section entitled "Risk factors relating to the Lloyds TSB Group" describes the risk factors which are considered by the Issuer to be material in relation to the Lloyds TSB Group and/or which will, following the Acquisition, apply to the Enlarged Group.*

*As stated above, the risks set out below should not be regarded as a complete and comprehensive statement of all potential risks that are not presently known to the Issuer, or which it currently deems immaterial, that may also have an adverse effect on the Lloyds TSB Group's and/or, if the Acquisition becomes effective, the Enlarged Group's operating results, financial condition and prospects for upon the Capital Securities. The information given is as of the date of this document and, except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, will not be updated. Any forward-looking statements are made subject to the reservations specified under "Forward-Looking Statements" on page 3 of this document.*

*You should consider carefully the risks and uncertainties described below, together with all other information contained in this document and the information incorporated by reference herein, before making any investment decision.*

### **RISK FACTORS RELATING TO THE LLOYDS TSB GROUP**

*Terms defined in this section "Risk factors relating to the Lloyds TSB Group" shall have the meanings set out in the Definitions section of the Lloyds TSB Placing and Open Offer Prospectus as incorporated by reference herein.*

#### **1 Risks relating to the Lloyds TSB Group and, if the Acquisition becomes Effective, the Enlarged Group**

- 1.1 The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks arising from general and sector specific economic conditions in the markets in which they operate, particularly the United Kingdom. Adverse developments, such as the current and ongoing crisis in the global financial markets and further deterioration of general economic conditions, particularly in the UK, have already adversely affected the Lloyds TSB Group's earnings and profits and could continue to cause its and the Enlarged Group's profitability to decline*

The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks arising from general and sector-specific economic conditions in the markets in which they operate, particularly the United Kingdom in which the Lloyds TSB Group's earnings are, and the Enlarged Group's earnings will be, predominantly generated. Over approximately the past 15 months, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty, particularly the very severe dislocation of the financial markets around the world that began in August 2007 and has substantially worsened since September 2008 and related problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the United Kingdom and other governments to inject liquidity into the financial system and require (and participate in) recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market.

Despite this intervention, the volatility and market disruption in the banking sector have continued to a degree unprecedented in recent history. This market dislocation has also been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. There is increasing concern of a deep and prolonged global recession. These conditions have already adversely affected the Lloyds TSB Group's and the HBOS Group's earnings and profits. Continued general deterioration in the UK or other major economies throughout the world, including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, would reduce the level of demand for, and supply of, the Lloyds TSB Group's and the Enlarged Group's products and services, lead to lower realisations and write downs and impairments of investments and negative fair value adjustments of assets and materially and adversely impact their operating results, financial condition and prospects.

Additionally, the profitability of the Lloyds TSB Group's and the Enlarged Group's insurance businesses could be affected by increased claims from market factors such as increased unemployment. Significantly higher UK unemployment, reduced corporate profitability, increased corporate insolvency rates, increased personal insolvency rates and/or increased interest rates may reduce borrowers' ability to repay loans and may cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Lloyds TSB Group's and the Enlarged Group's loans and increasing write downs and, if this happens, impairment losses will occur. Poor general economic conditions and difficulty in valuation have depressed asset valuations for both the Lloyds TSB Group and the HBOS Group and are likely to continue to do so. This would be exacerbated by a further deterioration in general economic conditions.

As discussed in greater detail in the risk factor numbered 1.3 below, the Lloyds TSB Group has not yet been able to assess fully the level of fair value adjustments of the assets of the HBOS Group to be acquired in the Acquisition or other aspects of the HBOS business. If the fair valuation of the assets of the HBOS Group is materially less than anticipated, this could have a material and adverse impact on the financial condition and prospects of the Enlarged Group.

The exact nature of the risks faced by the Lloyds TSB Group and the Enlarged Group is difficult to predict and guard against in view of the severity of the global financial crisis and the fact that many of the related risks to the business are totally or in part outside of the control of the Lloyds TSB Group and the Enlarged Group.

1.2 *The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, inherently subject to the risk of market fluctuations, which could adversely affect operating results, financial condition and prospects*

The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, inherently subject to the risk of financial market fluctuations, 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 their customers act in a manner which is inconsistent with business, pricing and hedging assumptions.

Market movements have (and will have) an impact on the Lloyds TSB Group and the Enlarged Group in a number of key areas. For example, adverse market movements would have an adverse effect, which could be material, upon the financial condition of the pension schemes of the Lloyds TSB Group and the Enlarged Group. In addition, banking and trading activities that are undertaken by the Lloyds TSB Group and will be undertaken by the Enlarged Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Since August 2007, there has been a period of unprecedented high and volatile interbank lending rates (to the extent banks have been willing to lend at all), which has exacerbated these risks. Competitive pressures or fixed rates in existing loan commitments or facilities may mean that the Lloyds TSB Group and the Enlarged Group will be restricted in their ability to increase interest rates charged to customers in response to changes in interest rates that affect wholesale borrowing. In addition, such increases in interest rates may result in each of the Lloyds TSB Group and the Enlarged Group having to increase the rates paid to wholesale and retail customers, which would have an adverse impact on net interest margins.

The insurance and investments businesses of the Lloyds TSB Group, and of the Enlarged Group, will face market risk arising, for example, from equity, bond and property markets in a number of ways depending upon the product and associated contract. Some of these risks are borne directly by the customer and some are borne by the insurance and investments businesses. Some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance and investments businesses will bear some of the cost of such guarantees and options. The insurance and investments businesses also have capital 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 investments contracts and the Lloyds TSB Group's and Enlarged Group's operating results, financial condition and prospects. Adverse investment market conditions can affect investor confidence, which in turn can result in lower sales and/or reduced persistency.

Changes in foreign exchange rates affect the value of assets and liabilities denominated in foreign currencies and may affect earnings reported by the Lloyds TSB Group and the Enlarged Group. In the Lloyds TSB Group's and the Enlarged Group's international businesses, earnings and net assets are denominated in local currency, which will fluctuate with exchange rates in pounds sterling terms. It is difficult to predict with any accuracy changes in economic or market conditions, and such changes could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's operating results, financial condition and prospects.

1.3 *Market conditions have resulted, and may in the future result, in material negative adjustments to the estimated fair values of financial assets of the Lloyds TSB Group and the Enlarged Group. This may include material negative adjustments to the valuation of financial assets that the Lloyds TSB Group will acquire as part of the Acquisition compared to the book value of such assets as at 30 June 2008.*

*Any such negative fair value adjustments could have a material adverse effect on operating results, financial conditions or prospects*

Financial markets have been subject to significant stress conditions resulting in steep falls in perceived or actual financial asset values. The severity of this phenomenon is exemplified by the current and ongoing crisis in the global financial markets.

The fair value of the Lloyds TSB Group's and the Enlarged Group's financial assets could fall further and therefore result in negative adjustments, particularly in view of current market dislocation and the prospect of recession. Asset valuations in future periods, reflecting then prevailing market conditions, may result in further negative changes in the fair values of the Lloyds TSB Group's and the Enlarged Group's financial assets. In addition, the value ultimately realised by the Lloyds TSB Group and the Enlarged Group may be lower than the current fair value. Any of these factors could require the Lloyds TSB Group and the Enlarged Group to record further negative fair value adjustments, which may have a material adverse effect on their operating results, financial condition or prospects.

The Lloyds TSB Group has made, and the Enlarged Group may make in the future, asset redesignations as permitted by recent amendments to IAS 39. The effect of such redesignations has been and would be that any effect on the profit and loss account of movements in the fair value of such redesignated assets that has occurred since 1 July 2008, in the case of assets redesignated prior to 1 November 2008, or may occur in the future may not be recognised until such time as the assets become impaired or are disposed of.

In addition, to the extent that fair values are determined using financial valuation models, the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of substantial instability such as the current economic crisis. In such circumstances the Lloyds TSB Group's valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain, particularly in light of the uncertainty resulting from the current and ongoing crisis in the global financial markets.

In addition to some exposures of the Lloyds TSB Group to similar investments, the HBOS Group has, and the Enlarged Group will have, a significant portfolio of securities and other investments, including asset backed securities, structured investments and private equity investments, that are recorded at fair value and are therefore exposed to further negative fair value adjustments in the event of deterioration in market conditions.

Furthermore, fair value adjustments will be required in connection with the Acquisition. The pro forma net assets of the HBOS Group do not take account of any fair value adjustments that will be required as a result of the Acquisition. The Lloyds TSB Group has not yet been able to assess fully the level of fair value adjustments of the assets of the HBOS Group. These adjustments may be material. The provisional results of this valuation exercise are not expected to be available until such time as the Enlarged Group publishes its interim financial statements for the six-month period ended 30 June 2009. Given the material deterioration in the value of the financial assets since 30 June 2008, and the market outlook for the near future, as well as the different valuation methodologies for such assets, following the Acquisition, such fair valuations will differ from the book value of the HBOS Group's net assets at 30 June 2008 and such difference may be material.

- 1.4 *The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks concerning borrower and counterparty credit quality which could affect the recoverability and value of assets on the balance sheet. As a result of the Acquisition, the Enlarged*

*Group will have greater exposure to certain sectors and asset classes than the Lloyds TSB Group currently has*

The Lloyds TSB Group makes, and the Enlarged Group will make, both secured and unsecured loans to retail and corporate customers. The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks regarding the credit quality of, and the recovery on loans to and amounts due from, customers and market counterparties. Changes in the credit quality of the Lloyds TSB Group's or the Enlarged Group's UK and/or international borrowers and counterparties, or in their behaviour, or arising from systemic risks in the UK and global financial system, could reduce the value of the Lloyds TSB Group's and the Enlarged Group's assets, and increase the Lloyds TSB Group's and the Enlarged Group's write downs and allowances for impairment losses. Factors including higher UK unemployment, reduced corporate profitability, increased corporate and personal insolvencies and/or increased interest rates may reduce borrowers' ability to repay loans. The outlook for the UK (and the global) economy has deteriorated significantly in recent months and this deterioration is expected to continue for the foreseeable future. In addition, changes in economic conditions may result in a deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default.

UK house prices have declined significantly in recent months, reflecting economic downturn and uncertainty, reduced affordability and lower availability of credit. Economic or other factors are likely to lead to further contraction in the mortgage market and further decreases in housing prices. Many borrowers in the UK borrow on short-term fixed or discounted floating rates and when such rates expire the continued reduced supply and stricter terms of mortgages together with the potential for higher mortgage rates have led and will continue to lead to higher delinquency rates. The Lloyds TSB Group and, to a greater extent, the HBOS Group both provide mortgages to buy-to-let investors where an excess supply of rental property or falls in rental demand could also impact the borrowers' income and ability to service the loans. In addition, the HBOS Group has a substantial exposure to the self-certified mortgage sector where the Lloyds TSB Group has no exposure. If the current economic downturn continues, with further falls in house prices and increases in unemployment, the Enlarged Group's mortgage portfolios are likely to generate substantial increases in impairment losses which could materially affect the operations, financial condition and prospects of the Enlarged Group.

The average rating of the HBOS Group's corporate lending portfolio is lower than that of the Lloyds TSB Group, with substantial lending to mid-sized and private companies. The HBOS Group also has greater exposure to leveraged finance and subordinated loans, as well as significant exposure to the commercial real estate sector, including hotels and residential property developers. Commercial real estate prices have shown declines over the last year and the construction and real estate sectors are facing very challenging market conditions. If the current economic downturn continues, as expected, with weakening consumer spending and falling corporate profitability, the Enlarged Group's corporate lending portfolios are likely to generate substantial increases in impairment losses which could materially affect the operations, financial condition and prospects of the Enlarged Group.

- 1.5 *The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks concerning liquidity, particularly if current market conditions continue to reduce the availability of traditional sources of funding or the access to wholesale money markets becomes more limited, which could affect the Lloyds TSB Group's and the Enlarged Group's ability to meet its financial obligations as they fall due*

The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to risks concerning liquidity, which are inherent in banking operations, and could affect the Lloyds TSB Group's and the Enlarged Group's ability to meet financial obligations as they fall due or to fulfil

commitments to lend. The HBOS Group has a funding profile that involves the need to refinance a significantly higher level of loan assets than that of the Lloyds TSB Group. Accordingly, the Enlarged Group's funding profile will involve higher refinancing risk than for the Lloyds TSB Group on a stand-alone basis. It is expected that the Enlarged Group will be required to refinance a significant amount of funding due to mature during 2009. These risks can be exacerbated by many enterprise-specific factors, including an overreliance on a particular source of funding (including, for example, securitisations, covered bonds and short-term and overnight money markets), and changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Enlarged Group or to all banks. The funding needs of the Enlarged Group will increase to the extent that customers, including conduit vehicles of the Enlarged Group, draw down under existing credit arrangements with the Enlarged Group and such increases in funding needs may be material. In order to continue to meet their funding obligations and to maintain or grow their businesses generally the Lloyds TSB Group relies, and the Enlarged Group will rely, on customer savings and transmission balances, as well as ongoing access to the wholesale lending markets and Bank of England liquidity facilities and the UK Government's guarantee scheme. The ability of the Lloyds TSB Group and the Enlarged Group to access wholesale and retail funding sources on favourable economic terms is subject to a variety of factors, including a number of factors outside of their control, such as liquidity constraints, general market conditions and loss of confidence in the UK banking system. See the risk factor numbered 1.19 for a discussion of the competitive nature of the banking industry and competitive pressures that could have a negative impact on the availability of customer deposits and retail funding. In the current environment of unprecedented market volatility, banks' access to traditional sources of liquidity has been and may continue to be significantly restricted which may affect Lloyds TSB Group's and the Enlarged Group's access to such sources of liquidity.

While various governments including the UK Government have taken substantial measures to ease the crisis in liquidity, such as the measures announced in the UK on 8 October 2008 and 13 October 2008, there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks, including the Lloyds TSB Group and the Enlarged Group. In addition, the availability and the terms on which any such measures will be made available to the Lloyds TSB Group and the Enlarged Group (whether in the form of access to HM Treasury's recapitalisation scheme or guarantee scheme for short- and medium-term debt issuance or the Bank of England's special liquidity scheme) and how and when such measures will be implemented are uncertain. Lloyds TSB has, and the Enlarged Group will have, no influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall cost of funding of the Lloyds TSB Group or the Enlarged Group. The Lloyds TSB Group expects that the Enlarged Group will substantially rely for the foreseeable future on the continued availability of Bank of England liquidity facilities as well as HM Treasury's guarantee scheme for short- and medium-term debt issuance. If the Bank of England liquidity facility, HM Treasury's guarantee scheme or other sources of short-term funding are not available after that period, the Lloyds TSB Group, or the Enlarged Group, could face serious liquidity constraints, which would have a material adverse impact on its solvency.

Access to sufficient liquidity might also determine whether or not the Enlarged Group will be in a position to redeem or repurchase the Enlarged Group HMT Preference Shares to be held by HM Treasury in accordance with their terms or, if circumstances permit, to repurchase them early. See the risk factor numbered 3.3 for a discussion of the limitation on cash dividends and other terms of the Enlarged Group HMT Preference Shares.

1.6 *The Lloyds TSB Group is subject, and the Enlarged Group will be subject, to the risk of insufficient capital resources to meet the minimum required by regulators*

The Lloyds TSB Group is, and the Enlarged Group will be, subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements. In addition, those minimum regulatory requirements may increase in the future.

In the Announcement of 13 October 2008 Lloyds TSB stated that the pro forma core Tier 1 capital ratio for the Enlarged Group as at 30 June 2008 would have been in excess of 8.5 per cent. Such pro forma core Tier 1 capital ratio number does not take account of net negative capital adjustments that would be required to be made since that date and is for illustrative purposes only. Lloyds TSB has made a preliminary assessment that net negative capital adjustments of no more than £10 billion after tax would need to be made to HBOS' financial position for core Tier 1 capital purposes as a result of the Acquisition, the effect of which would mean that the Enlarged Group would have a core Tier 1 ratio in excess of 7 per cent.

The Enlarged Group's ability to maintain its targeted and regulatory capital ratios will depend on a number of factors, including post-Acquisition net synergies and implementation costs, the level of Enlarged Group's risk-weighted assets, the Enlarged Group's post-tax profit and the level of net negative capital adjustments resulting from the Acquisition. More specifically, the Enlarged Group's ability to maintain its targeted and regulatory capital ratios will be significantly impacted by net negative capital adjustments resulting from the Acquisition. In addition to the impact of net negative capital adjustments, the Enlarged Group's core Tier 1 ratio will be directly impacted by any shortfall in forecasted after-tax profit (which could result, most notably, from greater than anticipated asset impairments and/or adverse volatility relating to the insurance business). Furthermore, under Basel II, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of the Enlarged Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse impact on the Lloyds TSB Group's and the Enlarged Group's operating results, financial condition and prospects. A shortage of available capital would also affect the ability to continue organic growth or to pursue acquisition or other strategic opportunities. For further information see section 9 ("Dividend Policy, Capitalisation Issue and Capital Position"), Part A ("Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc") of Part VI ("Information on the Acquisition") of the Lloyds TSB Placing and Open Offer Prospectus which is incorporated by reference into this document.

The Lloyds TSB Group's life assurance and general insurance businesses in the UK are, and the Enlarged Group's life assurance and general insurance businesses will be, subject to the capital requirements prescribed by the FSA, and the Lloyds TSB Group's life and general insurance companies outside the UK are, and the Enlarged Group's will be, subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary legislation to define broad "framework" principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. At this early stage of development, it is not possible to predict the ultimate impact of this proposed regime on the Lloyds TSB Group's or the Enlarged Group's capital. However, the final regime could significantly impact the regulatory capital the Lloyds TSB Group's or the Enlarged Group's life assurance and general insurance businesses are required to hold.

- 1.7 *The Lloyds TSB Group and the Enlarged Group could 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*

Against the backdrop of the lack of liquidity and high cost of funds in the interbank lending market, which is unprecedented in recent history, the Lloyds TSB Group is, and the Enlarged Group will be, subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the United Kingdom. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Lloyds TSB Group interacts and the Enlarged Group will interact on a daily basis, all of which could have an adverse effect on the Lloyds TSB Group’s and the Enlarged Group’s ability to raise new funding.

The Lloyds TSB Group routinely executes, and the Enlarged Group will routinely execute, a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration. As a result, the Lloyds TSB Group is, and the Enlarged Group will be, exposed to counterparty risk as a result of recent financial institution failures and nationalisations and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the ability 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 materially and adversely affect the Lloyds TSB Group’s and the Enlarged Group’s operating results, financial condition and prospects.

- 1.8 *If the perceived credit-worthiness of monoline insurers and other market counterparties continues to deteriorate, the Lloyds TSB Group and the Enlarged Group may be forced to record further credit valuation adjustments on securities insured or guaranteed by such parties, which could have a material adverse effect on the Lloyds TSB Group’s and the Enlarged Group’s results of operations, financial condition and prospects*

The Lloyds TSB Group has, and the Enlarged Group will have, credit exposure to monoline insurers and other market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter derivative contracts, mainly credit default swaps (“CDSs”) which are carried at fair value. The fair value of these underlying CDSs and other securities, and the Lloyds TSB Group’s and the Enlarged 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 as well as on the credit-worthiness of the relevant monoline or other insurer. In 2007 and 2008, monoline and other insurers and other market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived credit-worthiness has deteriorated significantly in 2008. Their credit-worthiness may further deteriorate as a consequence of the deterioration of the value of underlying assets. Although the Lloyds TSB Group tries, and the Enlarged Group will try, to limit and manage direct exposure to monoline or other insurers and other market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of monoline or other insurers or market counterparties or their perceived credit-worthiness deteriorates further, the Lloyds TSB Group and/or the Enlarged Group may record further credit valuation adjustments on the underlying instruments insured by such parties in addition to those already



recorded. In addition, to the extent that asset devaluations lower the credit-worthiness of monoline insurers, the Lloyds TSB Group and the Enlarged Group would be further exposed to diminished credit-worthiness of such insurers themselves. Any primary or indirect exposure to the financial condition or credit-worthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Lloyds TSB Group and/or the Enlarged Group.

1.9 *The Lloyds TSB Group's and the Enlarged Group's insurance and investments businesses and employee pension schemes are subject to risks relating to insurance claims rates, pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour*

The life and pensions insurance businesses of the Lloyds TSB Group and the Enlarged Group and their employee pension schemes are exposed to short-term and longer-term impacts arising from uncertain longevity and ill-health rates. Adverse developments in any of these factors will increase the size of the liabilities and may adversely affect the Lloyds TSB Group's and the Enlarged Group's financial condition and results of operations.

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

The general insurance businesses of the Lloyds TSB Group and the Enlarged Group are exposed to the risk of uncertain insurance claim rates. For example, extreme weather conditions can result in high property damage claims, higher levels of theft can increase claims on property, contents and motor vehicle insurance and changes to unemployment levels can increase claims on loan protection insurance. These claims rates may differ from business assumptions and negative developments may adversely affect the Lloyds TSB Group's and the Enlarged Group's financial condition and results of operations. UK banks recognise an 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 the value of investments under management, 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 Lloyds TSB Group's and the Enlarged Group's financial condition and results of operations.

Also, as further described in the risk factor numbered 1.2, the Lloyds TSB Group's and the Enlarged Group's insurance assets are subject to the risk of market fluctuations.

1.10 *The Lloyds TSB Group's and the HBOS Group's borrowing costs and access to the capital markets depend significantly on their credit ratings, as will those of the Enlarged Group*

As at 19 January 2009, the long-term credit ratings for the Issuer were 'Aaa' from Moody's Investors Service Limited, 'AA-' (AA minus) from Standard & Poor's Ratings Services, 'AA-' (AA minus) from Fitch Ratings Ltd and 'AA' from DBRS. As at 19 January 2009, the long-term credit ratings for HBOS were 'Aa2' from Moody's Investors Service Limited, 'A+' from Standard & Poor's Ratings Services, 'AA-' (AA minus) from Fitch Ratings Ltd and 'AA' from DBRS. See section "Lloyds TSB Group – Recent Developments" for information as regards the announcements made by Standard & Poor's Ratings Services on 14 January 2009, Fitch Ratings Ltd and DBRS on 16 January 2009 and Moody's Investors Service Limited on 18 September 2008; the Issuer anticipates that a further announcement will be made by Moody's Investors Service Limited prior to, or shortly following, the issue of the Capital Securities, there can be no assurances as to the contents of that announcement. Reduction in the long-term credit ratings of the Lloyds TSB Group, the HBOS Group and/or the Enlarged Group could significantly increase their respective borrowing costs, limit their access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Therefore, a reduction in credit ratings could materially adversely affect the Enlarged Group's access to liquidity and competitive position and, hence, have a material adverse effect on the Enlarged Group's business, financial position and results of operations.

1.11 *Weaknesses or failures in the Lloyds TSB Group's and the Enlarged Group's internal processes and procedures and other operational risks could have a negative impact on results and could result in reputational damage*

Operational risks, through inadequate or failed internal processes (including financial reporting and risk monitoring processes) or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Lloyds TSB Group, are present in the Lloyds TSB Group's businesses and will be present in the business of the Enlarged Group. The Lloyds TSB Group's businesses and the HBOS Group's businesses are, and the Enlarged Group's business will be, dependent on their ability to process and report accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Following the Acquisition, the existing internal controls and procedures of the HBOS Group must be integrated with those of the Lloyds TSB Group. This is a complex and time-consuming process and there can be no assurance that delays will not occur or that systems weaknesses or inadequacies will be uncovered. Any weakness in such internal control systems and processes could have a negative impact on their results during the affected period. Furthermore, damage to the Lloyds TSB Group's or the Enlarged Group's reputation (including to customer confidence) arising from inadequacies, weaknesses or failures in such systems could have a significant adverse impact on the Lloyds TSB Group's and Enlarged Group's businesses. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or any relevant company within the Lloyds TSB Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA (as the case may be).

- 1.12 *The Lloyds TSB Group relies, and the Enlarged Group will rely, in part on retail deposits to fund lending activities, the ongoing availability of which is sensitive to factors outside the Lloyds TSB Group's control. Loss in consumer confidence could result in high levels of withdrawals, which could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's business, financial position and results of operations and could, in extreme circumstances, prevent the Lloyds TSB Group or the Enlarged Group from meeting its minimum liquidity requirements*

Medium-term growth in the Lloyds TSB Group's and the Enlarged Group's lending activities will depend, in part, on the availability of retail funding on appropriate terms, for which there is increasing competition. This reliance has increased in the recent past given the difficulties in accessing wholesale funding. Increases in the cost of such funding will impact on the Lloyds TSB Group's and the Enlarged Group's margins and affect profit, and a lack of availability of such retail deposit funding could impact on the Lloyds TSB Group's and the Enlarged Group's future growth.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Lloyds TSB Group's and the Enlarged Group's control, such as general economic conditions and the confidence of retail depositors in the economy in general and the financial services industry specifically and the availability and extent of deposit guarantees. These factors could lead to a reduction in the Lloyds TSB Group's and the Enlarged Group's ability to access retail deposit funding on appropriate terms in the future. If the current difficulties in the wholesale funding markets are not resolved or central bank lending to financial institutions is withdrawn it is likely that wholesale funding will prove even more difficult to obtain.

Any loss in consumer confidence in the banking businesses of the Lloyds TSB Group or the Enlarged Group could significantly increase the amount of retail deposit withdrawals in a short space of time. Should the Lloyds TSB Group or the Enlarged Group experience an unusually high level of withdrawals, this may have an adverse effect on the Lloyds TSB Group's and the Enlarged Group's business, financial position and results of operations and could, in extreme circumstances, prevent the Lloyds TSB Group or the Enlarged Group from meeting its minimum liquidity requirements. In such extreme circumstances the Lloyds TSB Group and/or the Enlarged Group may not be in a position to continue to operate without additional funding support, which it may be unable to access.

- 1.13 *Terrorist acts, other acts of war, geopolitical, pandemic or other such events could have a negative impact on the business and results of the Lloyds TSB Group and the Enlarged Group*

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 negative impact on UK and international economic conditions generally, and more specifically on the business and results of the Lloyds TSB Group and the Enlarged Group in ways that cannot necessarily be predicted.

- 1.14 *The Lloyds TSB Group has agreed to certain undertakings in relation to the operation of its business in the Placing and Open Offer Agreement. The implications and details of some of these undertakings remain unclear and they could have a material adverse effect on the operations of the Lloyds TSB Group and the Enlarged Group*

Under the terms of the Placing and Open Offer Agreement, the Lloyds TSB Group has provided certain undertakings aimed at ensuring that the potential acquisition by HM Treasury of Lloyds TSB Shares and the Lloyds TSB Group's participation in the guarantee scheme promoted by HM Treasury as part of its support for the banking industry is consistent with the State Aid Approval. The state aid rules aim to prevent companies from being given an artificial or unfair competitive advantage as a result of governmental assistance. It is Lloyds TSB's understanding that the undertakings are also

aimed at supporting certain objectives of HM Treasury in providing assistance to the UK banking industry. These undertakings, which are consistent with the Lloyds TSB Group's existing focus in its relevant lines of business, include (i) supporting UK Government policy in relation to mortgage lending and lending to SMEs through 2011; (ii) regulating management remuneration; (iii) regulating the rate of growth of the Lloyds TSB Group's balance sheet; and (iv) requiring the presentation to HM Treasury of a restructuring plan within six months (as all banks participating in HM Treasury's recapitalisation and guarantee schemes are required to do). There is a risk that these undertakings or any further requirements introduced by HM Treasury could have a materially adverse effect on the operations of the Lloyds TSB Group and the Enlarged Group. For a description of these undertakings, see Part V ("Conditions Relating to the Proposed Government Funding") of the Share Circular which is incorporated by reference into this document. In addition, pursuant to the conditions attaching to the Proposed Government Funding, the Lloyds TSB Board is required to consult with HM Treasury in relation to the appointment of two new independent directors.

Through its shareholding, the UK Government may seek to influence Lloyds TSB or the Enlarged Group in other ways that would have a materially adverse effect on the Lloyds TSB Group's and the Enlarged Group's business.

HM Treasury has agreed to consult with Lloyds TSB with a view to applying to the European Commission to have the undertakings referred to above disapplied where (i) the Lloyds TSB Group is no longer participating in the guarantee scheme and (ii) HM Treasury either does not acquire shares in the Lloyds TSB Group or HM Treasury has substantively reduced its holding of Lloyds TSB Shares and/or preference shares.

- 1.15 *The Lloyds TSB Group's businesses are, and the Enlarged Group's business will be, subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant negative impact on the Lloyds TSB Group's and the Enlarged Group's operating results, financial condition and prospects*

The Lloyds TSB Group conducts, and the Enlarged Group will conduct, their businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking sector. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Lloyds TSB Group and the Enlarged Group and could materially adversely affect the Lloyds TSB Group's and the Enlarged Group's business.

Areas where changes could have an adverse impact include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Lloyds TSB Group and the Enlarged Group operate, may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- other general changes in regulatory requirements, such as prudential rules relating to the capital adequacy or liquidity frameworks;
- external bodies applying or interpreting standards or laws differently to those applied by the Lloyds TSB Group or the HBOS Group historically;

- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Lloyds TSB Group's and the Enlarged Group's products and services.

In addition, in the United Kingdom and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular, retail banking. In the United Kingdom, the Competition Commission, the Financial Services Authority and the Office of Fair Trading are carrying out several inquiries, which are referred to in the "Lloyds TSB Group - Regulation and Supervision in the United Kingdom" and "Lloyds TSB Group – Legal actions" sections of this document. In recent years there have been several issues in the UK financial services industry in which the FSA has intervened directly, including the sale of personal pensions and the sale of mortgage related endowments. There may be further inquiries in the future which could lead to further regulatory intervention.

For example, in clearing the Acquisition without a reference to the Competition Commission the Secretary of State noted that there were some competition concerns identified by the OFT in the markets for personal current accounts and mortgages in Great Britain and the market for SME banking in Scotland. He said that he is asking the OFT to keep relevant markets under review in order to protect the interests of UK consumers and the British economy. It is too soon to tell what form, or implications for the Enlarged Group, those reviews might have. The UK Government, the FSA or other regulators, in the United Kingdom or overseas, may intervene further in relation to the areas of industry risk already identified, or in new areas, which could adversely affect the Lloyds TSB Group and the Enlarged Group.

- 1.16 *In the United Kingdom, the Lloyds TSB Group is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers*

In the United Kingdom, the FSCS was established under FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including the Lloyds TSB Group and, it is expected, the Enlarged Group. The recent arrangements put in place to protect the depositors of Bradford & Bingley and other failed deposit-taking institutions involving the FSCS are expected to result in a significant increase in the levies made by the FSCS on the industry. Lloyds TSB anticipates making a provision of approximately £120 million in its 2008 accounts in respect of its current obligation for the estimated interest cost on the FSCS borrowings. Going forward further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and if necessary the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain although it may be significant and the associated costs to the Lloyds TSB Group and/or the Enlarged Group may have a material impact on its results of operations and financial condition.

- 1.17 *The Lloyds TSB Group is exposed to various forms of legal and regulatory risk, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and*

*giving negligent advice, any of which could have a negative impact on its results or its relations with its customers. This will also be true of the Enlarged Group*

The Lloyds TSB Group is, and the Enlarged Group will be, exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of the Lloyds TSB Group's and the Enlarged Group's business may be determined by the authorities, the Financial Ombudsman Service ("FOS") or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of FOS, with what is fair and reasonable in the Ombudsman's opinion. For more information on additional constraints that may be imposed as a result of the State Aid Approval, see also the risk factor numbered 1.14;
- the possibility of alleged mis-selling of financial products which, as a result, may require additional provisions;
- contractual obligations may either not be enforceable as intended or may be enforced against the Lloyds TSB Group and the Enlarged Group in an adverse way;
- the intellectual property of the Lloyds TSB Group and the Enlarged Group (such as trade names) may not be adequately protected; and
- the Lloyds TSB Group and the Enlarged Group may be liable for damages to third parties harmed by the conduct of its business.

In addition, the Lloyds TSB Group faces and the Enlarged Group will face risk where legal or regulatory proceedings or FOS or other complaints are brought against it in the UK High Court or elsewhere, or in jurisdictions outside the UK, including other European countries and the United States. A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. See section "Lloyds TSB Group – Legal actions – Office of Foreign Assets Control". The outcome of any proceeding or complaint is inherently uncertain and could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's operations and/or financial condition, particularly if extended more broadly.

Failure to manage these risks adequately could impact the Lloyds TSB Group and the Enlarged Group adversely, both financially and reputationally through an adverse impact on the Lloyds TSB brand.

1.18 *The Lloyds TSB Group is, and the Enlarged Group will be, exposed to tax risk*

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in increased charges or financial loss. Failure to manage this risk adequately could impact the Lloyds TSB Group and the Enlarged Group materially and adversely.

1.19 *The Lloyds TSB Group's businesses are conducted in highly competitive environments. Achieving an appropriate return for shareholders depends upon management's ability to respond effectively to competitive pressures. This will also be true for the Enlarged Group*

The markets for UK financial services and the other markets within which the Lloyds TSB Group operates, and the Enlarged Group will operate, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. If financial markets remain unstable, financial institution consolidation may accelerate. Moreover, government intervention in the banking sector may impact the competitive position of banks within a country and among international

competitors which may be subject to different forms of government intervention, thus potentially putting the Lloyds TSB Group and the Enlarged Group at a competitive disadvantage to local banks in such jurisdictions. Any combination of these factors could result in a reduction in profit. The Lloyds TSB Group's and the Enlarged Group's ability to generate an appropriate return for its shareholders depends significantly upon the competitive environment and management's response to it.

The Lloyds TSB Group's and the Enlarged Group's financial performance may be materially and adversely impacted by competition, including declining lending margins or competition for savings driving up funding costs which cannot be recovered from borrowers. Adverse persistency in the Lloyds TSB Group's insurance and investments business, as well as the Enlarged Group's insurance and investment operations, is a risk to current and future earnings.

A key part of the Lloyds TSB Group's strategy involves, and the Enlarged Group's strategy will involve, building strong customer relationships in order to win a bigger share of its customers' financial services spend. If the Lloyds TSB Group and the Enlarged Group are not successful in retaining and strengthening customer relationships they will not be able to deliver on this strategy, and may lose market share, incur losses on some or all of their activities or fail to attract new and retain existing deposits, which could have a material adverse effect on their business, financial position and results of operations.

1.20 *The Lloyds TSB Group and the Enlarged Group could fail to attract or retain senior management or other key employees*

The Lloyds TSB Group's success depends, and the Enlarged Group's success will depend, on the ability and experience of its senior management. The loss of the services of certain key employees, particularly to competitors, could have a material adverse effect on the Lloyds TSB Group's and/or the Enlarged Group's revenue, profit and financial condition. In addition, as the Enlarged Group's business develops, both in the UK and in other jurisdictions, its future success will depend on its ability to attract and retain highly skilled and qualified personnel, which cannot be guaranteed, particularly in light of the increased regulatory oversight of financial institutions and management compensation arrangements coming under closer scrutiny. In addition, failure to manage trade union relationships effectively may result in disruption to the business and its operations causing potential financial loss. The failure to attract or retain a sufficient number of appropriate personnel could significantly impede the Lloyds TSB Group's and the Enlarged Group's financial plans, growth and other objectives and have a material adverse effect on their business, financial position and results of operations.

## **2 Risks relating to the Acquisition**

2.1 *The Lloyds TSB Group may fail to realise the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from, or may incur unanticipated costs associated with, the Acquisition. As a consequence, the Lloyds TSB Group's and the Enlarged Group's results of operations, financial condition and the price of the Lloyds TSB Shares may suffer*

The integration of the HBOS Group into the Lloyds TSB Group will be complex, expensive and present a number of challenges for the management of the Lloyds TSB Group, its staff and potentially its customers. The Lloyds TSB Group believes that the anticipated cost synergies as well as other operating efficiencies and the business growth opportunities, revenue benefits and other benefits it expects to achieve by combining its operations with those of the HBOS Group constitute a large part of the business rationale for the Acquisition. However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and other benefits may not develop,

including because the assumptions upon which the Lloyds TSB Group determined the Acquisition consideration may prove to be incorrect. For example, the expected cost synergies have been calculated by the Lloyds TSB Group on the basis of the existing and projected cost and operating structures of the Lloyds TSB Group and the Lloyds TSB Group's estimate of the existing and projected cost and operating structures of the HBOS Group. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

The Lloyds TSB Group may also face challenges with respect to: obtaining the required approvals of various regulatory agencies, any of which could refuse or impose conditions or restrictions on its approval; retaining key employees (including key employees of the HBOS Group); redeploying resources in different areas of operations to improve efficiency; unifying financial reporting and internal control procedures; minimising the diversion of management attention from ongoing business concerns; overcoming integration challenges, particularly as the Lloyds TSB Group's management may be unfamiliar with some aspects of the HBOS Group's business and operations; and addressing possible differences between the Lloyds TSB Group's business culture, processes, controls, procedures, systems, accounting practices and implementation of accounting standards and those of the HBOS Group.

Under any of these circumstances, the business growth opportunities, revenue benefits, cost savings and other benefits anticipated by the Lloyds TSB Group to result from the Acquisition may not be achieved as expected, or at all, or may be delayed. To the extent that the Lloyds TSB Group incurs higher integration costs or achieves lower revenue benefits or fewer cost savings than expected, its and the Enlarged Group's operating results, financial condition and prospects and the price of the Lloyds TSB Shares may suffer.

## 2.2 *Consummation of the Acquisition may result in adverse tax consequences resulting from a change of ownership*

The consummation of the Acquisition may result in adverse tax consequences related to the change of ownership of HBOS and its subsidiaries. A change of ownership of a corporation can lead to restrictions on the ability to utilise certain tax reliefs, including, but not limited to, tax losses. It can also lead to certain tax charges arising as a result of parties becoming connected with each other for tax purposes, such as credits related to loan relationships between the parties. Moreover, a change of ownership may result in other tax costs not normally associated with the ordinary course of business. Such other tax costs may include, but are not limited to, stamp duties, land transfer taxes, franchise taxes and other levies.

Furthermore, similar consequences could apply in relation to the Lloyds TSB Group and its subsidiaries if over a three year-period HM Treasury, alone or together with any other shareholders with a stake of 5 per cent. or more in the Lloyds TSB Group, acquires a controlling shareholding.

## 2.3 *Change of control provisions or termination rights in the HBOS Group's agreements may be triggered upon the completion of the Acquisition or upon the completion of any resulting reorganisation and may lead to adverse consequences for the Enlarged Group, including the loss of significant contractual rights and benefits, the termination of joint venture and/or licensing agreements*

Members of the HBOS Group are party to joint ventures, licences and other agreements and instruments that may contain change of control provisions or termination rights that will be triggered upon the completion of the Acquisition or upon completion of the reorganisation of HBOS within the



Lloyds TSB Group. While the Lloyds TSB Group does not anticipate any material issues, the operation of such change of control provisions or termination rights, if any, could result in the loss of material contractual rights and benefits, the termination of joint venture agreements and licensing agreements or the requirement to repay outstanding indebtedness.

### **3 Risks relating to the Placing and Open Offer and to investment in the Lloyds TSB Shares**

#### **3.1 *HM Treasury will become the largest shareholder of the Enlarged Group***

Following the Placing and the HBOS Placing, HM Treasury will own 43.5 per cent. of the Enlarged Group Ordinary Share Capital. Details of the conditions to the Proposed Government Funding are set out in Part V (“Conditions Relating to the Proposed Government Funding”) of the Share Circular, which is incorporated by reference into this document. Subject to this, HM Treasury has informed the Lloyds TSB Group that it currently has no intentions or strategic plans concerning the Enlarged Group or its business and employees. HM Treasury has also informed the Lloyds TSB Group that it does not currently intend to seek to exert significant influence over financial management or operational matters. It might, however, change its views on whether it will seek to exert influence over the Lloyds TSB Group or the Enlarged Group, and may disagree with the commercial decisions of the Lloyds TSB Group, including over such matters as the implementation of synergies and commercial and consumer lending policies.

Moreover, arrangements have been announced by HM Treasury in relation to its equity participation in banks accessing the recapitalisation fund which may limit the operational flexibility of the Lloyds TSB Group and the Enlarged Group with regard to matters such as mortgage and small business lending.

Should HM Treasury decide to seek to exert influence over the Lloyds TSB Group or the Enlarged Group, it may be able to exercise a significant degree of influence over, among other things, the election of directors, the appointment of senior management and, subject to the terms of the bank recapitalisation scheme, the payment of any dividends on the Lloyds TSB Shares. Furthermore, if HM Treasury becomes a major shareholder, HM Treasury’s interests might conflict with those of minority shareholders, and HM Treasury may have the ability to prevent or cause a change in control and could take other actions that may not be favourable to minority shareholders. However, the Lloyds TSB Group expects that HM Treasury will, in accordance with its public statements, act as a value-oriented shareholder.

Finally, HM Treasury has confirmed its intention over time, to dispose of its investment in Lloyds TSB Shares and the Enlarged Group. Any such sale, or the perception that such a sale might occur, could adversely affect the market price of the Lloyds TSB Shares.

Depending on the level of the shareholdings acquired by the UK Government in the Lloyds TSB Group, the Enlarged Group and other financial institutions, further filings may have to be made to UK and non-UK competition and regulatory authorities. The nature and extent of those filings and the risks of conditions being sought by or imposed upon the UK Government in relation to its shareholdings cannot be reasonably estimated at this point.

3.2 *Under the BSP Act, HM Treasury is able to effect transfers of Lloyds TSB Shares or HBOS Shares and/or any property of the Lloyds TSB Group or the HBOS Group, or effect other transactions which could impact on the rights of Lloyds TSB Shareholders and/or HBOS Shareholders, and/or result in the de-listing of the Lloyds TSB Shares and/or the HBOS Shares*

Under the BSP Act, until 21 February 2009, HM Treasury has wide powers to make certain orders in respect of a UK authorised deposit-taking institution (such as Lloyds TSB Bank plc and the HBOS Group) and, in certain circumstances, certain corporate-related undertakings. The orders which may be made under the BSP Act in respect of relevant deposit-taking institutions (and/or, in certain circumstances, certain related corporate undertakings) relate to (among other things) (i) transfers of securities issued by relevant entities (such as the Lloyds TSB Shares, the Open Offer Shares and the Consideration Shares) (and/or securing that rights of holders of securities cease to be exercisable by such holders, discontinuing the listing of securities and/or varying or nullifying the terms of securities), (ii) transfers of property, rights and liabilities of relevant entities notwithstanding any restrictions, requirements or interest (and/or modifying related interests, rights or liabilities of third parties), (iii) the disapplication or modification of laws, (iv) the imposition of a moratorium on the commencement or continuation of any legal process in relation to any body or property and/or (v) the dissolution of any relevant entity. Significantly, orders may have retrospective effect and may make provision for nullifying the effect of transactions or events taking place after the time in question.

While certain orders under the BSP Act may be made by HM Treasury only in certain circumstances for the purposes of maintaining the stability of the UK financial system and/or protecting the public interest where financial assistance has been provided by HM Treasury to the deposit-taking institution, such purpose conditions may not apply in respect of all orders which may be made under the BSP Act. The BSP Act includes provisions related to compensation in respect of any transfer orders made.

If HM Treasury were to make an order in respect of Lloyds TSB Bank plc and/or certain related corporate undertakings, such order may (among other things) (i) result in a transfer of shares in Lloyds TSB Bank plc and/or any property of Lloyds TSB Bank plc, or shares in UK authorised deposit-takers within the HBOS Group and/or any property of such HBOS Group entities, (ii) impact on the rights of Lloyds TSB Shareholders and/or HBOS Shareholders, and/or (iii) result in the de-listing of the Lloyds TSB Shares and/or the HBOS Shares. At present, HM Treasury has not made any orders under the BSP Act in respect of Lloyds TSB Bank plc or HBOS or any of their respective related corporate undertakings and there has been no indication that it will make any such order under the BSP Act, but there can be no assurance that this will not change and/or that Lloyds TSB Shareholders will not be adversely affected by any such order if made.

A draft Banking Bill was introduced to the United Kingdom parliament on 7 October 2008. If enacted, the Banking Bill may have significant consequences for the UK banking industry. For example, it is currently anticipated that a new “Special Resolutions Regime” will be implemented which will give wide powers in respect of UK authorised deposit-taking institutions (such as the Issuer) to HM Treasury, the FSA and the Bank of England in circumstances where any such UK-authorised deposit-taking institution has encountered, or is likely to encounter, financial difficulties. It is also anticipated that a new administration and insolvency regime will be implemented in respect of UK-authorised deposit-taking institutions (such as the Issuer). However, given that the Banking Bill is at an early stage in the legislative process, currently it is not possible to predict with any certainty what form any legislation (if enacted) will take and the impact it will have on the Issuer and the impact it will have (if any) on the Lloyds TSB Shareholders.

Further information relating to the BSP Act and the proposed Banking Bill is set out in the section entitled “Lloyds TSB Group – Regulation and Supervision in the United Kingdom”.

3.3 *Lloyds TSB will not be able to pay cash dividends until it has repurchased or redeemed the Enlarged Group HMT Preference Shares*

No dividends may be paid on the Lloyds TSB Shares until the Enlarged Group HMT Preference Shares have been repurchased or redeemed in full. The Enlarged Group HMT Preference Shares will not by their terms be redeemable for a period of five years after their issue. Although it is the Lloyds TSB Group's clear intention to seek their earlier repurchase in 2009 with the consent of the holders of the Enlarged Group HMT Preference Shares, such consent might not be forthcoming and there is no guarantee that the Lloyds TSB Group will be in a position to do so at such time. Even after repayment of the Enlarged Group HMT Preference Shares, the ability of Lloyds TSB to pay dividends in cash or otherwise on Lloyds TSB Shares is a function of its profitability and the extent to which, as a matter of law, it has available to it sufficient distributable reserves out of which any proposed dividend may be paid. Lloyds TSB's ability to pay dividends is also dependent upon receipt by it of dividends and other distributions from subsidiaries. Further, the Lloyds TSB Directors may not consider it appropriate to declare dividends in the context of prolonged economic uncertainty. Lloyds TSB can give no assurances that it will be able to pay a dividend in the future.

## **OTHER RISK FACTORS**

*Terms defined in this section "Other Risk Factors" shall have the meanings set out in the relevant Terms and Conditions of the Capital Securities.*

## **4 Risk factors relating to the Capital Securities**

4.1 *Deferral of Coupon Payments*

The Issuer may elect to defer any Coupon Payment on the Capital Securities. If the Issuer does defer a Coupon Payment (whether pursuant to the general right to defer a Coupon Payment under Condition 4 or by virtue of failing to satisfy the condition to payment set out in Condition 2(b)(i)), such Deferred Coupon Payment will become due only on the earliest of: (i) redemption of the Capital Securities pursuant to the Issuer's call option; (ii) redemption, substitution or variation of the Capital Securities as a result of a Tax Event; and (iii) redemption, substitution or variation of the Capital Securities as a result of a Regulatory Event. Deferred Coupon Payments will also become due on the commencement of the winding-up or administration of the Issuer. Deferred Coupon Payments may only (except in the circumstances otherwise provided in Condition 8(d) and in the winding-up of the Issuer) be satisfied by means of the Alternative Coupon Satisfaction Mechanism and the operation of such mechanism is subject to certain conditions (more particularly described in the Terms and Conditions of the Capital Securities).

Except in the limited circumstances provided in Condition 6(e), no Deferred Coupon Payment will bear interest.

4.2 *Perpetual Securities*

The Issuer is under no obligation to redeem the Capital Securities at any time and the Holders have no right to call for their redemption.

4.3 *Redemption and Substitution Risk*

The Capital Securities may, subject as provided in Condition 7, be redeemed at their principal amount together with any Payments which are Outstanding thereon at the option of the Issuer on the First

Reset Date or, in the case of the Series A Sterling Capital Securities and the Series B Sterling Capital Securities, on the Coupon Payment Date falling each fifth anniversary thereafter, and in the case of the Euro Capital Securities, on any Coupon Payment Date thereafter. In addition, upon the occurrence of a Tax Event or a Regulatory Event, the Capital Securities may: (i) be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or (ii) be redeemed at any time (in the case of the Series A Sterling Capital Securities and the Series B Sterling Capital Securities) or at any time prior to the First Reset Date (in the case of the Euro Capital Securities) at their outstanding principal amount, or in the case of a Regulatory Event, the Make Whole Redemption Price, together in each case with any Payments which are Outstanding thereon, all as more particularly described in Condition 7 “Redemption, Substitution, Variation or Purchase” of the Terms and Conditions of the Capital Securities.

#### 4.4 *No Limitation on Issuing Senior or Pari Passu Securities; Subordination*

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Capital Securities. The issue of any such securities may reduce the amount recoverable by Holders on a winding-up or administration of the Issuer and/or may increase the likelihood of a deferral of Coupon Amounts under the Capital Securities. In particular, on the winding-up or administration of the Issuer, the Capital Securities shall rank junior to the claims of all Senior Creditors of the Issuer and any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up or administration of the Issuer is determined. Accordingly, in the winding-up or administration of the Issuer and after payment of the claims of creditors, there may not be a sufficient amount to satisfy the amount owing to the Holders.

#### 4.5 *Availability of Shares*

The Issuer and the Parent will undertake to use all reasonable endeavours to obtain and maintain certain corporate authorisations required for the operation of the ACSM, as more particularly described in Condition 18. However, if at the time when any Deferred Coupon Payments fall to be satisfied by means of the ACSM, the Issuer or the Parent do not have available and/or the relevant Directors do not have the necessary authority under English law to allot in favour of the Trustee or its agent (free from any pre-emption rights), a sufficient number of authorised but unissued Payment Issuer Shares and/or Payment Ordinary Shares, as the case may be, to satisfy the relevant ACSM Payments, then the Issuer will not be able to operate the ACSM.

The Issuer may not exercise its right to redeem, substitute or vary the terms of the Capital Securities, unless the Issuer and the Parent have available, and the relevant Directors have the corresponding authority to allot, such number of authorised but unissued Payment Issuer Shares and/or Payment Ordinary Shares, as the case may be, required to be issued for the purposes of satisfying in full any ACSM Payments which are required to be satisfied in connection with such redemption, substitution or variation (all as more particularly described in Condition 6 “Alternative Coupon Satisfaction Mechanism – (d) Insufficiency” of the Terms and Conditions of the Capital Securities). In addition, the Capital Securities may not be redeemed, substituted or have their terms varied unless all Deferred Coupon Payments (if any) are satisfied through the operation of the ACSM on or prior to the date set for the relevant redemption, substitution or variation.

#### 4.6 *Restricted Remedy for Non-Payment when due*

In accordance with the FSA’s requirements for Tier 1 Capital, the sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Terms and Conditions of the Capital Securities) any Holder for recovery of amounts which have

become due in respect of the Capital Securities and Coupons will be the institution of proceedings for the winding-up of the Issuer in England and/or proving in any winding-up of the Issuer. Except on a winding-up, in accordance with Condition 2(b)(i), no payment in respect of the Capital Securities shall become due unless the condition (solvency) to payment set out in Condition 2(b)(i) is satisfied.

#### 4.7 *Market Disruption Event*

If, following a decision by the Issuer to satisfy a payment using the ACSM, in the opinion of the Issuer a Market Disruption Event in respect of the Parent's ordinary shares exists, the payment to Holders may be deferred until the cessation of such Market Disruption Event, as more particularly described in Condition 6 "Alternative Coupon Satisfaction Mechanism — (e) Market Disruption" of the Terms and Conditions of the Capital Securities. Any such deferred payments shall bear interest at the rate applicable to the Capital Securities if the Market Disruption Event continues for 14 days or more.

#### 4.8 *Set-Off*

Subject to applicable law, no Holder or Couponholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities or the Coupons and each Holder and Couponholder shall, by virtue of being the bearer of any Capital Security or Coupon, be deemed to have waived all such rights of set-off.

#### 4.9 *Absence of Prior Public Markets*

The Capital Securities constitute a new issue of securities by the Issuer. Prior to this issue, there will have been no public market for the Capital Securities. Although application has been made to the UK Listing Authority under the FSMA for the Capital Securities to be admitted to the Official List and to the London Stock Exchange for the Capital Securities to be admitted to trading on the Market, there can be no assurance that an active public market for the Capital Securities will develop. The liquidity and the market prices for the Capital Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities.

#### 4.10 *Tier 1 Capital Securities*

Except on a winding-up, payments in respect of the principal of, and interest on, the Capital Securities will be conditional upon the Issuer being solvent at the time of payment, as provided in, and as more particularly described in, Condition 2(b) and no payment shall be due to the extent that the Issuer is insolvent or would become insolvent as a result of making such payment.

#### 4.11 *Rating methodologies, including "notching" practices, may change*

The rating methodologies for securities with features similar to the Capital Securities are still developing, and the rating agencies may change their methodologies in the future. This may include, for example, the relationship between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the Capital Securities, sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Capital Securities were to be subsequently lowered, this may have a negative impact on the trading price of the Capital Securities.

#### 4.12 *Capital Securities may not be a suitable investment for all investors*

Each potential investor in any Capital Securities 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 Capital Securities, the merits and risks of investing in the Capital Securities and the information contained or incorporated by reference in this 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 Capital Securities 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 Capital Securities;
- (iv) understand thoroughly the terms of the Capital Securities;
- (v) recognise that it may not be possible to make any transfer of the Capital Securities for a substantial period of time, if at all; and
- (vi) 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.

#### 4.13 *Interest rate risks*

Investment in Capital Securities as fixed rate instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of the Capital Securities.

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

One or more independent credit rating agencies may assign credit ratings to the Capital Securities. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Capital Securities. 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.

#### 4.15 *Change of law or regulation*

The Terms and Conditions of the Capital Securities are based on English law and the regulations, requirements, guidelines and policies of the FSA relating to capital adequacy in effect as at the Issue Date of the Capital Securities. No assurance can be given as to the impact of any possible judicial decision or change to English law, administrative practice or the regulations, requirements, guidelines and policies of the FSA after the Issue Date of the Capital Securities. Investors should be aware that changes to certain of the FSA's capital adequacy regulations are currently proposed.

#### 4.16 *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a 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, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bank Capital Security as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required, save as provided in Condition 17 of the Capital Securities, to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

## TERMS AND CONDITIONS OF THE SERIES A STERLING CAPITAL SECURITIES

*The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Series A Sterling Capital Securities which will be endorsed on each Capital Security in definitive form (if issued).*

The £784,611,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019 (the “**Capital Securities**”, which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 16 and forming a single series with the Capital Securities) of Lloyds TSB Bank plc (the “**Issuer**”) are constituted by a trust deed (the “**Trust Deed**”) dated 21 January 2009 between the Issuer, the Parent 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 holders of the Capital Securities (the “**Holders**”). The issue of the Capital Securities was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 19 September 2008 and 12 December 2008 respectively. The statements in these terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (i) the Trust Deed and (ii) the agency agreement (the “**Agency Agreement**”) dated 21 January 2009 made between the Issuer, the Parent, Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other paying agent named therein and any successors thereto (together with the Principal Paying Agent, the “**Paying Agents**”) and the Trustee are available for inspection during normal business hours by the Holders and the holders of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, Talons, as defined below) and talons for further Coupons (the “**Talons**”) appertaining to Capital Securities in definitive form (the “**Couponholders**”) at the specified office of each of the Paying Agents. The Holders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

### 1 Form, Denomination and Title

#### (a) Form and Denomination

The Capital Securities are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000 each with Coupons and one Talon attached on issue. No Capital Securities will be issued with a denomination above £199,000.

#### (b) Title

Title to the Capital Securities, Coupons and Talons will pass by delivery. The bearer of any Capital Security and the bearer of any Coupon or Talon shall be deemed to be, and may be treated as (except as otherwise required by law or as ordered by a court of competent jurisdiction) its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the bearer.



## 2 Status and Subordination

### (a) Status

The Capital Securities constitute direct, unsecured and subordinated securities of the Issuer and rank *pari passu* without any preference among themselves.

### (b) Subordination

#### (i) Condition to Payment

Subject to Condition 3, payments in respect of or arising from the Capital Securities (including Coupons payable in cash or by way of the issue of Issuer Shares in accordance with Condition 6 and including any damages awarded for breach of any obligation of the Issuer under these Conditions, the Trust Deed or the Agency Agreement) are conditional upon the Issuer being solvent at the time of payment by the Issuer (or at the time of issue of such Issuer Shares) and no principal, premium or Payments shall be due and payable in respect of the Capital Securities (including Coupons payable in cash or by way of the issue of Issuer Shares in accordance with Condition 6 and including any damages awarded for breach of any obligation of the Issuer under these Conditions, the Trust Deed or the Agency Agreement) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. Payments in respect of the Capital Securities may also be deferred pursuant to Condition 4.

In these Conditions, the Issuer shall be considered to be solvent if (x) it is able to pay its debts to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). For the purposes of this Condition 2(b)(i) any reference to a payment by the Issuer in respect of a Capital Security shall be deemed to include a purchase of such Capital Security by the Issuer. A report as to the solvency of the Issuer by two Directors of the Issuer or, if the Issuer is in a winding-up, its liquidator or, if the Issuer is in administration, its administrators shall, in the absence of manifest error, be treated and accepted by the Issuer, the Parent, the Trustee, the Holders and the Couponholders as correct and sufficient evidence thereof.

#### (ii) Solvency Claims

Without prejudice to the rest of these Conditions, amounts in respect of principal, premium or Payments (including any damages awarded for breach of any obligation of the Issuer under these Conditions, the Trust Deed or the Agency Agreement) in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable (“**Solvency Claims**”) will be payable by the Issuer in a winding-up or administration of the Issuer as provided in Condition 3 and any redemption pursuant to Condition 7. A Solvency Claim shall not bear interest.

#### (iii) Set-off

Subject to applicable law, no Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities or the Coupons and each Holder and Couponholder shall, by virtue of his holding of any Capital Security or Coupon, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder or Couponholder by the Issuer in respect of, or arising under or in connection with, the Capital Securities is discharged by set-

off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator, or as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

*If the condition to payment set out in Condition 2(b)(i) is not satisfied, any sums which would otherwise have been payable in respect of the Capital Securities but are not paid by reason of such condition to payment will be available to be put towards the losses of the Issuer.*

### 3 Winding-Up or Administration

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed)), or, following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend, there shall be payable by the Issuer in respect of each Capital Security (in lieu of any other payment by the Issuer but subject as provided in this Condition 3), such amount, if any, as would have been payable to the Holder if, on the day prior to the commencement of the winding-up or administration and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares**”) ranking *pari passu* as to a return of assets on a winding-up or administration with the holders of Other Tier 1 Securities of the Issuer and the holders of that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up or administration of the Issuer is determined, on the assumption that the amount that such Holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up or administration were an amount equal to the principal amount of, and any applicable premium on, the relevant Capital Security and any other Payments which are Outstanding thereon together with, to the extent not otherwise included within the foregoing, its pro rata share of any Solvency Claims attributable to the Capital Security.

On a winding-up or administration of the Issuer, there may be no surplus assets available to meet the claims of the Holders after the claims of the parties ranking senior to the Holders (as provided in Condition 3) have been satisfied.

### 4 Coupon Deferral

The Issuer may elect, subject as provided below, to defer any Coupon Payment otherwise scheduled to be paid on a Coupon Payment Date by giving notice of such election to the Holders (in accordance with Condition 15), the Trustee and the Principal Paying Agent not less than 20 Business Days prior to the relevant Coupon Payment Date. The Issuer may not exercise its rights under this Condition 4 to defer Coupon Payments if a Capital Disqualification Event has occurred (and the Issuer has notified the FSA of such occurrence), unless a Capital Breach Event has also occurred and is continuing.

The Issuer may at any time satisfy any Deferred Coupon Payment by operation of the procedures set out in Condition 6. The Issuer shall (except where Condition 3 applies) satisfy any Deferred Coupon Payment only by operation of the procedures set out in Condition 6 and, subject to Condition 8(d), shall only be obliged to do so upon the occurrence of the first of the following to occur: (i) redemption of the Capital Securities in accordance with Condition 7(b); (ii) redemption, substitution or variation of the terms of the Capital Securities in accordance with Condition 7(c); and (iii) redemption, substitution or variation of the terms of the Capital Securities in accordance with Condition 7(d).

If, on any Coupon Payment Date, payment of all Coupon Payments scheduled to be made on such date is not made in full by reason of either Condition 2(b)(i) or this Condition 4, neither the Issuer nor the Parent shall, (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital other than, in the case where the Issuer has elected to defer a Coupon Payment in accordance with this Condition 4, a dividend (other than a dividend which is, or is expressed to be, an extraordinary or special dividend), distribution or other payment which has been declared, paid or made by the Issuer or the Parent on any Junior Share Capital, prior to the date on which the decision to defer the relevant Coupon Payment is notified to Holders in accordance with Condition 15, or (b) redeem, purchase, cancel, reduce or otherwise acquire any Junior Share Capital or any Other Tier 1 Securities (save where those shares or securities being redeemed, purchased or acquired are 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 administration 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), in each case unless or until the Coupon Payments due and payable in the next 12 months on all outstanding Capital Securities have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Holders and in a manner satisfactory to the Trustee).

Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Coupon Payment by virtue of this Condition 4 or Condition 2(b)(i) shall not constitute a default for any purpose (including, without limitation, Condition 9(a)) on the part of the Issuer. Any Coupon Payment so deferred shall not, except in the circumstances provided in Condition 6(e), bear interest.

The restrictions set out in this Condition 4 do not apply to the declaration and payment of any dividends and distributions or the making of any other payment by the Issuer to the Parent, any holding company of the Parent or to another wholly-owned subsidiary of the Parent.

## **5 Coupon Payments**

### **(a) Coupon Payment Dates**

The Capital Securities bear interest at the applicable Coupon Rate from the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 2(b)(i), 2(b)(ii), 4, 6(d), 6(e) and 8(d), interest shall be payable on the Capital Securities semi-annually (in two equal instalments) in arrear on each Coupon Payment Date, as provided in this Condition 5, save that the Coupon Payment in respect of the twentieth Coupon Period shall be the aggregate of a full semi-annual instalment and an amount calculated on the basis of one day divided by two times the number of days in the period from and including 21 July to but excluding 21 January.

**(b) Interest Accrual**

The Capital Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 7(b) or the date of redemption or substitution thereof pursuant to Condition 7(c), 7(d) or 8(d), as the case may be, unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the Capital Securities is not properly and duly made, in which event interest shall continue to accrue as provided in the Trust Deed.

**(c) Coupon Rate**

The relevant coupon rate (the “**Coupon Rate**”):

- (i) in respect of the period from (and including) the Issue Date to (but excluding) the First Reset Date shall be 13 per cent. per annum; and thereafter
- (ii) in respect of each Reset Period shall be the aggregate of 14 per cent. per annum and the Five Year Benchmark Gilt Rate in respect of such Reset Period (as determined by the Agent Bank).

**(d) Determination of Coupon Rate and Calculation of Coupon Amounts**

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on each Coupon Determination Date (i) determine the Coupon Rate applicable in respect of the relevant Reset Period pursuant to Condition 5(c)(ii) and (ii) calculate the amount of interest payable in respect of a Calculation Amount on each of the Coupon Payment Dates falling in the relevant Reset Period by applying the Coupon Rate applicable to the Reset Period in which such Coupon Payment Dates fall to the Calculation Amount and dividing by two. Where it is necessary to compute an amount of interest in respect of a Capital Security for a period which is less than a complete Coupon Period, such Coupon Amount shall be calculated on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue, to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Coupon Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Coupon Periods normally ending in any year. Where it is necessary to compute an amount of interest in respect of any Capital Security for a period of more than a complete Coupon Period, such interest shall be calculated in respect of each full Coupon Period within such period, with the interest in respect of any remaining period being calculated in the manner as aforesaid. The resultant figure shall, if necessary, be rounded to the nearest £0.01 (£0.005) being rounded upwards). Where the denomination of a Capital Security is more than the Calculation Amount, the amount of interest payable in respect of such Capital Security is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of the Capital Security.

**(e) Publication of Coupon Rate and Coupon Amounts**

The Issuer shall cause notice of the Coupon Rate and Coupon Amount in respect of each of the Coupon Payment Dates falling in the relevant Reset Period determined in accordance with Conditions 5(c)(ii) and 5(d) to be given to the Trustee, the Paying Agents, any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading and, in accordance with Condition 15, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day after the relevant Reset Date.

**(f) Determination or Calculation by Trustee**

If the Agent Bank does not at any relevant time for any reason determine the Coupon Rate on the Capital Securities or calculate the relevant Coupon Amounts in accordance with Conditions 5(c)(ii) and 5(d), the Trustee (or an agent appointed by it) shall do so and such determination or calculation shall be deemed to have been made by the Agent Bank. In doing so, the Trustee (or such agent appointed by it) shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it or such agent can do so, and in all other respects it or such agent shall deem fair and reasonable in all the circumstances.

**(g) Agent Bank**

Provided the Issuer has not given notice to redeem the Capital Securities on the First Reset Date pursuant to Condition 7(b), the Issuer shall on or before the Coupon Determination Date relating to the First Reset Date appoint and, for so long as any Capital Securities remain outstanding, maintain an Agent Bank.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank with another leading investment, merchant or commercial bank in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to Condition 5(f) above) fails duly to determine the Coupon Rate or calculate the Coupon Amounts in respect of any Reset Period as provided in Conditions 5(c)(ii) and 5(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

**(h) Determinations of Agent Bank or Trustee Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5, whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders or the Issuer shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

## **6 Alternative Coupon Satisfaction Mechanism**

**(a) Alternative Coupon Satisfaction Mechanism**

Each ACSM Payment, when due to be satisfied in accordance with these Conditions, will (except as provided in Condition 8(d) or if Condition 3 applies) be satisfied by the Issuer in full only through the issue of Ordinary Shares and their allotment to the Trustee or its agent for the purposes of, and in accordance with, this Condition 6.

The Issuer shall appoint a Calculation Agent (if it has not already done so), and notify the Parent, the Trustee, the Principal Paying Agent and the Calculation Agent that an ACSM Payment is to be satisfied on the relevant ACSM Payment Date. All other Payments due must, subject to Conditions 2 and 4, be satisfied in accordance with Condition 8(a).

**(b) Issue of Ordinary Shares**

If any ACSM Payment is to be satisfied through the issue to or to the order of the Trustee of Ordinary Shares as required by the provisions of this Condition 6 then, subject to Conditions 6(d), 6(e) and 8(d):

- (i) by close of business in London on or before the seventh Business Day prior to the relevant ACSM Payment Date, the Issuer will, subject to it having the necessary corporate authorisations in place, issue and allot in favour of the Trustee (or, if so agreed between the Issuer and the Trustee, an agent of the Trustee) such number of Ordinary Shares (the “**Payment Issuer Shares**”) as, in the determination of the Parent, will have a market value (converted, where necessary, into pounds sterling) as near as practicable to, but not less than, the relevant ACSM Payment to be satisfied in accordance with this Condition 6; and
- (ii) on or before the sixth Business Day prior to the relevant ACSM Payment Date, the Trustee shall transfer or instruct its agent to transfer the Payment Issuer Shares to the Parent in consideration for which the Parent shall issue to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) within one Business Day of the Parent receiving the Payment Issuer Shares such number of ordinary shares of the Parent (the “**Payment Ordinary Shares**”) as, in the determination of the Calculation Agent, will have a market value (converted, where necessary, into pounds sterling) as near as practicable to, but not less than the relevant ACSM Payment to be satisfied in accordance with this Condition 6.

The Trustee shall hold such Payment Ordinary Shares and such proceeds of the sale of the Payment Ordinary Shares, in each case: (i) as have a value equal to the applicable ACSM Payment as certified by the Calculation Agent, on trust for the Holders; and (ii) as have a value equal to any Associated Costs as certified by the Calculation Agent, on trust for itself or its agent. The remainder (if any) of the Payment Ordinary Shares or the proceeds of the sale of the Payment Ordinary Shares shall, in each case, be held on trust for the Issuer by the Trustee. Following the sale of the Payment Ordinary Shares in accordance with this Condition 6 and the discharge of any Associated Costs and satisfaction of the relevant ACSM Payment as provided below, the Trustee or its agent shall pay the remainder (if any) of the proceeds of the sale of the Payment Ordinary Shares as certified by the Calculation Agent to the Issuer.

The Trustee shall use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case by not later than the close of business in London on the fifth Business Day prior to the relevant ACSM Payment Date and the Calculation Agent shall be required to agree in the Calculation Agency Agreement to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. If necessary, the Calculation Agent has further agreed to exchange, as agent of the Trustee, the proceeds of such sale into pounds sterling at prevailing market exchange rates and deliver such exchanged proceeds to, or hold such exchanged proceeds to the order of, the Trustee who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant Payment on its due date to the Principal Paying Agent. The Calculation Agent shall further be required to agree in the Calculation Agency Agreement to discharge, on behalf of the Trustee or its agent, the Associated Costs and pay the remaining proceeds of such sale to, or hold the remaining proceeds of such sale to the order of, the Trustee, who shall pay or procure that its agent pays such remaining proceeds as it holds in respect of the relevant ACSM Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c).

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

If the proceeds of the sale of the Payment Ordinary Shares will not, in the opinion of the Calculation Agent, subject to Conditions 6(d) and 6(e) but despite the arrangements contained above, result in a sum (if necessary, when converted into pounds sterling) at least equal to the relevant ACSM Payment and any Associated Costs being available to satisfy the necessary ACSM Payment in full on its due date and the Associated Costs, the Issuer, the Parent, the Trustee and the Calculation Agent shall take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Issuer Payment Shares and Payment Ordinary Shares on one or more further occasions and allotting them to the Trustee or its agent and following, *mutatis mutandis*, the procedures contained above, a sum (if necessary, when converted into pounds sterling) as near as practicable to, and at least equal to, the relevant ACSM Payment and any Associated Costs will be available to satisfy the relevant ACSM Payment in full on its due date and the Associated Costs.

**(c) Issue Satisfies Payment**

Where the Issuer elects or is required to satisfy an ACSM Payment hereunder by issuing Payment Issuer Shares and issues such Payment Issuer Shares to the Trustee or its agent (with the subsequent issue by the Parent to the Trustee or its agent of Payment Ordinary Shares in exchange therefor), such issue shall satisfy the relevant ACSM Payment if done in accordance with this Condition 6. The proceeds of sale of Payment Ordinary Shares shall be paid by the Principal Paying Agent to the Holders in respect of the relevant ACSM Payment.

*The Trustee is a company incorporated under English law and is acting on its capacity as trustee on behalf of the Holders. It does not hold itself out as engaging in the business of buying or selling investments (including the Payment Issuer Shares or the Payment Ordinary Shares) and will carry out its obligations under this Condition 6 only in its capacity as trustee for the Holders. For the avoidance of doubt, the Trustee is not remunerated separately for accepting any investments on behalf of the Holders in addition to any remuneration it receives as trustee.*

**(d) Insufficiency**

The Issuer shall not be entitled to exercise its option pursuant to any of Conditions 7(b), 7(c) or 7(d) to redeem, substitute or vary the terms of any of the Capital Securities until such time as the Issuer and the Parent have available, and the Directors of both the Issuer and the Parent have the corresponding authority to allot, a sufficient number of authorised but unissued Payment Issuer Shares and Payment Ordinary Shares as may be required to be issued in accordance with this Condition 6 for the purposes of satisfying in full in accordance with this Condition 6 any ACSM Payment required to be satisfied in connection with such redemption, substitution or variation of the terms of the Capital Securities.

**(e) Market Disruption**

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the 15th Business Day preceding any ACSM Payment Date, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and (in accordance with Condition 15) the Holders as soon as possible after the Market Disruption Event has

arisen or occurred, whereupon the relevant ACSM Payment may be deferred until such time as the Market Disruption Event, in the opinion of the Issuer, no longer exists.

Any such deferred ACSM Payment will be satisfied as soon as practicable following such time as the Market Disruption Event, in the opinion of the Issuer, no longer exists. Interest shall not accrue on such deferred ACSM Payment, unless, as a consequence of the existence of the relevant Market Disruption Event, the Issuer does not satisfy the relevant ACSM Payment for a period of 14 days or more after the relevant ACSM Payment Date, in which case interest shall accrue on such deferred ACSM Payment from (and including) the relevant ACSM Payment Date to (but excluding) the date on which such ACSM Payment is satisfied. Any such interest shall accrue at a rate determined in accordance with Condition 5 and shall be satisfied only in accordance with this Condition 6, as soon as reasonably practicable after the relevant deferred ACSM Payment is satisfied. No liability shall attach to the Trustee or its agent if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 6(b).

**(f) Listing**

The Parent has undertaken in the Trust Deed to ensure (to the extent possible) that, at the time when any Payment Ordinary Shares are issued pursuant to this Condition 6, such Payment Ordinary Shares are listed on the Official List of the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 and are admitted to trading on the market for listed securities of the London Stock Exchange (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

## **7 Redemption, Substitution, Variation or Purchase**

**(a) No Fixed Redemption Date**

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 11) only have the right to repay them, substitute them, vary their terms or purchase them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

In addition, any redemption, substitution, variation of the terms or purchase of the Capital Securities is (i) subject to the Issuer giving prior written notice to, and receiving no objection from, or in the case of any redemption of the Capital Securities (or substitution or variation thereof for Qualifying Upper Tier 2 Securities) prior to the First Reset Date, receiving the consent of, the FSA, and (ii) subject to the Issuer (both at the time of, and immediately following, the redemption, substitution, variation or purchase) being in compliance with the Capital Regulations applicable to it from time to time (and a certificate from any two Directors of the Issuer confirming such compliance shall be conclusive evidence of such compliance), and (iii) (other than in the case of a purchase) conditional on the terms of Condition 6(d) being satisfied prior to the exercise by the Issuer of its rights with respect to such redemption, substitution or variation and all Deferred Coupon Payments (if any) being satisfied in full by the operation of Condition 6 and the Trust Deed on or prior to the date set for such redemption, substitution or variation.



**(b) Issuer's Call Option**

Subject to Conditions 2(b)(i) and 7(a), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders (in accordance with Condition 15), the Trustee and the Principal Paying Agent, which notice shall be irrevocable, elect to redeem all, but not some only, of the Capital Securities on the First Reset Date or any Reset Date thereafter at their principal amount together with any Payments which are Outstanding thereon (including any Deferred Coupon Payments, which will be satisfied by the operation of Condition 6).

**(c) Redemption, Substitution or Variation Due to Taxation**

If, immediately prior to the giving of the notice referred to below, as a result of a Tax Law Change:

- (i) in making any payments on the Capital Securities, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Capital Securities and the Issuer cannot avoid the foregoing in connection with the Capital Securities by taking measures reasonably available to it; or
- (ii) in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date there is a more than insubstantial risk that Coupon Payments on the Capital Securities including, for the avoidance of doubt, any ACSM Payment and the related issue of Payment Issuer Shares and Payment Ordinary Shares pursuant to Condition 6, may be treated as "distributions" within the meaning of Section 832(1) of the Income and Corporation Taxes Act 1988 (or such other Section and/or Act as may from time to time supersede or replace Section 832(1) of the Income and Corporation Taxes Act 1988 for the purposes of such definition) and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate; or
- (iii) in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (a) there is a more than insubstantial risk that the Issuer would not be entitled to claim a deduction in respect thereof when computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced or (b) the Issuer would not to any material extent be entitled to have such a deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist), or (c) the Issuer would not, as a result of the Capital Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be so grouped; and in any such case the Issuer cannot avoid the foregoing in connection with the Capital Securities by taking measures as it (acting in good faith) deems appropriate,

then:

- (aa) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Capital Securities at their principal amount, together, with any Payments which are Outstanding thereon (including any Deferred Coupon Payments, which will be satisfied by the operation of Condition 6); or

- (bb) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Capital Securities for, or vary the terms of the Capital Securities so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (bb) and subject to the receipt by it of the certificate of the Directors referred to below and the certificate of the Directors referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Capital Securities for or the variation of the terms of the Capital Securities so that they become alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in or assist with any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Capital Securities as provided above.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 7(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the relevant condition referred to in paragraph (i), (ii) or (iii) above is satisfied and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions set out in such paragraphs in which event it shall be conclusive and binding on the Holders. Upon expiry of such notice, the Issuer shall either redeem, vary the terms of or substitute the Capital Securities in accordance with this Condition 7(c), as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(c), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading, and (for so long as the Capital Securities are listed on the London Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

**(d) Substitution, Variation or Redemption for Regulatory Purposes**

If immediately prior to the giving of the notice referred to below a Regulatory Event has occurred and is continuing, then:

- (i) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 15, the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Capital Securities at their Make Whole Redemption Price together with any Payments which are Outstanding thereon (including any Deferred Coupon Payments which will be satisfied by the operation of Condition 6); or

- (ii) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Capital Securities for, or vary the terms of the Capital Securities so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (ii) and subject to the receipt by it of the certificate of the Directors referred to below and the certificate of the Directors referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Capital Securities for or the variation of the terms of the Capital Securities so that they become alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in or assist with any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured to its satisfaction. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Capital Securities as provided above.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 7(d), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that a Regulatory Event 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 and continuation of a Regulatory Event in which event it shall be conclusive and binding on the Holders. Upon expiry of such notice, the Issuer shall either redeem, vary the terms of or substitute the Capital Securities in accordance with this Condition 7(d), as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading, and (for so long as the Capital Securities are admitted to official listing on the London Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

**(e) Purchases**

The Issuer, the Parent or any other subsidiary of the Parent may, subject to Condition 7(a), at any time purchase Capital Securities in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto.

**(f) Cancellation**

All Capital Securities so redeemed or substituted by the Issuer and any unmatured Coupons and Talons appertaining thereto will be cancelled and may not be reissued or resold. Capital Securities purchased by the Issuer, the Parent or any other subsidiary of the Parent may be held, reissued or resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation. Any Capital Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Capital Securities shall be discharged.

**(g) Trustee Not Obligated to Monitor**

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7 or whether a Suspension under Condition 8(d) has occurred and will not be responsible to Holders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7 or the occurrence of a Suspension under Condition 8(d), it shall be entitled to assume that no such event or circumstance exists.

## **8 Payments**

**(a) Method of Payment**

- (i) Payments of principal, premium and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of Capital Securities or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relevant Capital Security. Such payments will be made (subject to Condition 8(a)(ii) below), at the option of the payee, by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.
- (ii) Upon the due date for redemption of any Capital Security, any unexchanged Talon relating to such Capital Securities (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such Capital Securities (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Capital Security is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Capital Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

**(b) Payments Subject to Fiscal Laws**

Without prejudice to the terms of Condition 10, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders in respect of such payments.

**(c) Payments on Business Days**

If the date for payment of any amount in respect of any Capital Security or Coupon, or any later date on which any Capital Security or Coupon is presented for payment, is not a business day, then the holder thereof shall not be entitled to payment at that place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 8(c), “**business day**” means any day (not being a Saturday, Sunday or a public holiday) on which commercial banks and foreign exchange markets which settle payments in sterling are open in London and in the relevant place of payment.

**(d) Suspension**

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement, the Parent or any subsequent New Owner ceases to be the ultimate holding company of the Lloyds TSB Group, then the Issuer shall as soon as practicable give notice to the Holders in accordance with Condition 15, the Trustee and the Principal Paying Agent, whereupon the operation of the ACSM shall be suspended (such event being a “**Suspension**”). In such event, unless a Permitted Restructuring Arrangement shall be put in place within six months of the occurrence of a Permitted Restructuring (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank, merchant bank, commercial bank, stockbroker or financial institution appointed by the Issuer (at the Issuer’s expense) (such appointed entity, the “**Independent Expert**”) and approved by the Trustee shall determine, subject to the requirements that: (i) the Issuer shall not be obliged to reduce its net assets; (ii) no amendment may be proposed or made which would alter the FSA’s regulatory capital treatment of the Capital Securities for regulatory capital and solvency purposes without the Issuer giving prior written notice to, and receiving no objection from, the FSA and (iii) no such amendment may be made which would, in the Trustee’s opinion, impose more onerous obligations on it or require the Trustee to incur any liability for which it is not indemnified and/or secured to its satisfaction without its consent, what amendments (if any) to these Conditions, the Trust Deed and any other relevant documents are appropriate in order (aa) to preserve substantially the economic effect, for the Holders, of a holding of the Capital Securities prior to the Suspension and (bb) to replicate the ACSM in the context of the capital structure of the New Owner. Upon any such determination being reached and notified to the Trustee, the Parent and the Issuer by the Independent Expert, the Trustee, the Parent and the Issuer shall, pursuant to the terms of the Trust Deed and without any requirement for the consent or the approval of the Holders or Couponholders, effect the amendments that the Independent Expert has determined are appropriate together with any necessary consequential changes to these Conditions and the Trust Deed and any other relevant documents, whereupon the satisfaction of any ACSM Payment (when due) by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, the Independent Expert is unable to formulate such amendments or if, having used all reasonable endeavours, the Issuer is unable to appoint an investment bank, merchant bank, commercial bank, stockbroker or financial institution willing and able to make such determination, the Independent Expert or, as the case may be, the Issuer shall so notify the Issuer (in the case of notification by the Independent Expert), the Parent, the New Owner, the Trustee and the Principal Paying Agent and the Capital Securities shall (subject in each case to the Issuer giving prior written notice to, and receiving no objection from, the FSA and with the prior agreement of the New Owner) at the option of the Issuer either be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or be redeemed, in each case as described below.

If the Capital Securities are to be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, the Issuer shall give not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable) and all (but not some only) of the Capital Securities will be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall agree (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the Directors referred to in the definition of Qualifying Tier 1 Securities or (as the case

may be) Qualifying Upper Tier 2 Securities and subject further to the receipt by it of the notification of the Independent Expert referred to above) to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will either (at the option of the Issuer) (x) be carried over such that the rights of the Holders with respect thereto are preserved in the new Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or (y) be satisfied (unless otherwise agreed by the Issuer and the Trustee) by the issue of Ordinary Shares to the New Owner in consideration for which the New Owner shall issue ordinary shares in its capital (or shares in its capital of an equivalent class) so as to enable it to satisfy the amount of such Deferred Coupon Payments in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent shares in the capital of the New Owner which, when sold, provide a net cash amount of not less than the amount of such Deferred Coupon Payments which fall to be satisfied by the Issuer). The Trustee shall use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Capital Securities for or the variation of the terms of the Capital Securities so that they become alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in or assist with any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured to its satisfaction. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the FSA objects to such substitution or variation or it is otherwise not practicable for the Capital Securities to be substituted or varied as described above, the Issuer may, subject to Condition 7(a), elect to redeem the Capital Securities as provided in this Condition 8(d). In connection with any substitution or variation in accordance with this Condition 8(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading.

If the Capital Securities are to be redeemed by the Issuer in accordance with this Condition 8(d), the Issuer shall give notice thereof to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable) and all (but not some only) of the Capital Securities will be redeemed at (in the case of any redemption prior to the First Reset Date) their Make Whole Redemption Price or (on or after the First Reset Date) their principal amount, together in each case with any Payments which are Outstanding thereon, not later than the 60th Business Day following the giving of such notice by the Issuer to the Holders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Ordinary Shares to the New Owner in consideration for which the New Owner shall issue ordinary shares in its capital (or shares in its capital of an equivalent class) so as to enable it to satisfy such redemption amount in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent shares in the capital of the New Owner which, when sold, provide a net cash amount of not less than the redemption amount which falls to be satisfied by the Issuer).

## 9 Non-Payment when due

*Notwithstanding any of the provisions below in Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Except in the circumstances contemplated in Condition 3, no principal, premium or Payment (including any Payment which falls to be satisfied by means of the ACSM) will be due on the relevant payment date unless the condition to payment set out in Condition*

*2(b)(i) is satisfied. Also, in the case of any Coupon Payment, such Payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 4 or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.*

- (a) If the Issuer shall not make payment in respect of the Capital Securities (in the case of payment of principal and/or premium) for a period of 14 days or more after the due date for the same or (in the case of any Coupon Amount or Accrued Coupon Payment) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the Capital Securities and the Coupons and the Trustee may, notwithstanding the provisions of Condition 9(b), institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and/or prove in any winding up of the Issuer, provided that it shall not have the right to institute such proceedings if the Issuer withholds or refuses any such payment (i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, the Issuer, the relevant Paying Agent or the holder of the Capital Security or Coupon or (ii) (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) Subject as provided in Condition 18, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer or the Parent as it may think fit to enforce any term or condition binding on the Issuer or, as the case may be, the Parent under the Trust Deed, the Capital Securities or the Coupons (other than for the payment of any principal or premium or satisfaction of any Payments in respect of the Capital Securities or the Coupons or Accrued Coupon Payment) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in Condition 9(a) or (b) above against the Issuer or the Parent to enforce the terms of the Trust Deed, the Capital Securities or the Coupons or, save where expressly provided therein, take any other action under the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.
- (d) No Holder or Couponholder shall be entitled to proceed directly against the Issuer, the Parent or to institute proceedings for the winding-up of the Issuer in England or to prove in any winding-up of the Issuer unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any Holder or Couponholder (i) for the recovery of amounts owing in respect of the Capital Securities or the Coupons, other than the institution of proceedings in England (but not elsewhere) for the winding-up of the Issuer and/or proving in any winding-up and (ii) for the breach of any other term under the Trust Deed, the Capital Securities or the Coupons, other than as provided in Condition 9(b) above. The Issuer has undertaken in the Trust Deed to pay United Kingdom, Belgian and Luxembourg stamp and other duties (if any) on or in connection with the execution of the Trust Deed and United Kingdom, Belgian and Luxembourg stamp and other duties or taxes (if any) on the constitution and issue of the Capital Securities 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 and, in the case of exchange of a global Capital Security for Capital Securities 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 the United Kingdom (but not elsewhere) solely by virtue of and in connection with any proceedings under and in accordance with the Trust Deed or the Capital Securities, save that the Issuer shall not be liable to pay any such stamp duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the Holder or, as the case may be, Couponholder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Issuer 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 or Couponholder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Capital Securities in temporary global, permanent global or definitive form or the Coupons (in each case other than as aforesaid) are the liability of the holders thereof.

- (e) If payment to any Holder of any amount due in respect of the Capital Securities (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 at the rate determined in accordance with Condition 5 from the date of such withholding or refusal, as the case may be, until (but excluding) the date on which notice is given in accordance with Condition 15 that the full amount in sterling payable in respect of such Capital Securities is available for payment or the date of payment, whichever first occurs and shall be calculated in accordance with Condition 5.
- (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, premium and/or any Payment due (other than a Deferred Coupon Payment) in respect of Capital Securities or any of them is not paid or provided by the Issuer to the Trustee or to the account of or with the Principal Paying Agent, or is withheld or refused by any of the Paying 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 on 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 sterling, 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 Principal Paying Agent for payment to the relevant holders of Capital Securities and/or Coupons, as the case may be (or, if the Principal Paying Agent advises the Issuer of its inability to effect such payment, shall be paid to (or released by) such other Paying Agent as there then may be or, if none, to the Trustee, in any such case for payment as aforesaid). For 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 10 shall not apply in respect of the payment of any such interest.

## **10 Taxation**

All payments by or on behalf of the Issuer of principal, premium, Coupon Amounts, Deferred Coupon Payments, Accrued Coupon Payments and Solvency Claims (whether or not to be satisfied by way of the ACSM) in respect of the Capital Securities will be made without withholding of or deduction for, or on any account of, any present or future United Kingdom taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts (“**Additional Amounts**”) as may be necessary in order that the net amounts receivable by Holders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Capital Securities or, as the case may be, Coupons in the absence of a requirement to make such withholding or deduction, except that no such Additional Amounts shall be payable in relation to any payment with respect to any Capital Securities or Coupon:

- (a) presented for payment by, or on behalf of, a Holder or Couponholder who (i) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to such taxes, duties, assessments or governmental charges in respect of such Capital Security or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Capital Security or Coupon;
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law or treaty implementing or complying with, or introduced in order to conform to, such Directive;
- (c) presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Capital Security or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Conditions to principal, premium, Coupon Amounts, Deferred Coupon Payments and/or Accrued Coupon Payments, shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

If the Issuer becomes resident for tax purposes in any jurisdiction other than or in addition to the United Kingdom, references in this Condition 10 to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction as the case may be.

In the event that any payment is satisfied by means of the ACSM then any Additional Amounts which are payable shall also be satisfied by means of the ACSM.

## **11 Prescription**

Claims in respect of Capital Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Capital Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition 11 or Condition 8(a)(ii) or any Talon which would be void pursuant to Condition 8(a)(ii).

## **12 Meetings of Holders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests including the sanctioning by Extraordinary Resolution of any modification of any of these Conditions or any of the provisions of the Capital Securities, 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 Holders to which special quorum provisions shall have applied. Any Extraordinary Resolution duly passed shall be binding on all Holders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

No modification which in the opinion of the Issuer is material to these Conditions or any other provisions of the Trust Deed shall become effective unless the Issuer has given at least one month's prior written notice to, and received no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that there is a requirement to give such notice).

Subject to the Issuer giving one month's prior written notice to, and receiving no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that there is a requirement to give such notice) and as provided in the Trust Deed, the Trustee shall agree, if requested by the Issuer 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 Holders or the Couponholders, to the substitution, subject to the Capital Securities and the Coupons being irrevocably guaranteed by the Issuer on a subordinated basis equivalent to that mentioned in Condition 2(b) of the Parent, any New Owner, any other subsidiary of the Parent or any New Owner, any successor in business of the Issuer or any subsidiary of any successor in business of the Parent in place of the Issuer as a new issuing party under the Trust Deed, the Capital Securities and the Coupons and as a party to the Agency Agreement and so that the claims of the Holders and the Couponholders may, in the case of the substitution of the Parent, any New Owner or a banking company (as defined in the Trust Deed) in the place of the Issuer, also be subordinated to the rights of

Senior Creditors (as defined in Condition 21, but with the substitution of references to “the Parent”, any such “New Owner” or to “that subsidiary” in place of references to “the Issuer” together with such consequential amendments as are appropriate).

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Holders as a class and shall not have regard to any interests arising from circumstances particular to individual Holders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Holders or Couponholders (whatever the 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 subdivision thereof and the Trustee shall not be entitled to require, nor shall any Holder or Couponholder be entitled to claim, from the Issuer, the Parent, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders or Couponholders except to the extent already provided for in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor under the Trust Deed.

### **13 Replacement of the Capital Securities, Coupons and Talons**

Should any Capital Security, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 15) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Capital Securities, Coupons or Talons must be surrendered before any replacement Capital Securities, Coupons or Talons will be issued. In addition the Issuer may require the person requesting delivery of a replacement Capital Security or Coupon to pay, prior to delivery of such replacement Capital Security or Coupon, any stamp or other tax or governmental charges required to be paid in connection with such replacement.

### **14 The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Parent or any other subsidiary of the Parent without accounting for any profit resulting therefrom. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by two Directors of the Issuer, its auditors or the liquidator or administrators of the Issuer or any other expert (as the case may be) whether or not the report or certificate of its auditors or such liquidator or administrators or any such expert is subject to any limitation on the liability of the auditors or the liquidator or administrators or such expert (as the case may be) and whether by reference to a monetary cap or otherwise.

### **15 Notices**

Notices to Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. If publication as provided above is not practicable notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders

will be deemed for all purposes to have notice of the contents of any notice given to the Holders in accordance with this Condition.

## 16 Further Issues

The Issuer is at liberty from time to time without the consent of the Holders or the Couponholders to create and issue further Capital Securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Capital Securities) and so that the same shall be consolidated and form a single series with the outstanding Capital Securities. Any such Capital Securities shall be constituted by a deed supplemental to the Trust Deed.

## 17 Agents

The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent, Agent Bank or Calculation Agent and to appoint additional or other Paying Agents or (as the case may be) another Calculation Agent or Agent Bank (if a Calculation Agent or Agent Bank has already been appointed), provided that it will:

- (a) at all times maintain a Principal Paying Agent;
- (b) at all times maintain a Paying Agent having a specified office in London (which may be the same as the Principal Paying Agent);
- (c) whenever a function expressed in these Conditions to be performed by the Calculation Agent or an Agent Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain a Calculation Agent or, as appropriate, an Agent Bank;
- (d) for so long as the Capital Securities are admitted to official listing on any stock exchange maintain a Paying Agent having a specified office in such location as may be required by the rules of the stock exchange (if other than London); and
- (e) insofar as the Issuer would be obliged to pay Additional Amounts pursuant to Condition 10 upon presentation of the Capital Security or Coupon, as the case may be, for payment in the United Kingdom, maintain a Paying Agent having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to such Directive which is approved by the Trustee, PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a Member State unless at least one Member State of the European Union other than the United Kingdom does not require a Paying Agent with a specified office in that Member State so to withhold or deduct tax.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 15. If any of the Agent Bank, Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the relevant Agent Bank Agreement, Calculation Agency Agreement or the Agency Agreement (as the case may be), the Issuer and the Parent shall appoint, on terms acceptable to the Trustee, an independent investment bank, merchant bank, commercial bank, or financial institution acceptable to the Trustee to act as such in its place. All calculations

and determinations made by the Agent Bank, Calculation Agent or the Principal Paying Agent in relation to the Capital Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Parent, the Trustee, the Paying Agents, the Holders and the Couponholders.

Under no circumstances shall the Trustee be required to appoint a Calculation Agent (where the Issuer has failed to do so or otherwise), and the Trustee shall not be responsible, or liable to any person, for the consequences of any failure by the Issuer to appoint a Calculation Agent. None of the Issuer, the Parent, the Trustee, the Agent Bank and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation, or any sale of Ordinary Shares made pursuant to Condition 6 or otherwise, by the Calculation Agent.

## **18 Pre-Emption**

Each of the Issuer and the Parent shall, subject to compliance with the requirements of the Companies Act, use all reasonable endeavours to obtain and maintain at all times all corporate authorisations and take any other corporate actions required for the issue and allotment to the Trustee or its agent (free from any pre-emption rights) of such number of Ordinary Shares and Payment Ordinary Shares, respectively as it reasonably considers would be required to be issued in order to enable the Issuer and the Parent to make a payment satisfying the aggregate amount of Deferred Coupon Payments (if any) and the aggregate of Coupon Payments due in the next 12 months, provided that such reasonable endeavours shall be satisfied where the relevant corporate authorisation or action required is to be obtained or done by the passing of a resolution of the shareholders of the Issuer or, as the case may be, the Parent and the board of directors of the Issuer or, as the case may be, the Parent proposes the relevant resolution to its shareholders for approval at any general meeting of the Issuer or, as the case may be, the Parent and, if such proposal is rejected, the relevant resolution is proposed again at the next general meeting of the Issuer or, as the case may be, the Parent.

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer or the Parent of this Condition 18, the Trustee may only require the Parent, as applicable (i) to procure that the Issuer holds as soon as practicable an extraordinary general meeting of the shareholders of the Issuer at which a resolution is proposed to remedy the breach or (ii) to put before the next general meeting of the shareholders of the Parent a resolution to remedy the breach.

The Trustee shall not be obliged to monitor compliance by the Issuer or the Parent with this Condition and shall be entitled to assume, unless it has actual knowledge to the contrary, that each of the Issuer and the Parent is complying with its obligations under this Condition.

Any authorised but unissued Ordinary Shares which the Issuer or the Parent is required to maintain other than in connection with the Capital Securities shall be discounted in determining whether the Issuer or, as the case may be, the Parent, is complying with its obligations under this Condition 18.

## **19 Governing Law**

The Trust Deed, the Capital Securities, the Coupons and the Talons (including any non-contractual obligations arising out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons) are governed by, and shall be construed in accordance with, the laws of England.

The Courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons (“**Proceedings**”) may be brought in such courts. The Parent has in the Trust Deed irrevocably

submitted to the jurisdiction of such courts. Service or process in any Proceedings in England may be effected on the Parent by delivery to the Parent's principal place of business in England currently at 25 Gresham Street, London EC2V 7HN or such other address as may be notified to Holders in accordance with Condition 15.

## **20 Contracts (Rights of Third Parties) Act 1999**

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

## **21 Definitions**

In these Conditions:

**"Accrued Coupon Payment"** means, as at any given time, where these Conditions provide that interest shall continue to accrue after a Coupon Payment Date or ACSM Payment Date in respect of a Capital Security or an ACSM Payment, the amount of interest accrued thereon at that time in accordance with Condition 5 or 6(e), as the case may be;

**"ACSM Payment"** means any Deferred Coupon Payment and/or any Accrued Coupon Payment which has been or is to be satisfied pursuant to Condition 6(e);

**"ACSM Payment Date"** means the date on which an ACSM Payment is due to be satisfied pursuant to these Conditions provided that where the provisions of Condition 6(e) cause an ACSM Payment to be deferred, references therein to **"ACSM Payment Date"** shall be to the date on which such ACSM Payment would otherwise have been due to be satisfied had such ACSM Payment not been deferred pursuant to Condition 6(e);

**"Additional Amounts"** has the meaning given to it in Condition 10;

**"Agency Agreement"** has the meaning given to it in the preamble to these Conditions;

**"Agent Bank"** means the independent investment bank of international repute, appointed on the terms of an Agent Bank Agreement, selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld, for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

**"Agent Bank Agreement"** means any agreement entered into between the Issuer, the Trustee and the Agent Bank in respect of any of the functions expressed to be performed by the Agent Bank under these Conditions;

**"Alternative Coupon Satisfaction Mechanism"** or **"ACSM"** means the mechanism described in Condition 6;

**"Assets"** means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the Directors or, if the Issuer is in a winding-up or administration, its liquidator or administrator may determine;

**"Associated Costs"** means (a) any stamp duty, stamp duty reserve tax and any other duties or taxes (if any) and (b) costs (including any brokerage fees) that would be payable by the Trustee or its agent in connection with the issue, transfer and/or sale of Payment Issuer Shares or Payment Ordinary Shares pursuant to Condition 6;

“**Benchmark Gilt**” means, in respect of a Reset Period, such United Kingdom government stock with a maturity date as near as possible to the last day of such Reset Period as the Agent Bank, with the advice of the Reference Market Makers, may determine to be appropriate;

“**Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London;

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

“**Calculation Agent**” means the independent investment bank of international repute, appointed on the terms of a Calculation Agency Agreement, selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld, for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

“**Calculation Amount**” means £1,000 in principal amount;

“**Capital Breach Event**” means the occurrence of a breach by the Issuer or the Group or any member of the Group of the Capital Regulations applicable to the Issuer or the Group or any member of the Group, as the case may be (whether or not such requirements, guidelines or measures have the force of law and whether they are applied generally or specifically to the Issuer or the Group or any member of the Group, as the case may be);

“**Capital Disqualification Event**” is deemed to have occurred if as a result of a change of law or regulation or interpretation thereof, the Capital Securities would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Issuer on a solo and/or consolidated basis under applicable Capital Regulations;

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

“**Capital Securities**” means the £784,611,000 13 per cent. Step-Up Perpetual Capital Securities, and such expression shall include, unless the context otherwise requires, any further capital securities issued pursuant to Condition 16 and forming a single series with the Capital Securities;

“**Companies Act**” means the Companies Act 2006 (as amended or re-enacted from time to time);

“**Conditions**” means these terms and conditions of the Capital Securities, as amended from time to time;

“**Coupon**” means an interest coupon relating to a Capital Security and includes, where the context so permits, a Talon;

“**Coupon Amount**” means, in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Coupon Period in accordance with Condition 5;

“**Coupon Determination Date**” means, in relation to each Reset Date, the third Business Day prior to such Reset Date;

“**Couponholder**” means the bearer of any Coupon;

“**Coupon Payment**” means, in respect of a Coupon Payment Date, the aggregate Coupon Amounts for the Coupon Period ending on such Coupon Payment Date;

“**Coupon Payment Date**” means 21 January and 21 July in each year, starting on (and including) 21 July 2009, save that the twentieth Coupon Payment Date shall fall on the First Reset Date;

“**Coupon Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Coupon Payment Date and each successive period beginning on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date;

“**Coupon Rate**” has the meaning given to it in Condition 5(c);

“**Deferred Coupon Payment**” means (i) any Coupon Payment which, pursuant to Condition 4, the Issuer has elected to defer and which has not been satisfied and (ii) any Coupon Payment which, by reason of the condition to payment set out in Condition 2(b)(i), has not been satisfied;

“**Directors**” means the directors of the Issuer or, as the case may be, the Parent;

“**EEA Regulated Market**” means a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments;

“**Eligible Company**” means a company incorporated in a member state of the European Union or in the United States of America by or on behalf of the Parent whose ordinary shares are listed (i) on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and are admitted to trading on the Market or (ii) on such other internationally Recognised Stock Exchange as the Trustee may approve;

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

“**FSMA**” means the Financial Services and Markets Act 2000;

“**First Reset Date**” means 22 January 2019;

“**Five Year Benchmark Gilt Rate**” means, in respect of a Reset Period, the Gross Redemption Yield on 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 four decimal places) of the bid and offered prices of such Benchmark Gilt quoted by the Reference Market Makers at 11.00 a.m. (London time) on the relevant Coupon Determination Date on a dealing basis for settlement on the next following dealing day in London;

“**Gross Redemption Yield**” means, with respect to a security, the gross redemption yield on such security (as calculated by the Agent Bank on the basis set out in the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places));

“**Group**” means the Issuer and its Subsidiaries;

“**Holder**” means the bearer of any Capital Security;

“**holding company**” has the meaning given to it under Section 1159 of the Companies Act;

“**Holding Company Shares**” means ordinary shares in the capital of the New Holding Company;

“**interest**” shall, where appropriate, include Coupon Amounts, Deferred Coupon Payments and Accrued Coupon Payments;

“**Issue Date**” means 21 January 2009, being the date of the initial issue of the Capital Securities;



“**Issuer**” means Lloyds TSB Bank plc;

“**Issuer Shares**” means ordinary shares of the Issuer;

“**Junior Share Capital**” means the Issuer Shares, the ordinary shares of the Parent, any other securities of the Issuer ranking, or expressed to rank, junior whether contractually or structurally to the Capital Securities (and shall include the 6 per cent. Non-Cumulative Redeemable Preference Shares issued by the Issuer) and any securities issued by any subsidiary of the Parent which securities benefit from a guarantee or support agreement entered into by the Issuer and ranking or expressed to rank junior to the Capital Securities and any other securities of the Parent or guarantee or support undertaking by the Parent ranking junior to the most senior preference shares of the Parent;

“**Junior Subordinated Debt**” means the Issuer’s outstanding obligations which constitute Tier 2 Capital and any other obligations of the Issuer which rank or are expressed to rank *pari passu* with the aforesaid obligations;

“**Liabilities**” means the non-consolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors, the auditors or, if the Issuer is in a winding-up or administration, its liquidator or administrator may determine;

“**Lloyds TSB Group**” means the Parent and its subsidiary undertakings from time to time;

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

“**Make Whole Redemption Price**” means, in respect of each Capital Security, (a) the principal amount of such Capital Security or, if this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on the Capital Securities on the Reference Date (assuming for this purpose that the Capital Securities are to be redeemed at their principal amount on the Reset Date next following the date fixed for redemption pursuant to Condition 7(d) or 8(d)) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. (London time) on the Reference Date of the Reference Bond plus five per cent., all as determined by the Agent Bank and for the purposes of the definition of Make Whole Redemption Amount:

“**Reference Bond**” means (i) in the case of any redemption pursuant to Condition 7(d) or 8(d) prior to the First Reset Date, the 4.75 per cent. Treasury Stock due 7 March 2020, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Reset Date, as the Agent Bank may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 4.75 per cent. Treasury Stock due 7 March 2020 and (ii) in the case of any such redemption falling after the First Reset Date, such United Kingdom government stock with a maturity date as near as possible to the Reset Date next following the date fixed for redemption pursuant to Condition 7(d) or 8(d), as the Agent Bank may, with the advice of the Reference Market Makers, determine to be appropriate;

“**Reference Date**” means the date which is three Business Days prior to the date fixed for redemption pursuant to Condition 7(d) or 8(d) by the Issuer;

“**Market**” means the London Stock Exchange’s EEA Regulated Market;

“**Market Disruption Event**” means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the London Stock Exchange or such other principal exchange of the Parent from time to time or otherwise) or on settlement procedures for transactions in the ordinary shares of the Parent on the London Stock Exchange or such other

principal exchange of the Parent from time to time if, in any such case, the Calculation Agent has confirmed to the Issuer and the Parent that the suspension or limitation is material in the context of the sale of the Payment Ordinary Shares, or (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the ordinary shares of the Parent or circumstances are such so as to prevent or to a material extent restrict the issue, allotment, sale, delivery or listing of the Payment Ordinary Shares, as the case may be, including the Parent entering a close period (within the meaning of the FSA Handbook: Listing Rules), except that an event or circumstance contemplated by Condition 8(d) which leads to a Suspension shall not constitute a Market Disruption Event or (iii) where pursuant to these Conditions, moneys are required to be converted from one currency into another currency in respect of any Payment, the occurrence of any event that makes it impracticable to effect such conversion;

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

**“New Owner”** means any new ultimate holding company of the Parent;

**“New Owner Shares”** means ordinary shares of the New Owner;

**“Official List”** means the official list of the UK Listing Authority;

**“Ordinary Shares”** means ordinary shares in the capital of the Issuer, having on the Issue Date a par value of £0.25 each;

**“Other Tier 1 Securities”** means, in respect of the Issuer or the Parent (as the case may be), any securities which are Tier 1 Capital of the Issuer or the Parent (as the case may be) and which rank on a winding-up of the Issuer or the Parent (as the case may be) or in respect of a distribution or payment of dividends or any other payments thereon, in the case of the Issuer, *pari passu* with the Capital Securities (on the assumption that the Capital Securities are still Tier 1 Capital of the Issuer) or, in the case of the Parent, *pari passu* with the most senior preference share capital of the Parent;

**“Outstanding”** in relation to any Coupon Payment, Deferred Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment, means that such payment (a) has either become due and payable or would have become due and payable except for the non-satisfaction on the relevant date of the condition to payment set out in Condition 2(b)(i) or the deferral, postponement or suspension of such payment in accordance with any of Condition 4, 6(d), 6(e) or 8(d); and (b) in any such case has not been satisfied and, in respect of any Accrued Coupon Payment, means any amount thereof which has not been satisfied whether or not payment has become due;

**“Parent”** means Lloyds Banking Group plc (formerly Lloyds TSB Group plc);

**“Paying Agents”** means the paying agents appointed pursuant to the Agency Agreement and such term shall, unless the context otherwise requires, include the Principal Paying Agent;

**“Payment”** means any Coupon Payment, Deferred Coupon Payment, Accrued Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment;

**“Payment Issuer Shares”** has the meaning given to it in Condition 6(b);

**“Payment Ordinary Shares”** has the meaning given to it in Condition 6(b);

**“Permitted Restructuring”** means the completion of (i) an offer made by or on behalf of, an Eligible Company to all (or as nearly as may be practicable all) shareholders of the Parent to acquire the whole (or as nearly as may be practicable the whole) of the issued ordinary share capital of the Parent other than that which is already held by or on behalf of such Eligible Company or (ii) a reorganisation or restructuring

whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of the Parent other than that which is already held by such Eligible Company or pursuant to which all (or as nearly as may be practicable all) of the issued ordinary share capital of the Parent not held by the New Owner is cancelled;

**“Permitted Restructuring Arrangement”** means in relation to a Permitted Restructuring an arrangement whereby the following conditions are satisfied: (a) the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure that (i) the alternative coupon satisfaction mechanism as described in Condition 6, the Trust Deed and any Calculation Agency Agreement operates so that Issuer Shares may be exchanged for New Owner Shares in such a manner that ensures that upon the sale of such New Owner Shares the holder of each Capital Security then outstanding will receive, in the event of a payment to be satisfied pursuant to Condition 6, an amount not lower than that which would have been receivable had such a restructuring not taken place and (ii) the economic effect, for the Holders, of a holding of the Capital Securities prior to the Permitted Restructuring is substantially preserved; and (b) the Trustee is satisfied that the credit ratings that would be assigned to the Capital Securities by Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc. and by Moody’s Investors Service, Inc. following any such restructuring, shall not be lower than those assigned to the Capital Securities immediately prior to such Permitted Restructuring taking place as confirmed by each such rating agency in writing;

**“pounds sterling”, “sterling” or “pence”** means the lawful currency of the United Kingdom;

**“Principal Paying Agent”** has the meaning given to it in the preamble to these Conditions;

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

- (a) have terms not materially less favourable to an investor than the terms of the Capital Securities (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Tier 1 Capital; (2) they shall include terms which provide for the same Coupon Rate from time to time applying to the Capital Securities; (3) they shall rank *pari passu* with, the Capital Securities; and (4) such securities shall preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been satisfied, except that such securities need not necessarily include provisions analogous to the provisions of Condition 6; and
- (b) do not have terms such that (x) the Issuer would not, as a result of the Qualifying Tier 1 Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be grouped for United Kingdom tax purposes or (y) the holders of such Qualifying Tier 1 Securities would constitute “equity holders” of the Issuer for United Kingdom tax purposes; and
- (c) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

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

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

relation to Upper Tier 2 Capital; (2) they shall include terms which provide for the same Coupon Rate from time to time applying to the Capital Securities; (3) they shall rank senior to, or *pari passu* with, the Capital Securities; and (4) such securities shall preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been satisfied, except that such securities need not include provisions analogous to the provisions of Condition 6; and

- (b) do not have terms such that (x) the Issuer would not, as a result of the Qualifying Upper Tier 2 Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be grouped for United Kingdom tax purposes or (y) the holders of such Qualifying Upper Tier 2 Securities would constitute “equity holders” of the Issuer for United Kingdom tax purposes; and
- (c) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

“**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;

“**Reference Market Makers**” means three brokers or market makers of gilts selected by the Agent Bank and approved for this purpose by the Trustee or such other three persons operating in the gilt-edged market as are selected by the Agent Bank in consultation with the Issuer and approved for this purpose by the Trustee;

a “**Regulatory Event**” is deemed to have occurred if at any time the FSA has determined that securities of the nature of the Capital Securities cease to qualify as Tier 1 Capital (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

“**Relevant Date**” means (i) in respect of any payment other than a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 15, and (ii) in respect of a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date which is one day prior to the commencement of the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“**Reset Date**” means the First Reset Date and, thereafter, every Coupon Payment Date falling on or nearest to the fifth anniversary of the First Reset Date;

“**Reset Period**” means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

“**Senior Creditors**” means creditors of the Issuer (a) who are depositors or other unsubordinated creditors of the Issuer; or (b) whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Issuer or otherwise) to the claims of depositors and other unsubordinated creditors of the Issuer but not further or otherwise; or (c) whose claims are in respect of Junior Subordinated Debt of the Issuer; or (d) who are subordinated creditors of the Issuer other than those whose claims are, or are expressed to rank, *pari passu* with, or junior to, the claims of the Holders;

“**Solvency Claim**” has the meaning given to it in Condition 2(b)(ii);

“**Subsidiary**” means each subsidiary for the time being of the Issuer;

“**subsidiary**” has the meaning given to subsidiary undertaking under section 1159 of the Companies Act 2006;

“**Suspension**” has the meaning given to it in Condition 8(d);

“**Talon**” has the meaning given to it in the preamble to these Conditions;

“**Tax Event**” means an event of the type described in Condition 7(c)(i), (ii) and/or (iii);

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any written interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Capital Securities, which change or amendment becomes, or would become, effective on or after the Issue Date;

“**Tier 1 Capital**” and “**Tier 2 Capital**” have the respective meanings given to them from time to time by the FSA;

“**Trust Deed**” means the trust deed dated the Issue Date between the Issuer, the Parent and the Trustee;

“**Trustee**” means The Law Debenture Trust Corporation p.l.c. as trustee for the Holders and includes its successor(s);

“**UK Listing Authority**” means the FSA in its capacity as competent authority under FSMA;

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland; and

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

## **TERMS AND CONDITIONS OF THE SERIES B STERLING CAPITAL SECURITIES**

The terms and conditions of the Series B Sterling Capital Securities, which will be endorsed on each Capital Security in definitive form (if issued), will be the same as the Terms and Conditions of the Series A Sterling Capital Securities on pages 40-69 of this document, save for the following:

- (i) in the preamble to the terms and conditions, the words “Series A” are deleted and replaced by “Series-B” and the number “784,611,000” is deleted and replaced by the number “700,022,000”;
- (ii) in the terms and conditions, the words “Callable 2019” are deleted and replaced by “Callable 2029”;
- (iii) in Condition 5(a), references to the twentieth Coupon Period should be to the fortieth Coupon Period;
- (iv) in Condition 5(c)(ii), the words “14 per cent. per annum” shall be replaced by “13.40 per cent. per annum”;
- (v) in Condition 21:
  - (a) “Capital Securities” shall mean £700,022,000 13 per cent. Step-Up Perpetual Securities, and such expression shall include, unless the context otherwise requires, any further capital securities issued pursuant to Condition 16 and forming a single series with the Capital Securities;
  - (b) “Coupon Payment Date” shall mean 21 January and 21 July in each year, starting on (and including) 21 July 2009, save that the fortieth Coupon Payment Date shall fall on the First Reset Date;
  - (c) “First Reset Date” shall mean 22 January 2029; and
  - (d) “Reference Bond” shall mean (i) in the case of any redemption pursuant to Condition 7(d) or 8(d) prior to the First Reset Date, the six per cent. Treasury Stock due 7 December 2028, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Reset Date, as the Agent Bank may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the six per cent. Treasury Stock due 7 December 2028 and (ii) in the case of any such redemption falling after the First Reset Date, such United Kingdom government stock with a maturity date as near as possible to the Reset Date next following the date fixed for redemption pursuant to Condition 7(d) or 8(d), as the Agent Bank may, with the advice of the Reference Market Makers, determine to be appropriate.

## TERMS AND CONDITIONS OF THE EURO CAPITAL SECURITIES

*The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Euro Capital Securities which will be endorsed on each Capital Security in definitive form (if issued).*

The €532,111,000 13 per cent. Step-Up Perpetual Capital Securities Callable 2019 (the “**Capital Securities**”, which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 16 and forming a single series with the Capital Securities) of Lloyds TSB Bank plc (the “**Issuer**”) are constituted by a trust deed (the “**Trust Deed**”) dated 21 January 2009 between the Issuer, the Parent 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 holders of the Capital Securities (the “**Holders**”). The issue of the Capital Securities was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 19 September 2008 and 12 December 2008 respectively. The statements in these terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (i) the Trust Deed and (ii) the Agency Agreement (the “**Agency Agreement**”) dated 21 January 2009 made between the Issuer, the Parent, Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other paying agent named therein and any successors thereto (together with the Principal Paying Agent, the “**Paying Agents**”), Citibank, N.A. as agent bank (the “**Agent Bank**”, which expression shall include any successor thereto) and the Trustee are available for inspection during normal business hours by the Holders and the holders of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, Talons, as defined below) and talons for further Coupons (the “**Talons**”) appertaining to Capital Securities in definitive form (the “**Couponholders**”) at the specified office of each of the Paying Agents. The Holders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

### 1 Form, Denomination and Title

#### (a) Form and Denomination

The Capital Securities are serially numbered and in bearer form in the denominations of €50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000 each with Coupons and one Talon attached on issue. No Capital Securities will be issued with a denomination above €99,000.

#### (b) Title

Title to the Capital Securities, Coupons and Talons will pass by delivery. The bearer of any Capital Security and the bearer of any Coupon or Talon shall be deemed to be, and may be treated as (except as otherwise required by law or as ordered by a court of competent jurisdiction) its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the bearer.

## 2 Status and Subordination

### (a) Status

The Capital Securities constitute direct, unsecured and subordinated securities of the Issuer and rank *pari passu* without any preference among themselves.

### (b) Subordination

#### (i) Condition to Payment

Subject to Condition 3, payments in respect of or arising from the Capital Securities (including Coupons payable in cash or by way of the issue of Issuer Shares in accordance with Condition 6 and including any damages awarded for breach of any obligation of the Issuer under these Conditions, the Trust Deed or the Agency Agreement) are conditional upon the Issuer being solvent at the time of payment by the Issuer (or at the time of issue of such Issuer Shares) and no principal, premium or Payments shall be due and payable in respect of the Capital Securities (including Coupons payable in cash or by way of the issue of Issuer Shares in accordance with Condition 6 and including any damages awarded for breach of any obligation of the Issuer under these Conditions, the Trust Deed or the Agency Agreement) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. Payments in respect of the Capital Securities may also be deferred pursuant to Condition 4.

In these Conditions, the Issuer shall be considered to be solvent if (x) it is able to pay its debts to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). For the purposes of this Condition 2(b)(i) any reference to a payment by the Issuer in respect of a Capital Security shall be deemed to include a purchase of such Capital Security by the Issuer. A report as to the solvency of the Issuer by two Directors of the Issuer or, if the Issuer is in a winding-up, its liquidator or, if the Issuer is in administration, its administrators shall, in the absence of manifest error, be treated and accepted by the Issuer, the Parent, the Trustee, the Holders and the Couponholders as correct and sufficient evidence thereof.

#### (ii) Solvency Claims

Without prejudice to the rest of these Conditions, amounts in respect of principal, premium or Payments (including any damages awarded for breach of any obligation of the Issuer under these Conditions, the Trust Deed or the Agency Agreement) in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable (“**Solvency Claims**”) will be payable by the Issuer in a winding-up or administration of the Issuer as provided in Condition 3 and any redemption pursuant to Condition 7. A Solvency Claim shall not bear interest.

#### (iii) Set-off

Subject to applicable law, no Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities or the Coupons and each Holder and Couponholder shall, by virtue of his holding of any Capital Security or Coupon, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder or Couponholder by the Issuer in respect of, or arising under or in connection with, the Capital Securities is discharged by set-



off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator, or as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

*If the condition to payment set out in Condition 2(b)(i) is not satisfied, any sums which would otherwise have been payable in respect of the Capital Securities but are not paid by reason of such condition to payment will be available to be put towards the losses of the Issuer.*

### 3 Winding-Up or Administration

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed)), or, following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend, there shall be payable by the Issuer in respect of each Capital Security (in lieu of any other payment by the Issuer but subject as provided in this Condition 3), such amount, if any, as would have been payable to the Holder if, on the day prior to the commencement of the winding-up or administration and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares**”) ranking *pari passu* as to a return of assets on a winding-up or administration with the holders of Other Tier 1 Securities of the Issuer and the holders of that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up or administration of the Issuer is determined, on the assumption that the amount that such Holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up or administration were an amount equal to the principal amount of, and any applicable premium on, the relevant Capital Security and any other Payments which are Outstanding thereon together with, to the extent not otherwise included within the foregoing, its pro rata share of any Solvency Claims attributable to the Capital Security.

On a winding-up or administration of the Issuer, there may be no surplus assets available to meet the claims of the Holders after the claims of the parties ranking senior to the Holders (as provided in Condition 3) have been satisfied.

### 4 Coupon Deferral

The Issuer may elect, subject as provided below, to defer any Coupon Payment otherwise scheduled to be paid on a Coupon Payment Date by giving notice of such election to the Holders (in accordance with Condition 15), the Trustee and the Principal Paying Agent not less than 20 Business Days prior to the relevant Coupon Payment Date. The Issuer may not exercise its rights under this Condition 4 to defer Coupon Payments if a Capital Disqualification Event has occurred (and the Issuer has notified the FSA of such occurrence), unless a Capital Breach Event has also occurred and is continuing.

The Issuer may at any time satisfy any Deferred Coupon Payment by operation of the procedures set out in Condition 6. The Issuer shall (except where Condition 3 applies) satisfy any Deferred Coupon Payment only by operation of the procedures set out in Condition 6 and, subject to Condition 8(d), shall only be obliged to do so upon the occurrence of the first of the following to occur: (i) redemption of the Capital Securities in accordance with Condition 7(b); (ii) redemption, substitution or variation of the terms of the Capital Securities in accordance with Condition 7(c); and (iii) redemption, substitution or variation of the terms of the Capital Securities in accordance with Condition 7(d).

If, on any Coupon Payment Date, payment of all Coupon Payments scheduled to be made on such date is not made in full by reason of either Condition 2(b)(i) or this Condition 4 neither the Issuer nor the Parent shall, (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital other than, in the case where the Issuer has elected to defer a Coupon Payment in accordance with this Condition 4, a dividend (other than a dividend which is, or is expressed to be, an extraordinary or special dividend), distribution or other payment which has been declared, paid or made by the Issuer or the Parent on any Junior Share Capital, prior to the date on which the decision to defer the relevant Coupon Payment is notified to Holders in accordance with Condition 15, or (b) redeem, purchase, cancel, reduce or otherwise acquire any Junior Share Capital or any Other Tier 1 Securities (save where those shares or securities being redeemed, purchased or acquired are 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 administration 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), in each case unless or until the Coupon Payments due and payable in the next 12 months on all outstanding Capital Securities have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Holders and in a manner satisfactory to the Trustee).

Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Coupon Payment by virtue of this Condition 4 or Condition 2(b)(i) shall not constitute a default for any purpose (including, without limitation, Condition 9(a)) on the part of the Issuer. Any Coupon Payment so deferred shall not, except in the circumstances provided in Condition 6(e), bear interest.

The restrictions set out in this Condition 4 do not apply to the declaration and payment of any dividends and distributions or the making of any other payment by the Issuer to the Parent, any holding company of the Parent or to another wholly-owned subsidiary of the Parent.

## **5 Coupon Payments**

### **(a) Coupon Rate**

The Capital Securities bear interest at the applicable Coupon Rate from the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 2(b)(i), 2(b)(ii), 4, 6(d), 6(e) and 8(d), during the Fixed Rate Coupon Period interest shall be payable on the Capital Securities semi-annually in arrear in equal instalments on each Coupon Payment Date, and thereafter interest shall be payable on the Capital Securities quarterly in arrear on each Coupon Payment Date, in each case as provided in this Condition 5, save that the Coupon Payment in respect of the twentieth Coupon Period shall be the aggregate of a full semi-annual instalment and an amount calculated on the basis of one day divided by two times the number of days in the period from and including 21 July to but excluding 21 January.

**(b) Interest Accrual**

The Capital Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 7(b) or the date of redemption or substitution thereof pursuant to Condition 7(c), 7(d) or 8(d), as the case may be, unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the Capital Securities is not properly and duly made, in which event interest shall continue to accrue as provided in the Trust Deed.

**(c) Fixed Coupon Rate**

For the Fixed Rate Coupon Period, the Capital Securities bear interest at the rate of 13 per cent. per annum (the “**Fixed Coupon Rate**”).

Where it is necessary to compute an amount of interest in respect of any Capital Security during the Fixed Rate Coupon Period for a period which is less than a complete Coupon Period, such interest shall be calculated on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue, to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Coupon Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Coupon Periods normally ending in any year. Where it is necessary to compute an amount of interest in respect of any Capital Security for a period of more than a complete Coupon Period, such interest shall be calculated in respect of each full Coupon Period within such period, with the interest in respect of any remaining period being calculated in the manner as aforesaid.

**(d) Floating Coupon Rate**

From (and including) the First Reset Date, the Capital Securities will bear interest at a floating rate of interest (the “**Floating Coupon Rate**”). The Floating Coupon Rate in respect of each Coupon Period commencing on or after the First Reset Date will be determined by the Agent Bank on the basis of the following provisions:

- (i) On each Coupon Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for three-month euro deposits as at 11.00 a.m. (Brussels time) on such Coupon Determination Date, as displayed on the display designated as page “LIBOR01” on the Reuters Monitor Money Rates Service (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Coupon Rate for the Coupon Period commencing on the Coupon Determination Date shall be such offered rate as determined by the Agent Bank plus the Margin.
- (ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal Euro-zone office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the Euro-zone inter bank market for three-month euro deposits as at 11.00 a.m. (Brussels time) on the Coupon Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Coupon Rate for the relevant Coupon Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded upwards if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.
- (iii) If on any Coupon Determination Date to which the provisions of sub-paragraph (ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation,

the Floating Coupon Rate for the relevant Coupon Period shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded upwards, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the euro lending rates which leading banks in the Euro-zone selected by the Agent Bank are quoting, on the relevant Coupon Determination Date, to leading banks in the Euro-zone for a period of three months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Coupon Rate for such Coupon Period shall be either (1) the Floating Coupon Rate in effect for the last preceding Coupon Period to which one of the preceding sub-paragraphs of this Condition 5(d) shall have applied or (2) if none, 13 per cent. per annum.

**(e) Determination of Floating Coupon Rate and Calculation of Floating Coupon Amounts**

The Agent Bank will, as soon as practicable after 11.00 a.m. (Brussels time) on each Coupon Determination Date, determine the Floating Coupon Rate in respect of the Coupon Period and calculate the amount of interest payable in respect of a Calculation Amount on the Coupon Payment Date for that Coupon Period (the “**Floating Coupon Amounts**”) by applying the Floating Coupon Rate for such Coupon Period to the Calculation Amount, multiplying such sum by the actual number of days in the Coupon Period concerned divided by 360 and, if necessary, rounding the resultant figure to the nearest €0.01 (€0.005) being rounded upwards). Where the denomination of a Capital Security is more than the Calculation Amount, the amount of interest payable in respect of such Capital Security, is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of the Capital Security.

**(f) Publication of Floating Coupon Rate and Floating Coupon Amounts**

The Issuer shall cause notice of the Floating Coupon Rate determined in accordance with this Condition 5 in respect of each relevant Coupon Period, the Floating Coupon Amount and the relevant date scheduled for payment to be given to the Trustee, the Paying Agents, any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading and, in accordance with Condition 15, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The Floating Coupon Amount, the Floating Coupon Rate and the date scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions or in the event of proven or manifest error.

**(g) Determination or Calculation by Trustee**

The Trustee (or an agent appointed by it) shall, if the Agent Bank does not at any relevant time for any reason determine the Floating Coupon Rate on the Capital Securities in accordance with this Condition 5, determine the Floating Coupon Rate in respect of the relevant Coupon Period at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedures described in this Condition 5), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Agent Bank.

**(h) Agent Bank**

So long as any Capital Securities remain outstanding, the Issuer will maintain an Agent Bank. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank with another leading investment, merchant or commercial bank in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to Condition 5(g) above) fails duly to determine the Floating Coupon Rate in respect of any Coupon Period as provided in Condition 5(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

**(i) Determinations of Agent Bank or Trustee Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5, whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders or the Issuer shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

**6 Alternative Coupon Satisfaction Mechanism****(a) Alternative Coupon Satisfaction Mechanism**

Each ACSM Payment, when due to be satisfied in accordance with these Conditions, will (except as provided in Condition 8(d) or if Condition 3 applies) be satisfied by the Issuer in full only through the issue of Ordinary Shares and their allotment to the Trustee or its agent for the purposes of, and in accordance with, this Condition 6.

The Issuer shall appoint a Calculation Agent (if it has not already done so), and notify the Parent, the Trustee, the Principal Paying Agent and the Calculation Agent that an ACSM Payment is to be satisfied on the relevant ACSM Payment Date. All other Payments due must, subject to Conditions 2 and 4, be satisfied in accordance with Condition 8(a).

**(b) Issue of Ordinary Shares**

If any ACSM Payment is to be satisfied through the issue to or to the order of the Trustee of Ordinary Shares as required by the provisions of this Condition 6 then, subject to Conditions 6(d), 6(e) and 8(d):

- (i) by close of business in London on or before the seventh Business Day prior to the relevant ACSM Payment Date, the Issuer will, subject to it having the necessary corporate authorisations in place, issue and allot in favour of the Trustee (or, if so agreed between the Issuer and the Trustee, an agent of the Trustee) such number of Ordinary Shares (the “**Payment Issuer Shares**”) as, in the determination of the Parent, will have a market value (converted, where necessary, into euro) as near as practicable to, but not less than, the relevant ACSM Payment to be satisfied in accordance with this Condition 6; and

- (ii) on or before the sixth Business Day prior to the relevant ACSM Payment Date, the Trustee shall transfer or instruct its agent to transfer the Payment Issuer Shares to the Parent in consideration for which the Parent shall issue to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) within one Business Day of the Parent receiving the Payment Issuer Shares such number of ordinary shares of the Parent (the “**Payment Ordinary Shares**”) as, in the determination of the Calculation Agent, will have a market value (converted, where necessary, into euro) as near as practicable to, but not less than the relevant ACSM Payment to be satisfied in accordance with this Condition 6.

The Trustee shall hold such Payment Ordinary Shares and such proceeds of the sale of the Payment Ordinary Shares, in each case: (i) as have a value equal to the applicable ACSM Payment as certified by the Calculation Agent, on trust for the Holders; and (ii) as have a value equal to any Associated Costs as certified by the Calculation Agent, on trust for itself or its agent. The remainder (if any) of the Payment Ordinary Shares or the proceeds of the sale of the Payment Ordinary Shares shall, in each case, be held on trust for the Issuer by the Trustee. Following the sale of the Payment Ordinary Shares in accordance with this Condition 6 and the discharge of any Associated Costs and satisfaction of the relevant ACSM Payment as provided below, the Trustee or its agent shall pay the remainder (if any) of the proceeds of the sale of the Payment Ordinary Shares as certified by the Calculation Agent to the Issuer.

The Trustee shall use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case by not later than the close of business in London on the fifth Business Day prior to the relevant ACSM Payment Date and the Calculation Agent shall be required to agree in the Calculation Agency Agreement to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. If necessary, the Calculation Agent has further agreed to exchange, as agent of the Trustee, the proceeds of such sale into euro at prevailing market exchange rates and deliver such exchanged proceeds to, or hold such exchanged proceeds to the order of, the Trustee who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant Payment on its due date to the Principal Paying Agent. The Calculation Agent shall further be required to agree in the Calculation Agency Agreement to discharge, on behalf of the Trustee or its agent, the Associated Costs and pay the remaining proceeds of such sale to, or hold the remaining proceeds of such sale to the order of, the Trustee, who shall pay or procure that its agent pays such remaining proceeds as it holds in respect of the relevant ACSM Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c).

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

If the proceeds of the sale of the Payment Ordinary Shares will not, in the opinion of the Calculation Agent, subject to Conditions 6(d) and 6(e) but despite the arrangements contained above, result in a sum (if necessary, when converted into euro) at least equal to the relevant ACSM Payment and any Associated Costs being available to satisfy the necessary ACSM Payment in full on its due date and the Associated Costs, the Issuer, the Parent, the Trustee and the Calculation Agent shall take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Issuer Payment Shares and Payment Ordinary Shares on one or more further occasions and allotting them to the Trustee or its agent and following, *mutatis mutandis*, the procedures contained above, a sum (if necessary, when converted into euro) as near as practicable to, and at least equal to, the relevant ACSM

Payment and any Associated Costs will be available to satisfy the relevant ACSM Payment in full on its due date and the Associated Costs.

**(c) Issue Satisfies Payment**

Where the Issuer elects or is required to satisfy an ACSM Payment hereunder by issuing Payment Issuer Shares and issues such Payment Issuer Shares to the Trustee or its agent (with the subsequent issue by the Parent to the Trustee or its agent of Payment Ordinary Shares in exchange therefor), such issue shall satisfy the relevant ACSM Payment if done in accordance with this Condition 6. The proceeds of sale of Payment Ordinary Shares shall be paid by the Principal Paying Agent to the Holders in respect of the relevant ACSM Payment.

*The Trustee is a company incorporated under English law and is acting on its capacity as trustee on behalf of the Holders. It does not hold itself out as engaging in the business of buying or selling investments (including the Payment Issuer Shares or the Payment Ordinary Shares) and will carry out its obligations under this Condition 6 only in its capacity as trustee for the Holders. For the avoidance of doubt, the Trustee is not remunerated separately for accepting any investments on behalf of the Holders in addition to any remuneration it receives as trustee.*

**(d) Insufficiency**

The Issuer shall not be entitled to exercise its option pursuant to any of Conditions 7(b), 7(c) or 7(d) to redeem, substitute or vary the terms of any of the Capital Securities until such time as the Issuer and the Parent have available, and the Directors of both the Issuer and the Parent have the corresponding authority to allot, a sufficient number of authorised but unissued Payment Issuer Shares and Payment Ordinary Shares as may be required to be issued in accordance with this Condition 6 for the purposes of satisfying in full in accordance with this Condition 6 any ACSM Payment required to be satisfied in connection with such redemption, substitution or variation of the terms of the Capital Securities.

**(e) Market Disruption**

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the 15th Business Day preceding any ACSM Payment Date, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and (in accordance with Condition 15) the Holders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant ACSM Payment may be deferred until such time as the Market Disruption Event, in the opinion of the Issuer, no longer exists.

Any such deferred ACSM Payment will be satisfied as soon as practicable following such time as the Market Disruption Event, in the opinion of the Issuer, no longer exists. Interest shall not accrue on such deferred ACSM Payment, unless, as a consequence of the existence of the relevant Market Disruption Event, the Issuer does not satisfy the relevant ACSM Payment for a period of 14 days or more after the relevant ACSM Payment Date, in which case interest shall accrue on such deferred ACSM Payment from (and including) the relevant ACSM Payment Date to (but excluding) the date on which such ACSM Payment is satisfied. Any such interest shall accrue at a rate determined in accordance with Condition 5 and shall be satisfied only in accordance with this Condition 6, as soon as reasonably practicable after the relevant deferred ACSM Payment is satisfied. No liability shall attach to the Trustee or its agent if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 6(b).

**(f) Listing**

The Parent has undertaken in the Trust Deed to ensure (to the extent possible) that, at the time when any Payment Ordinary Shares are issued pursuant to this Condition 6, such Payment Ordinary Shares are listed on the Official List of the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 and are admitted to trading on the market for listed securities of the London Stock Exchange (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

**7 Redemption, Substitution, Variation or Purchase****(a) No Fixed Redemption Date**

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 11) only have the right to repay them, substitute them, vary their terms or purchase them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

In addition, any redemption, substitution, variation of the terms or purchase of the Capital Securities is (i) subject to the Issuer giving prior written notice to, and receiving no objection from, or in the case of any redemption of the Capital Securities (or substitution or variation thereof for Qualifying Upper Tier 2 Securities) prior to the First Reset Date, receiving the consent of, the FSA, and (ii) subject to the Issuer (both at the time of, and immediately following, the redemption, substitution, variation or purchase) being in compliance with the Capital Regulations applicable to it from time to time (and a certificate from any two Directors of the Issuer confirming such compliance shall be conclusive evidence of such compliance), and (iii) (other than in the case of a purchase) conditional on the terms of Condition 6(d) being satisfied prior to the exercise by the Issuer of its rights with respect to such redemption, substitution or variation and all Deferred Coupon Payments (if any) being satisfied in full by the operation of Condition 6 and the Trust Deed on or prior to the date set for such redemption, substitution or variation.

**(b) Issuer's Call Option**

Subject to Conditions 2(b)(i) and 7(a), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders (in accordance with Condition 15), the Trustee and the Principal Paying Agent, which notice shall be irrevocable, elect to redeem all, but not some only, of the Capital Securities on the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any Payments which are Outstanding thereon (including any Deferred Coupon Payments, which will be satisfied by the operation of Condition 6).

**(c) Redemption, Substitution or Variation Due to Taxation**

If, immediately prior to the giving of the notice referred to below, as a result of a Tax Law Change:

- (i) in making any payments on the Capital Securities, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Capital Securities and the Issuer cannot avoid the foregoing in connection with the Capital Securities by taking measures reasonably available to it; or



- (ii) in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date there is a more than insubstantial risk that Coupon Payments on the Capital Securities including, for the avoidance of doubt, any ACSM Payment and the related issue of Payment Issuer Shares and Payment Ordinary Shares pursuant to Condition 6, may be treated as "distributions" within the meaning of Section 832(1) of the Income and Corporation Taxes Act 1988 (or such other Section and/or Act as may from time to time supersede or replace Section 832(1) of the Income and Corporation Taxes Act 1988 for the purposes of such definition) and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate; or
- (iii) in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (a) there is a more than insubstantial risk that the Issuer would not be entitled to claim a deduction in respect thereof when computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced or (b) the Issuer would not to any material extent be entitled to have such a deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist), or (c) the Issuer would not, as a result of the Capital Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be so grouped; and in any such case the Issuer cannot avoid the foregoing in connection with the Capital Securities by taking measures as it (acting in good faith) deems appropriate,

then:

- (aa) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time prior to the First Reset Date, all, but not some only, of the Capital Securities at their principal amount, together, with any Payments which are Outstanding thereon (including any Deferred Coupon Payments, which will be satisfied by the operation of Condition 6); or
- (bb) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Capital Securities for, or vary the terms of the Capital Securities so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (bb) and subject to the receipt by it of the certificate of the Directors referred to below and the certificate of the Directors referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Capital Securities for or the variation of the terms of the Capital Securities so that they become alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in or assist with any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or

Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Capital Securities as provided above.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 7(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the relevant condition referred to in paragraph (i), (ii) or (iii) above is satisfied and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions set out in such paragraphs in which event it shall be conclusive and binding on the Holders. Upon expiry of such notice, the Issuer shall either redeem, vary the terms of or substitute the Capital Securities in accordance with this Condition 7(c), as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(c), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading, and (for so long as the Capital Securities are listed on the London Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

**(d) Substitution, Variation or Redemption for Regulatory Purposes**

If immediately prior to the giving of the notice referred to below a Regulatory Event has occurred and is continuing, then:

- (i) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 15, the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem in accordance with these Conditions at any time prior to the First Reset Date all, but not some only, of the Capital Securities at their Make Whole Redemption Price together with any Payments which are Outstanding thereon (including any Deferred Coupon Payments which will be satisfied by the operation of Condition 6); or
- (ii) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Capital Securities for, or vary the terms of the Capital Securities so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (ii) and subject to the receipt by it of the certificate of the Directors referred to below and the certificate of the Directors referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Capital Securities for or the variation of the terms of the Capital Securities so that they become alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in or assist with any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's

opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured to its satisfaction. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Capital Securities as provided above.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 7(d), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that a Regulatory Event 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 and continuation of a Regulatory Event in which event it shall be conclusive and binding on the Holders. Upon expiry of such notice, the Issuer shall either redeem, vary the terms of or substitute the Capital Securities in accordance with this Condition 7(d), as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading, and (for so long as the Capital Securities are admitted to official listing on the London Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

**(e) Purchases**

The Issuer, the Parent or any other subsidiary of the Parent may, subject to Condition 7(a), at any time purchase Capital Securities in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto.

**(f) Cancellation**

All Capital Securities so redeemed or substituted by the Issuer and any unmatured Coupons and Talons appertaining thereto will be cancelled and may not be reissued or resold. Capital Securities purchased by the Issuer, the Parent or any other subsidiary of the Parent may be held, reissued or resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation. Any Capital Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Capital Securities shall be discharged.

**(g) Trustee Not Obligated to Monitor**

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7 or whether a Suspension under Condition 8(d) has occurred and will not be responsible to Holders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7 or the occurrence of a Suspension under Condition 8(d), it shall be entitled to assume that no such event or circumstance exists.

## **8 Payments**

**(a) Method of Payment**

- (i) Payments of principal, premium and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of Capital Securities or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in

respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relevant Capital Security. Such payments will be made (subject to Condition 8(a)(ii) below), at the option of the payee, by euro cheque drawn on, or by transfer to a euro account maintained by the payee with, a bank in the Euro-zone.

- (ii) Upon the due date for redemption of any Capital Security, any unexchanged Talon relating to such Capital Securities (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such Capital Securities (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Capital Security is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Capital Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

**(b) Payments Subject to Fiscal Laws**

Without prejudice to the terms of Condition 10, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders in respect of such payments.

**(c) Payments on Business Days**

If the date for payment of any amount in respect of any Capital Security or Coupon, or any later date on which any Capital Security or Coupon is presented for payment, is not a business day, then the holder thereof shall not be entitled to payment at that place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 8(c), “**business day**” means any day (not being a Saturday, Sunday or a public holiday) on which commercial banks and foreign exchange markets which settle payments in euro are open in the Euro-zone and in the relevant place of payment.

**(d) Suspension**

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement, the Parent or any subsequent New Owner ceases to be the ultimate holding company of the Lloyds TSB Group, then the Issuer shall as soon as practicable give notice to the Holders in accordance with Condition 15, the Trustee and the Principal Paying Agent, whereupon the operation of the ACSM shall be suspended (such event being a “**Suspension**”). In such event, unless a Permitted Restructuring Arrangement shall be put in place within six months of the occurrence of a Permitted Restructuring (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank, merchant bank, commercial bank, stockbroker or financial institution appointed by the Issuer (at the Issuer’s expense) (such appointed entity, the “**Independent Expert**”) and approved by the Trustee shall determine, subject to the requirements that: (i) the Issuer shall not be obliged to reduce its net assets; (ii) no amendment may be proposed or made which would alter the FSA’s regulatory capital treatment of the Capital Securities for regulatory capital and solvency purposes without the Issuer

giving prior written notice to, and receiving no objection from, the FSA and (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it or require the Trustee to incur any liability for which it is not indemnified and/or secured to its satisfaction without its consent, what amendments (if any) to these Conditions, the Trust Deed and any other relevant documents are appropriate in order (aa) to preserve substantially the economic effect, for the Holders, of a holding of the Capital Securities prior to the Suspension and (bb) to replicate the ACSM in the context of the capital structure of the New Owner. Upon any such determination being reached and notified to the Trustee, the Parent and the Issuer by the Independent Expert, the Trustee, the Parent and the Issuer shall, pursuant to the terms of the Trust Deed and without any requirement for the consent or the approval of the Holders or Couponholders, effect the amendments that the Independent Expert has determined are appropriate together with any necessary consequential changes to these Conditions and the Trust Deed and any other relevant documents, whereupon the satisfaction of any ACSM Payment (when due) by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, the Independent Expert is unable to formulate such amendments or if, having used all reasonable endeavours, the Issuer is unable to appoint an investment bank, merchant bank, commercial bank, stockbroker or financial institution willing and able to make such determination, the Independent Expert or, as the case may be, the Issuer shall so notify the Issuer (in the case of notification by the Independent Expert), the Parent, the New Owner, the Trustee and the Principal Paying Agent and the Capital Securities shall (subject in each case to the Issuer giving prior written notice to, and receiving no objection from, the FSA and with the prior agreement of the New Owner) at the option of the Issuer either be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or be redeemed, in each case as described below.

If the Capital Securities are to be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, the Issuer shall give not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable) and all (but not some only) of the Capital Securities will be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall agree (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the Directors referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities and subject further to the receipt by it of the notification of the Independent Expert referred to above) to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will either (at the option of the Issuer) (x) be carried over such that the rights of the Holders with respect thereto are preserved in the new Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or (y) be satisfied (unless otherwise agreed by the Issuer and the Trustee) by the issue of Ordinary Shares to the New Owner in consideration for which the New Owner shall issue ordinary shares in its capital (or shares in its capital of an equivalent class) so as to enable it to satisfy the amount of such Deferred Coupon Payments in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent shares in the capital of the New Owner which, when sold, provide a net cash amount of not less than the amount of such Deferred Coupon Payments which fall to be satisfied by the Issuer). The Trustee shall use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Capital Securities for or the variation of the terms of the Capital Securities so that they become alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in or assist with any such

substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured to its satisfaction. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the FSA objects to such substitution or variation or it is otherwise not practicable for the Capital Securities to be substituted or varied as described above, the Issuer may, subject to Condition 7(a), elect to redeem the Capital Securities as provided in this Condition 8(d). In connection with any substitution or variation in accordance with this Condition 8(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed or admitted to trading.

If the Capital Securities are to be redeemed by the Issuer in accordance with this Condition 8(d), the Issuer shall give notice thereof to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable) and all (but not some only) of the Capital Securities will be redeemed at (in the case of any redemption prior to the First Reset Date) their Make Whole Redemption Price or (on or after the First Reset Date) their principal amount, together in each case with any Payments which are Outstanding thereon, not later than the 60th Business Day following the giving of such notice by the Issuer to the Holders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Ordinary Shares to the New Owner in consideration for which the New Owner shall issue ordinary shares in its capital (or shares in its capital of an equivalent class) so as to enable it to satisfy such redemption amount in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent shares in the capital of the New Owner which, when sold, provide a net cash amount of not less than the redemption amount which falls to be satisfied by the Issuer).

## 9 Non-Payment when due

*Notwithstanding any of the provisions below in Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Except in the circumstances contemplated in Condition 3, no principal, premium or Payment (including any Payment which falls to be satisfied by means of the ACSM) will be due on the relevant payment date unless the condition to payment set out in Condition 2(b)(i) is satisfied. Also, in the case of any Coupon Payment, such Payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 4 or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.*

- (a) If the Issuer shall not make payment in respect of the Capital Securities (in the case of payment of principal and/or premium) for a period of 14 days or more after the due date for the same or (in the case of any Coupon Amount or Accrued Coupon Payment) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the Capital Securities and the Coupons and the Trustee may, notwithstanding the provisions of Condition 9(b), institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and/or prove in any winding up of the Issuer, provided that it shall not have the right to institute such proceedings if the Issuer withholds or refuses any such payment (i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, the Issuer, the relevant Paying Agent or the holder of the Capital

Security or Coupon or (ii) (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) Subject as provided in Condition 18, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer or the Parent as it may think fit to enforce any term or condition binding on the Issuer or, as the case may be, the Parent under the Trust Deed, the Capital Securities or the Coupons (other than for the payment of any principal or premium or satisfaction of any Payments in respect of the Capital Securities or the Coupons or Accrued Coupon Payment) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in Condition 9(a) or (b) above against the Issuer or the Parent to enforce the terms of the Trust Deed, the Capital Securities or the Coupons or, save where expressly provided therein, take any other action under the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.
- (d) No Holder or Couponholder shall be entitled to proceed directly against the Issuer, the Parent or to institute proceedings for the winding-up of the Issuer in England or to prove in any winding-up of the Issuer unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any Holder or Couponholder (i) for the recovery of amounts owing in respect of the Capital Securities or the Coupons, other than the institution of proceedings in England (but not elsewhere) for the winding-up of the Issuer and/or proving in any winding-up and (ii) for the breach of any other term under the Trust Deed, the Capital Securities or the Coupons, other than as provided in Condition 9(b) above. The Issuer has undertaken in the Trust Deed to pay United Kingdom, Belgian and Luxembourg stamp and other duties (if any) on or in connection with the execution of the Trust Deed and United Kingdom, Belgian and Luxembourg stamp and other duties or taxes (if any) on the constitution and issue of the Capital Securities 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 and, in the case of exchange of a global Capital Security for Capital Securities 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 the United Kingdom (but not elsewhere) solely by virtue of and in connection with any proceedings under and in accordance with the Trust Deed or the Capital Securities, save that the Issuer shall not be liable to pay any such stamp duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the Holder or, as the case may be, Couponholder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Issuer 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 or Couponholder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Capital Securities in temporary global, permanent global or definitive form or the Coupons (in each case other than as aforesaid) are the liability of the holders thereof.

- (e) If payment to any Holder of any amount due in respect of the Capital Securities (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 at the rate determined in accordance with Condition 5 from the date of such withholding or refusal, as the case may be, until (but excluding) the date on which notice is given in accordance with Condition 15 that the full amount in euro payable in respect of such Capital Securities is available for payment or the date of payment, whichever first occurs and shall be calculated in accordance with Condition 5.
- (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, premium and/or any Payment due (other than a Deferred Coupon Payment) in respect of Capital Securities or any of them is not paid or provided by the Issuer to the Trustee or to the account of or with the Principal Paying Agent, or is withheld or refused by any of the Paying 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 on 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 euro, 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 Principal Paying Agent for payment to the relevant holders of Capital Securities and/or Coupons, as the case may be (or, if the Principal Paying Agent advises the Issuer of its inability to effect such payment, shall be paid to (or released by) such other Paying Agent as there then may be or, if none, to the Trustee, in any such case for payment as aforesaid). For 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 10 shall not apply in respect of the payment of any such interest.

## 10 Taxation

All payments by or on behalf of the Issuer of principal, premium, Coupon Amounts, Deferred Coupon Payments, Accrued Coupon Payments and Solvency Claims (whether or not to be satisfied by way of the ACSM) in respect of the Capital Securities will be made without withholding of or deduction for, or on any account of, any present or future United Kingdom taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts (“**Additional Amounts**”) as may be necessary in order that the net amounts receivable by



Holders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Capital Securities or, as the case may be, Coupons in the absence of a requirement to make such withholding or deduction, except that no such Additional Amounts shall be payable in relation to any payment with respect to any Capital Securities or Coupon:

- (a) presented for payment by, or on behalf of, a Holder or Couponholder who (i) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to such taxes, duties, assessments or governmental charges in respect of such Capital Security or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Capital Security or Coupon;
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law or treaty implementing or complying with, or introduced in order to conform to, such Directive;
- (c) presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Capital Security or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Conditions to principal, premium, Coupon Amounts, Deferred Coupon Payments and/or Accrued Coupon Payments, shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

If the Issuer becomes resident for tax purposes in any jurisdiction other than or in addition to the United Kingdom, references in this Condition 10 to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction as the case may be.

In the event that any payment is satisfied by means of the ACSM then any Additional Amounts which are payable shall also be satisfied by means of the ACSM.

## **11 Prescription**

Claims in respect of Capital Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Capital Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition 11 or Condition 8(a)(ii) or any Talon which would be void pursuant to Condition 8(a)(ii).

## **12 Meetings of Holders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests including the sanctioning by Extraordinary Resolution of any modification of any of these Conditions or any of the provisions of the Capital Securities, 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 Holders to which special quorum provisions shall have applied. Any Extraordinary Resolution duly passed shall be binding on all Holders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

No modification which in the opinion of the Issuer is material to these Conditions or any other provisions of the Trust Deed shall become effective unless the Issuer has given at least one month's prior written notice to, and received no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that there is a requirement to give such notice).

Subject to the Issuer giving one month's prior written notice to, and receiving no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that there is a requirement to give such notice) and as provided in the Trust Deed, the Trustee shall agree, if requested by the Issuer 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 Holders or the Couponholders, to the substitution, subject to the Capital Securities and the Coupons being irrevocably guaranteed by the Issuer on a subordinated basis equivalent to that mentioned in Condition 2(b) of the Parent, any New Owner, any other subsidiary of the Parent or any New Owner, any successor in business of the Issuer or any subsidiary of any successor in business of the Parent in place of the Issuer as a new issuing party under the Trust Deed, the Capital Securities and the Coupons and as a party to the Agency Agreement and so that the claims of the Holders and the Couponholders may, in the case of the substitution of the Parent, any New Owner or a banking company (as defined in the Trust Deed) in the place of the Issuer, also be subordinated to the rights of Senior Creditors (as defined in Condition 21, but with the substitution of references to "the Parent", any such "New Owner" or to "that subsidiary" in place of references to "the Issuer" together with such consequential amendments as are appropriate).

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Holders as a class and shall not have regard to any interests arising from circumstances particular to individual Holders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Holders or Couponholders (whatever the 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 subdivision thereof and the Trustee shall not be entitled to require, nor shall any Holder or Couponholder be entitled to claim, from the Issuer, the Parent, the Trustee or any other person any indemnification or payment

in respect of any tax consequence of any such exercise upon individual Holders or Couponholders except to the extent already provided for in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor under the Trust Deed.

### **13 Replacement of the Capital Securities, Coupons and Talons**

Should any Capital Security, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 15) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Capital Securities, Coupons or Talons must be surrendered before any replacement Capital Securities, Coupons or Talons will be issued. In addition the Issuer may require the person requesting delivery of a replacement Capital Security or Coupon to pay, prior to delivery of such replacement Capital Security or Coupon, any stamp or other tax or governmental charges required to be paid in connection with such replacement.

### **14 The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Parent or any other subsidiary of the Parent without accounting for any profit resulting therefrom. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by two Directors of the Issuer, its auditors or the liquidator or administrators of the Issuer or any other expert (as the case may be) whether or not the report or certificate of its auditors or such liquidator or administrators or any such expert is subject to any limitation on the liability of the auditors or the liquidator or administrators or such expert (as the case may be) and whether by reference to a monetary cap or otherwise.

### **15 Notices**

Notices to Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. If publication as provided above is not practicable notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Holders in accordance with this Condition.

### **16 Further Issues**

The Issuer is at liberty from time to time without the consent of the Holders or the Couponholders to create and issue further Capital Securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Capital Securities) and so that the same shall be consolidated and form a single series with the outstanding Capital Securities. Any such Capital Securities shall be constituted by a deed supplemental to the Trust Deed.

## 17 Agents

The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent, Determination Agent or Calculation Agent and to appoint additional or other Paying Agents or (as the case may be) another Determination Agent or Calculation Agent (if a Determination Agent or Calculation Agent has already been appointed), provided that it will:

- (a) at all times maintain a Principal Paying Agent and an Agent Bank;
- (b) at all times maintain a Paying Agent having a specified office in London (which may be the same as the Principal Paying Agent);
- (c) whenever a function expressed in these Conditions to be performed by the Determination Agent or the Calculation Agent falls to be performed, appoint and (for so long as such function is required to be performed) maintain a Determination Agent or, as the case may be, Calculation Agent;
- (d) for so long as the Capital Securities are admitted to official listing on any stock exchange maintain a Paying Agent having a specified office in such location as may be required by the rules of the stock exchange (if other than London); and
- (e) insofar as the Issuer would be obliged to pay Additional Amounts pursuant to Condition 10 upon presentation of the Capital Security or Coupon, as the case may be, for payment in the United Kingdom, maintain a Paying Agent having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to such Directive which is approved by the Trustee, PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a Member State unless at least one Member State of the European Union other than the United Kingdom does not require a Paying Agent with a specified office in that Member State so to withhold or deduct tax.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 15. If any of the Agent Bank, Determination Agent, Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the relevant Determination Agency Agreement, Calculation Agency Agreement or the Agency Agreement (as the case may be), the Issuer and the Parent shall appoint, on terms acceptable to the Trustee, an independent investment bank, merchant bank, commercial bank, or financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, Determination Agent, Calculation Agent or the Principal Paying Agent in relation to the Capital Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Parent, the Trustee, the Paying Agents, the Holders and the Couponholders.

Under no circumstances shall the Trustee be required to appoint a Calculation Agent (where the Issuer has failed to do so or otherwise), and the Trustee shall not be responsible, or liable to any person, for the consequences of any failure by the Issuer to appoint a Calculation Agent. None of the Issuer, the Parent, the Trustee, the Agent Bank and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation, or any sale of Ordinary Shares made pursuant to Condition 6 or otherwise, by the Calculation Agent.

## **18 Pre-Emption**

Each of the Issuer and the Parent shall, subject to compliance with the requirements of the Companies Act, use all reasonable endeavours to obtain and maintain at all times all corporate authorisations and take any other corporate actions required for the issue and allotment to the Trustee or its agent (free from any pre-emption rights) of such number of Ordinary Shares and Payment Ordinary Shares, respectively as it reasonably considers would be required to be issued in order to enable the Issuer and the Parent to make a payment satisfying the aggregate amount of Deferred Coupon Payments (if any) and the aggregate of Coupon Payments due in the next 12 months, provided that such reasonable endeavours shall be satisfied where the relevant corporate authorisation or action required is to be obtained or done by the passing of a resolution of the shareholders of the Issuer or, as the case may be, the Parent and the board of directors of the Issuer or, as the case may be, the Parent proposes the relevant resolution to its shareholders for approval at any general meeting of the Issuer or, as the case may be, the Parent and, if such proposal is rejected, the relevant resolution is proposed again at the next general meeting of the Issuer or, as the case may be, the Parent.

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer or the Parent of this Condition 18, the Trustee may only require the Parent, as applicable (i) to procure that the Issuer holds as soon as practicable an extraordinary general meeting of the shareholders of the Issuer at which a resolution is proposed to remedy the breach or (ii) to put before the next general meeting of the shareholders of the Parent a resolution to remedy the breach.

The Trustee shall not be obliged to monitor compliance by the Issuer or the Parent with this Condition and shall be entitled to assume, unless it has actual knowledge to the contrary, that each of the Issuer and the Parent is complying with its obligations under this Condition.

Any authorised but unissued Ordinary Shares which the Issuer or the Parent is required to maintain other than in connection with the Capital Securities shall be discounted in determining whether the Issuer or, as the case may be, the Parent, is complying with its obligations under this Condition 18.

## **19 Governing Law**

The Trust Deed, the Capital Securities, the Coupons and the Talons (including any non-contractual obligations arising out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons) are governed by, and shall be construed in accordance with, the laws of England.

The Courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons (“**Proceedings**”) may be brought in such courts. The Parent has in the Trust Deed irrevocably submitted to the jurisdiction of such courts. Service or process in any Proceedings in England may be effected on the Parent by delivery to the Parent’s principal place of business in England currently at 25 Gresham Street, London EC2V 7HN or such other address as may be notified to Holders in accordance with Condition 15.

## **20 Contracts (Rights of Third Parties) Act 1999**

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

## 21 Definitions

In these Conditions:

**“Accrued Coupon Payment”** means, as at any given time, where these Conditions provide that interest shall continue to accrue after a Coupon Payment Date or ACSM Payment Date in respect of a Capital Security or an ACSM Payment, the amount of interest accrued thereon at that time in accordance with Condition 5 or 6(e), as the case may be;

**“ACSM Payment”** means any Deferred Coupon Payment and/or any Accrued Coupon Payment which has been or is to be satisfied pursuant to Condition 6(e);

**“ACSM Payment Date”** means the date on which an ACSM Payment is due to be satisfied pursuant to these Conditions provided that where the provisions of Condition 6(e) cause an ACSM Payment to be deferred, references therein to **“ACSM Payment Date”** shall be to the date on which such ACSM Payment would otherwise have been due to be satisfied had such ACSM Payment not been deferred pursuant to Condition 6(e);

**“Additional Amounts”** has the meaning given to it in Condition 10;

**“Agency Agreement”** has the meaning given to it in the preamble to these Conditions;

**“Agent Bank”** has the meaning given to it in the preamble to these Conditions;

**“Alternative Coupon Satisfaction Mechanism”** or **“ACSM”** means the mechanism described in Condition 6;

**“Assets”** means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the Directors or, if the Issuer is in a winding-up or administration, its liquidator or administrator may determine;

**“Associated Costs”** means (a) any stamp duty, stamp duty reserve tax and any other duties or taxes (if any) and (b) costs (including any brokerage fees) that would be payable by the Trustee or its agent in connection with the issue, transfer and/or sale of Payment Issuer Shares or Payment Ordinary Shares pursuant to Condition 6;

**“Business Day”** means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London and which is a TARGET business day also;

**“Calculation Amount”** means €1,000 in principal amount;

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

**“Calculation Agent”** means the independent investment bank of international repute, appointed on the terms of a Calculation Agency Agreement, selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld, for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

**“Capital Breach Event”** means the occurrence of a breach by the Issuer or the Group or any member of the Group of the Capital Regulations applicable to the Issuer or the Group or any member of the Group, as the case may be (whether or not such requirements, guidelines or measures have the force of law and whether

they are applied generally or specifically to the Issuer or the Group or any member of the Group, as the case may be);

“**Capital Disqualification Event**” is deemed to have occurred if as a result of a change of law or regulation or interpretation thereof, the Capital Securities would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Issuer on a solo and/or consolidated basis under applicable Capital Regulations;

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

“**Capital Securities**” means the €532,111,000 13 per cent. Step-Up Perpetual Capital Securities, and such expression shall include, unless the context otherwise requires, any further capital securities issued pursuant to Condition 16 and forming a single series with the Capital Securities;

“**Companies Act**” means the Companies Act 2006 (as amended or re-enacted from time to time);

“**Conditions**” means these terms and conditions of the Capital Securities, as amended from time to time;

“**Coupon**” means an interest coupon relating to a Capital Security and includes, where the context so permits, a Talon;

“**Coupon Amount**” means, in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Coupon Period in accordance with Condition 5 and includes Floating Coupon Amounts;

“**Coupon Determination Date**” means, in relation to each Coupon Period from and including the Coupon Period beginning on the First Reset Date, the second Business Day prior to the relevant Coupon Period;

“**Couponholder**” means the bearer of any Coupon;

“**Coupon Payment**” means, in respect of a Coupon Payment Date, the aggregate Coupon Amounts for the Coupon Period ending on such Coupon Payment Date;

“**Coupon Payment Date**” means (i) in respect of the period from the Issue Date to (and including) the First Reset Date, 21 January and 21 July in each year, starting on (and including) 21 July 2009, save that the twentieth Coupon Payment date shall fall on the First Reset Date and (ii) after the First Reset Date, 21 January, 21 April, 21 July and 21 October in each year, starting on (and including) 21 April 2019, provided that if any Coupon Payment Date after the First Reset Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

“**Coupon Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Coupon Payment Date and each successive period beginning on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date;

“**Coupon Rate**” means the Fixed Coupon Rate and/or the Floating Coupon Rate, as the case may be;

“**Deferred Coupon Payment**” means (i) any Coupon Payment which, pursuant to Condition 4, the Issuer has elected to defer and which has not been satisfied and (ii) any Coupon Payment which, by reason of the condition to payment set out in Condition 2(b)(i), has not been satisfied;

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

“**Determination Agent**” means the independent investment bank of international repute, appointed on the terms of a Determination Agency Agreement, selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld, for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

“**Directors**” means the directors of the Issuer or, as the case may be, the Parent;

“**EEA Regulated Market**” means a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments;

“**Eligible Company**” means a company incorporated in a member state of the European Union or in the United States of America by or on behalf of the Parent whose ordinary shares are listed (i) on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and are admitted to trading on the Market or (ii) on such other internationally Recognised Stock Exchange as the Trustee may approve;

“**€**” or “**euro**” means the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty of Rome establishing the European Communities as amended;

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

“**FSMA**” means the Financial Services and Markets Act 2000;

“**First Reset Date**” means 22 January 2019;

“**Fixed Coupon Rate**” has the meaning given to it in Condition 5(c);

“**Fixed Rate Coupon Period**” means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

“**Floating Coupon Amounts**” has the meaning given to it in Condition 5(e);

“**Floating Coupon Rate**” has the meaning given in Condition 5(d);

“**Group**” means the Issuer and its Subsidiaries;

“**Holder**” means the bearer of any Capital Security;

“**holding company**” has the meaning given to it under Section 1159 of the Companies Act 2006;

“**Holding Company Shares**” means ordinary shares in the capital of the New Holding Company;

“**interest**” shall, where appropriate, include Coupon Amounts, Deferred Coupon Payments and Accrued Coupon Payments;

“**Issue Date**” means 21 January 2009, being the date of the initial issue of the Capital Securities;

“**Issuer**” means Lloyds TSB Bank plc;

“**Issuer Shares**” means ordinary shares of the Issuer;

“**Junior Share Capital**” means the Issuer Shares, the ordinary shares of the Parent, any other securities of the Issuer ranking, or expressed to rank, junior whether contractually or structurally to the Capital Securities (and shall include the 6 per cent. Non-Cumulative Redeemable Preference Shares issued by the Issuer) and any securities issued by any subsidiary of the Parent which securities benefit from a guarantee or support



agreement entered into by the Issuer and ranking or expressed to rank junior to the Capital Securities and any other securities of the Parent or guarantee or support undertaking by the Parent ranking junior to the most senior preference shares of the Parent;

**“Junior Subordinated Debt”** means the Issuer’s outstanding obligations which constitute Tier 2 Capital and any other obligations of the Issuer which rank or are expressed to rank *pari passu* with the aforesaid obligations;

**“Liabilities”** means the non-consolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors, the auditors or, if the Issuer is in a winding-up or administration, its liquidator or administrator may determine;

**“Lloyds TSB Group”** means the Parent and its subsidiary undertakings from time to time;

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

**“Make Whole Redemption Price”** means, in respect of each Capital Security, (a) the principal amount of such Capital Security or, if this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the annual yield to redemption on the Capital Security on the Reference Date (assuming for this purpose that the Capital Securities are to be redeemed at their principal amount on the First Reset Date) is equal to the Reference Bond Yield (determined by reference to the middle market price) at 11.00 a.m. (Brussels time) on the Reference Date of the Reference Bond plus five per cent., all as determined by the Calculation Agent. For the purposes of the definition of Make Whole Redemption Price:

**“Primary Bond Dealer”** means any credit institution or financial services institution that regularly deals in bonds and other debt securities;

**“Reference Bond”** means the 3.75% German Government bond due 4 January 2019 or if such security is no longer in issue such other German Bundesobligationen with a maturity date as near as possible to the First Reset Date as the Calculation Agent may, with the advice of the Reference Bond Dealers and in consultation with the Issuer, determine to be appropriate by way of substitution for the 3.75% German Government bond due 4 January 2019;

**“Reference Bond Dealer”** means either the Calculation Agent or any other Primary Bond Dealer selected by the Calculation Agent after consultation with the Issuer and approved for this purpose by the Trustee;

**“Reference Bond Dealer Quotations”** means the average, as determined by the Calculation Agent, of the bid and ask prices for the Reference Bond (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference Bond Dealer at 11.00 a.m. (Brussels time) on the Reference Date;

**“Reference Bond Price”** means (i) the average of five Reference Bond Dealer Quotations, after excluding the highest and lowest such Reference Bond Dealer Quotations, or (ii) if the Calculation Agent obtains fewer than five such Reference Bond Dealer Quotations, the average of all such Reference Bond Dealer Quotations;

**“Reference Bond Yield”** means the rate per annum equal to the annual yield to maturity of the Reference Bond, assuming a price equal to the Reference Bond Price for the Reference Date; and

**“Reference Date”** means the date which is three TARGET Business Days prior to the date fixed for redemption pursuant to Conditions 7(c), 7(d) or 8(d) by the Issuer;

“**Margin**” means 14 per cent.;

“**Market**” means the London Stock Exchange’s EEA Regulated Market;

“**Market Disruption Event**” means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the London Stock Exchange or such other principal exchange of the Parent from time to time or otherwise) or on settlement procedures for transactions in the ordinary shares of the Parent on the London Stock Exchange or such other principal exchange of the Parent from time to time if, in any such case, the Calculation Agent has confirmed to the Issuer and the Parent that the suspension or limitation is material in the context of the sale of the Payment Ordinary Shares, or (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the ordinary shares of the Parent or circumstances are such so as to prevent or to a material extent restrict the issue, allotment, sale, delivery or listing of the Payment Ordinary Shares, as the case may be, including the Parent entering a close period (within the meaning of the FSA Handbook: Listing Rules), except that an event or circumstance contemplated by Condition 8(d) which leads to a Suspension shall not constitute a Market Disruption Event or (iii) where pursuant to these Conditions, moneys are required to be converted from one currency into another currency in respect of any Payment, the occurrence of any event that makes it impracticable to effect such conversion;

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

“**New Owner**” means any new ultimate holding company of the Parent;

“**New Owner Shares**” means ordinary shares of the New Owner;

“**Official List**” means the official list of the UK Listing Authority;

“**Ordinary Shares**” means ordinary shares in the capital of the Issuer, having on the Issue Date a par value of £0.25 each;

“**Other Tier 1 Securities**” means, in respect of the Issuer or the Parent (as the case may be), any securities which are Tier 1 Capital of the Issuer or the Parent (as the case may be) and which rank on a winding-up of the Issuer or the Parent (as the case may be) or in respect of a distribution or payment of dividends or any other payments thereon, in the case of the Issuer, *pari passu* with the Capital Securities (on the assumption that the Capital Securities are still Tier 1 Capital of the Issuer) or, in the case of the Parent, *pari passu* with the most senior preference share capital of the Parent;

“**Outstanding**” in relation to any Coupon Payment, Deferred Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment, means that such payment (a) has either become due and payable or would have become due and payable except for the non-satisfaction on the relevant date of the condition to payment set out in Condition 2(b)(i) or the deferral, postponement or suspension of such payment in accordance with any of Condition 4, 6(d), 6(e) or 8(d); and (b) in any such case has not been satisfied and, in respect of any Accrued Coupon Payment, means any amount thereof which has not been satisfied whether or not payment has become due;

“**Parent**” means Lloyds Banking Group plc (formerly Lloyds TSB Group plc);

“**Paying Agents**” means the paying agents appointed pursuant to the Agency Agreement and such term shall, unless the context otherwise requires, include the Principal Paying Agent;

“**Payment**” means any Coupon Payment, Deferred Coupon Payment, Accrued Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment;

“**Payment Issuer Shares**” has the meaning given to it in Condition 6(b);

“**Payment Ordinary Shares**” has the meaning given to it in Condition 6(b);

“**Permitted Restructuring**” means the completion of (i) an offer made by or on behalf of, an Eligible Company to all (or as nearly as may be practicable all) shareholders of the Parent to acquire the whole (or as nearly as may be practicable the whole) of the issued ordinary share capital of the Parent other than that which is already held by or on behalf of such Eligible Company or (ii) a reorganisation or restructuring whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of the Parent other than that which is already held by such Eligible Company or pursuant to which all (or as nearly as may be practicable all) of the issued ordinary share capital of the Parent not held by the New Owner is cancelled;

“**Permitted Restructuring Arrangement**” means in relation to a Permitted Restructuring an arrangement whereby the following conditions are satisfied: (a) the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure that (i) the alternative coupon satisfaction mechanism as described in Condition 6, the Trust Deed and any Calculation Agency Agreement operates so that Issuer Shares may be exchanged for New Owner Shares in such a manner that ensures that upon the sale of such New Owner Shares the holder of each Capital Security then outstanding will receive, in the event of a payment to be satisfied pursuant to Condition 6, an amount not lower than that which would have been receivable had such a restructuring not taken place and (ii) the economic effect, for the Holders, of a holding of the Capital Securities prior to the Permitted Restructuring is substantially preserved; and (b) the Trustee is satisfied that the credit ratings that would be assigned to the Capital Securities by Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc. and by Moody’s Investors Service, Inc. following any such restructuring, shall not be lower than those assigned to the Capital Securities immediately prior to such Permitted Restructuring taking place as confirmed by each such rating agency in writing;

“**Principal Paying Agent**” has the meaning given to it in the preamble to these Conditions;

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

- (a) have terms not materially less favourable to an investor than the terms of the Capital Securities (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Tier 1 Capital; (2) they shall include terms which provide for the same Coupon Rate from time to time applying to the Capital Securities; (3) they shall rank *pari passu* with, the Capital Securities; and (4) such securities shall preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been satisfied, except that such securities need not necessarily include provisions analogous to the provisions of Condition 6; and
- (b) do not have terms such that (x) the Issuer would not, as a result of the Qualifying Tier 1 Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be grouped for United Kingdom tax purposes or (y) the holders of such Qualifying Tier 1 Securities would constitute “equity holders” of the Issuer for United Kingdom tax purposes; and
- (c) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

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

- (a) have terms not materially less favourable to an investor than the terms of the Capital Securities (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital; (2) they shall include terms which provide for the same Coupon Rate from time to time applying to the Capital Securities; (3) they shall rank senior to, or *pari passu* with, the Capital Securities; and (4) such securities shall preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been satisfied, except that such securities need not include provisions analogous to the provisions of Condition 6; and
- (b) do not have terms such that (x) the Issuer would not, as a result of the Qualifying Upper Tier 2 Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be grouped for United Kingdom tax purposes or (y) the holders of such Qualifying Upper Tier 2 Securities would constitute “equity holders” of the Issuer for United Kingdom tax purposes; and
- (c) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

“**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;

“**Reference Banks**” means four major banks in the Euro-zone interbank market as selected by the Agent Bank;

a “**Regulatory Event**” is deemed to have occurred if at any time the FSA has determined that securities of the nature of the Capital Securities cease to qualify as Tier 1 Capital (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

“**Relevant Date**” means (i) in respect of any payment other than a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 15, and (ii) in respect of a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date which is one day prior to the commencement of the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“**Senior Creditors**” means creditors of the Issuer (a) who are depositors or other unsubordinated creditors of the Issuer; or (b) whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Issuer or otherwise) to the claims of depositors and other unsubordinated creditors of the Issuer but not further or otherwise; or (c) whose claims are in respect of Junior Subordinated Debt of the Issuer; or (d) who are subordinated creditors of the Issuer other than those whose claims are, or are expressed to rank, *pari passu* with, or junior to, the claims of the Holders;

“**Solvency Claim**” has the meaning given to it in Condition 2(b)(ii);

“**Subsidiary**” means each subsidiary for the time being of the Issuer;

“**subsidiary**” has the meaning given to subsidiary undertaking under section 1159 of the Companies Act 2006;

“**Suspension**” has the meaning given to it in Condition 8(d);

“**Talon**” has the meaning given to it in the preamble to these Conditions;

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

“**TARGET System**” means the Trans-European Real-Time Gross Settlement Express Transfer (TARGET2) System which was launched on 19 November 2007 or any successor thereof;

“**Tax Event**” means an event of the type described in Condition 7(c)(i), (ii) and/or (iii);

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any written interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Capital Securities, which change or amendment (x) becomes, or would become, effective on or after the Issue Date;

“**Tier 1 Capital**” and “**Tier 2 Capital**” have the respective meanings given to them from time to time by the FSA;

“**Trust Deed**” means the trust deed dated 21 January 2009 between the Issuer, the Parent and the Trustee;

“**Trustee**” means The Law Debenture Trust Corporation p.l.c. as trustee for the Holders and includes its successor(s);

“**UK Listing Authority**” means the FSA in its capacity as competent authority under FSMA;

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland; and

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

## **SUMMARY OF PROVISIONS RELATING TO THE CAPITAL SECURITIES WHILE IN GLOBAL FORM**

### **1 Exchange**

Each tranche of Capital Securities will be represented initially by a Temporary Global Capital Security in bearer form without Coupons or Talons which will be deposited outside the United States with a common depositary for Clearstream, Luxembourg and Euroclear on or about the Issue Date. Each Temporary Global Capital Security will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global Capital Security in bearer form without Coupons or Talons on or after a date which is 40 days after the Issue Date (the “Exchange Date”) upon certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the relevant Temporary Global Capital Security. Upon deposit of each Temporary Global Capital Security or Permanent Global Capital Security (each a “Global Capital Security”) with a common depositary, Euroclear and Clearstream, Luxembourg will credit each subscriber with a principal amount of Capital Securities equal to the principal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the holder of a Bank Capital Security represented by a Global Capital Security must look solely to Clearstream, Luxembourg or Euroclear for his share of each payment made by the Issuer to the bearer of such Global Capital Security, subject to and in accordance with the rules and procedures of Clearstream, Luxembourg or Euroclear (as the case may be).

The Global Capital Securities will contain provisions applicable to the Capital Securities represented thereby, some of which modify the effect of the Terms and Conditions of the Capital Securities. Certain of these are summarised in this section.

For so long as any of the Capital Securities is represented by a Global Capital Security, the bearer of the each Global Capital Security may, except as ordered by a court of competent jurisdiction or as required by law, be treated by the Issuer, the Trustee and the Paying Agents as the owner thereof and of all rights thereunder free from all encumbrances (in accordance with and subject to its terms and the Trust Deed) and the expression “Holder” and related expressions shall be construed accordingly. Interests in Capital Securities which are represented by a Global Capital Security will only be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg and/or Euroclear, as the case may be.

If any date on which a payment is due on the Capital Securities occurs prior to the Exchange Date, the relevant payment will be made on the relevant Temporary Global Capital Security only to the extent that certification as to non-US beneficial ownership as required by US Treasury regulations (in substantially the form referred to in the relevant Temporary Global Capital Security or in such other form as is customarily issued in such circumstances by the relevant clearing system or depositary) has been received by Clearstream, Luxembourg or Euroclear. Payment of amounts due in respect of the Permanent Global Capital Security will be made through Clearstream, Luxembourg or Euroclear without any requirement for certification.

The holder of each Temporary Global Capital Security shall not (unless, upon due presentation of such Temporary Global Capital Security for exchange (in whole or in part) for interests in a Permanent Global Capital Security, such exchange is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Capital Securities represented by the relevant Temporary Global Capital Security which falls due on or after the Exchange Date.

Interests in each Permanent Global Capital Security will be exchangeable in whole but not in part (free of charge to the holder) for definitive bearer Capital Securities (a) if the relevant Permanent Global Capital Security is held on behalf of Clearstream, Luxembourg or Euroclear or an Alternative Clearing System (as defined below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (b) at any time at the option of the Issuer, by the Issuer or, in the case of (a) above, the Holder of the relevant Permanent Global Capital Security giving notice to the Principal Paying Agent and, if applicable, the Issuer or the Holders of its intention to exchange interests in such Permanent Global Capital Security for definitive Capital Securities on or after the Permanent Global Exchange Date (as defined below) specified in the notice.

On or after the Permanent Global Exchange Date the holder of each Permanent Global Capital Security shall surrender the relevant Permanent Global Capital Security to or to the order of the Principal Paying Agent. In exchange for such Permanent Global Capital Security, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Capital Securities having attached to them all Coupons in respect of interest which has not already been paid on the relevant Permanent Global Capital Security and a Talon.

“Alternative Clearing System” means any such other clearing system as shall have been approved by the Trustee.

“Permanent Global Exchange Date” means a day falling not less than 60 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 Principal Paying Agent is located and, except in the case of exchange pursuant to (a) above, in the cities in which Clearstream, Luxembourg and Euroclear or, if relevant, the Alternative Clearing System are located.

## **2 Payments**

Principal and interest in respect of each Permanent Global Capital Security shall be paid to the relevant holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of any Paying Agent which shall endorse such payment or cause payment to be endorsed in the appropriate schedule to such Permanent Global Capital Security. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Permanent Global Capital Security which endorsement shall be prima facie evidence that such payment has been made in respect of the Capital Securities. No person shall however be entitled to receive any payment on a Permanent Global Capital Security falling due after the Permanent Global Exchange Date, unless exchange of the relevant Permanent Global Capital Security for definitive Capital Securities is improperly withheld or refused by or on behalf of the Issuer. Condition 11(c) of the Capital Securities will apply to definitive Capital Securities only.

## **3 Notices**

So long as each Permanent Global Capital Security is held on behalf of Clearstream, Luxembourg or Euroclear or an Alternative Clearing System, notices required to be given to Holders may be given by their being delivered to Clearstream, Luxembourg and/or Euroclear or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Terms and Conditions of the Capital Securities. Any notice delivered to Clearstream, Luxembourg and/or Euroclear and/or, as the case may be, the Alternative Clearing System shall be deemed to have been given to the Holders on the day on which such notice is so delivered.

#### **4 Meetings**

The holder of each Permanent Global Capital Security shall be treated at any meeting of Holders as having one vote in respect of each integral currency unit of the currency of the Capital Securities' principal amount of Capital Securities for which the relevant Permanent Global Capital Security may be exchanged.

#### **5 Purchase and Cancellation**

Cancellation of any Bank Capital Security represented by a Permanent Global Capital Security which is required by the Terms and Conditions of the Capital Securities to be cancelled will be effected by reduction in the principal amount of such Permanent Global Capital Security.

#### **6 Trustee's Powers**

In considering the interests of Holders in circumstances where the relevant Permanent Global Capital Security is held on behalf of any one or more of Clearstream, Luxembourg, Euroclear and an Alternative Clearing System, the Trustee may have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the relevant Permanent Global Capital Security and may consider such interests on the basis that such accountholders were the holder of the relevant Permanent Global Capital Security.

#### **7 Prescription**

Claims against the Issuer in respect of principal and interest on the Capital Securities while the Capital Securities are represented by a Permanent Global Capital Security will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.



## **LLOYDS TSB GROUP**

*Terms defined in the sub-sections entitled “Regulation and Supervision in the United Kingdom”, “Capital Liquidity and Funding Arrangements” and “Legal actions” below have the meanings set out in the Definitions section of the Lloyds TSB Placing and Open Offer Prospectus as incorporated by reference herein. See also the definition of “Lloyds TSB Group” and “Group” in “Definitions” on page 136 below.*

Lloyds TSB Group plc is the parent company of the Issuer. The Issuer was incorporated on 20 April 1865 (Registration number 2065). The Issuer’s registered office is at 25 Gresham Street, London EC2V 7HN, telephone number 020 7626 1500.

### **Overview**

The Lloyds TSB 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. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision. For the six months ended 30 June 2008, Lloyds TSB had revenues of £4.6 billion and net income of £0.6 billion. As at 30 June 2008, Lloyds TSB Group had total assets of £367.8 billion and shareholders’ equity of £10.8 billion. As at 30 June 2008, the risk asset ratios were 11.3 per cent. for total capital, 8.6 per cent. for Tier 1 capital and 6.2 per cent. for core Tier 1 capital.

The Lloyds TSB Group was formed in 1995 following the merger of Lloyds Bank and TSB Group plc, and now comprises the Lloyds TSB brand, along with Cheltenham & Gloucester, one of the largest mortgage providers in the UK, and Scottish Widows, one of the UK’s largest providers of life, pensions and investment products.

Lloyds TSB Group’s activities are organised into three divisions: UK Retail Banking, Insurance and Investments and Wholesale and International Banking. Services provided by UK Retail Banking include the provision of banking and other financial services to personal customers, private banking and mortgages. Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management services. Wholesale and International Banking provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages Lloyds TSB Group’s activities in financial markets through its treasury function and provides banking and financial services overseas. On 30 October 2008, the Company announced that following the Acquisition becoming effective, a new division of “Wealth & International” will be established. The divisions of “Wholesale and International Banking” and “Insurance and Investments” will be restructured and re-named “Wholesale” and “Insurance” respectively.

The operations of Lloyds TSB Group in the UK are conducted through over 1,980 branches of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham & Gloucester. C&G is Lloyds TSB Group’s specialist mortgage arranger. International business is conducted mainly in the US and continental Europe. Lloyds TSB Group’s services in these countries are offered largely through branches of Lloyds TSB Bank. Lloyds TSB Group also offers offshore banking facilities in a number of countries.

### **History and development of Lloyds TSB**

The history of the Lloyds TSB 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.

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, the Lloyds TSB Group acquired Scottish Widows' Fund and Life Assurance Society. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned the Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

In more recent years, the Lloyds TSB Group has disposed of a number of its non-core operations, as part of the process of managing its portfolio of businesses to focus on its core markets. These disposals have resulted in a significant reduction in the size of the Lloyds TSB Group's international business.

## **Strategy**

In an environment of strong competition, the Lloyds TSB Group believes that shareholder value can best be achieved by:

- focusing on markets where it can build and sustain competitive advantage;
- developing business strategies which are founded on being profitably different in the way it creates customer value; and
- building a high-performance organisation focused on the right goals and the best possible execution of the Lloyds TSB Group's strategies.

Reflecting this, in 2003, the Lloyds TSB Group put in place a three-phase strategy. In phase 1, the Lloyds TSB Group focused on enhancing the quality of its earnings by exiting businesses which were not regarded as core or which added unnecessary volatility to earnings. During this phase, the Lloyds TSB Group divested businesses in New Zealand and Latin America, markets in which it did not expect to be able to build and sustain competitive advantage. In phase 2, the Lloyds TSB Group focused on accelerating growth by deepening its customer relationships, improving productivity and building competitive advantage through enhanced capabilities. The Lloyds TSB Group also remained alert for opportunities to enter into phase 3, i.e. an acquisition that complemented its existing organic strategies. The HBOS acquisition constitutes the final phase of this strategy.

Relationships were and still are critical to the Lloyds TSB Group's strategy. The Lloyds TSB Group has chosen to focus on building deep, long-lasting relationships with its customers in order to deliver high quality, sustainable results over time. By building deep relationships, the Lloyds TSB Group aims to grow revenues and achieve a lower risk profile.

## ***Markets***

The Lloyds TSB Group focuses on building competitive advantage in its core markets by seeking opportunities to consolidate its position in businesses where it is already strong, through a combination of organic growth and acquisitions, and by divesting businesses in markets where it is not a leader and cannot aspire reasonably to being one of the market leaders. The Lloyds TSB Group believes that it has good potential within its existing franchise to grow by meeting more of its customers' needs as well as through adding new customers to the franchise.

## ***Strategy***

The Lloyds TSB Group's strategy is based on a belief that sustained growth comes from simultaneously focusing on (i) building strong customer relationships, (ii) continuous productivity improvement and (iii) strong capital management.

### ***Strong customer relationships***

In an increasingly competitive financial services market, and with customers able to exercise choice amongst alternative providers, shareholder value creation is closely linked to customer value creation. Shareholder value can only be created by attracting and retaining customers and winning a greater share of their financial services business. Across its main businesses, Lloyds TSB Group has strong core banking franchises, based on building strong customer relationships. The Lloyds TSB Group's strategy is focused on being differentiated in the creation of customer value to win a bigger share of its customers' total financial services spend.

### ***Continuous productivity improvement***

Superior economic profit growth also requires a continuous focus on productivity improvement, which drives both improved customer service and cost reduction. In recent years, the Lloyds TSB Group has been building a set of capabilities in 'six sigma' (error reduction), 'lean manufacturing' (operations efficiency) and procurement. Alongside those capabilities, the Lloyds TSB Group applies an 'income growth must exceed cost growth' discipline in setting goals for each business, requiring a wider gap between income growth and cost growth for lower growth/return businesses than for higher growth/return businesses.

The results have been evidenced across all three divisions in much reduced error rates in key processes, growing levels of income per employee and falling unit costs, without impacting investment in future growth. Further improvements in the Lloyds TSB Group's cost: income ratio are expected as these capabilities and disciplines are extended further.

### ***Capital and risk management***

Lloyds TSB Group measures value internally by economic profit growth, a measure of financial performance which signals where value is created or destroyed. It has developed a framework to measure economic equity requirements across all its businesses, taking into account market, credit, insurance, business and operational risk. Using economic profit as a key performance measure enables the Lloyds TSB Group to understand which strategies, products, channels and customer segments are destroying value and which are creating the most value and to make better capital allocation decisions as a result.

The application of these economic profit disciplines, alongside goal-setting linked to ensuring that revenue growth constantly exceeds cost growth, has already been reflected in a significant improvement in the capital efficiency of the Lloyds TSB Group's Insurance and Investments division and by a shift in business mix towards sectors offering higher risk-adjusted returns in wholesale banking. By the continued rigorous

application of these disciplines at every level, the Lloyds TSB Group expects to further improve capital efficiency whilst remaining strongly capitalised.

It is the Lloyds TSB Group's belief that the relationship focused strategy has demonstrated its effectiveness in generating sustainable, high quality results. The prudent approach to risk means that the Lloyds TSB Group believes that it has relatively limited exposure to assets affected by capital market uncertainties and continues to retain a strong liquidity position.

### **Principal Activities**

The Lloyds TSB Group's activities are organised into three divisions: UK Retail Banking, Insurance and Investments and Wholesale and International Banking. On 30 October 2008, the Company announced that following the Acquisition becoming effective a new division of "Wealth & International" will be established. The divisions of "Wholesale and International Banking" and "Insurance and Investments" will be restructured and re-named "Wholesale" and "Insurance" respectively.

### ***UK Retail Banking***

UK Retail Banking provides banking, financial services, mortgages and private banking to some 16 million personal customers through the Lloyds TSB Group's multi-channel distribution capabilities.

#### *Branches*

The Lloyds TSB Group provides wide-reaching geographic branch coverage in England, Scotland and Wales, through over 1,980 branches of Lloyds TSB Bank, Lloyds TSB Scotland and C&G.

#### *Internet banking*

Internet banking provides online banking facilities for personal customers. Some 4.9 million customers have registered to use the Lloyds TSB Group's internet banking services. For the half year to 30 June 2008, these customers were conducting on average more than 75 million actions per month online, a 16 per cent. increase on the same period in 2007.

#### *Telephone banking*

As at 30 June 2008, some 5.5 million customers had registered to use the services of PhoneBank and the automated voice response service, PhoneBank Express. Lloyds TSB's telephone banking centres handled some 39 million calls during the first six months of 2008.

#### *Cash machines*

The Lloyds TSB Group has one of the largest cash machine networks of any leading banking group in the UK and, personal customers of Lloyds TSB Bank and Lloyds TSB Scotland are able to withdraw cash and check balances through over 4,100 ATMs at branches and external locations around the country. In addition, UK Retail Banking's personal customers have access to over 65,000 cash machines via LINK in the UK and to cash machines worldwide through the VISA and MasterCard networks.

#### *Current accounts*

Lloyds TSB Bank and Lloyds TSB Scotland offer a wide range of current accounts, including interest-bearing current accounts and a range of added value accounts.

### *Savings accounts*

Lloyds TSB Bank, Lloyds TSB Scotland and C&G offer a wide range of savings accounts and retail investments through their branch networks and a postal investment centre.

### *Personal loans*

Lloyds TSB Bank and Lloyds TSB Scotland offer a range of personal loans through their branch networks and directly to the customer via the internet and telephone.

### *Cards*

The Lloyds TSB Group provides a range of card-based products and services, including credit and debit cards and card transaction processing services for retailers. The Lloyds TSB Group is a member of both the VISA and MasterCard payment systems and has access to the American Express payment system.

### *Mortgages*

C&G is the Lloyds TSB Group's specialist residential mortgage arranger, offering a range of mortgage products to personal customers through its own branches and those of Lloyds TSB Bank in England and Wales, as well as through the telephone, internet and postal service, Mortgage Direct. Lloyds TSB Group also provides mortgages through Lloyds TSB Scotland and Scottish Widows Bank. The Lloyds TSB Group is one of the largest residential mortgage lenders in the UK on the basis of outstanding balances, with mortgages outstanding at 30 June 2008 of £109.3 billion.

### *UK Wealth Management*

Wealth Management provides financial planning and advice for the Lloyds TSB Group's affluent customers, providing financial solutions across investments, retirement planning and income, trusts, tax and estate planning as well as share dealing. Expert advice is provided through a large population of the Lloyds TSB Group's financial advisors who can be accessed via the retail branch network and Private Banking offices throughout the United Kingdom. Customers are also provided with access to relationship banking as part of Lloyds TSB Private Banking, one of the largest private banks in the UK.

The UK Competition Commission's investigation of payment protection (also known as repayment) insurance could affect the distribution and pricing of this product across the industry. Further details as to the investigations are set out under the heading "Legal actions – UK Competition Commission investigation of payment protection insurance" below.

### ***Insurance and Investments***

Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management products and services through the Lloyds TSB, Scottish Widows and SWIP brands.

### *Life assurance, pensions and investments*

Scottish Widows is the Lloyds TSB Group's specialist provider of life assurance, pensions and investment products, which are distributed through Lloyds TSB Bank's branch network, through independent financial advisers and directly via a direct sales force, telephone and the internet. The Scottish Widows brand is the main brand for new sales of Lloyds TSB Group's life, pensions, Open Ended Investment Companies ("OEICs") and other long-term savings products.

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

With-profits life and pensions products are written from the With-Profits sub-fund. 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-Profits sub-fund.

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

During 2007, Lloyds TSB Group sold Abbey Life, the UK life operation which was closed to new business in 2000.

#### *General insurance*

Lloyds TSB Insurance provides general insurance through the retail branches of Lloyds TSB Bank, Lloyds TSB Scotland and C&G, and through a direct telephone operation and the internet. Lloyds TSB Insurance is one of the leading distributors of household insurance in the UK.

#### *Scottish Widows Investment Partnership*

Scottish Widows Investment Partnership manages funds for Lloyds TSB Group's retail life, pensions and investment products. Clients also include corporate pension schemes, local authorities and other institutions in the UK and overseas.

#### ***Wholesale and International Banking***

Wholesale and International Banking provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages Lloyds TSB's activities in financial markets through its treasury function and provides banking and financial services overseas.

During 2007, the Lloyds TSB Group completed the sale of Lloyds TSB Registrars and The Dutton-Forshaw Group, two of Wholesale and International Banking's businesses.

#### *Corporate Markets*

Combining the respective strengths of some 3,000 people in Corporate Banking and Products and Markets, Corporate Markets plays an integral role in leveraging and expanding the Lloyds TSB Group's customer franchise and building deep, long-lasting relationships with around 26,000 corporate customers.

Corporate Banking manages the core customer franchise, providing a relationship-based financial and advisory service to the corporate market place. This is delivered through dedicated regional teams throughout the UK and key strategic locations abroad, including New York. Customers have access to expert advice and a broad range of financial solutions. Relationship Managers act as a conduit to product and service partners in Corporate Markets and other parts of the Lloyds TSB Group. Lloyds Development Capital, the Lloyds TSB Group's captive private equity arm, also reports through the Corporate Bank.

Products and Markets is where the specialist product capability resides for both the corporate relationship customers and certain other customers of the Lloyds TSB Group. It offers customers a wide range of finance and capital solutions, and also provides tailored risk management solutions and structured solutions across all areas of risk. These areas include foreign exchange, interest rates, credit, inflation and commodities on behalf of the Lloyds TSB Group. Additionally, Products and Markets fulfils the treasury role for Lloyds TSB Group including the management of balance sheet liquidity.

### *Commercial Banking*

Commercial Banking serves nearly one million customers across the UK from one-person start-ups to large, established enterprises. The expanded business focuses on providing banking facilities and solutions to customers with business turnover up to £15 million per annum, and incorporates the invoice discounting and factoring subsidiary, Lloyds TSB Commercial Finance, through which Lloyds TSB Group provides specialised working capital finance for its customers. Commercial Banking continues to build its market share of high value customers as a result of continued progress in attracting customers “switching” from other financial services providers. The main activity of The Agricultural Mortgage Corporation is to provide long-term finance to the agricultural sector.

### *Asset Finance*

The Lloyds TSB Group’s asset finance businesses provide individuals and companies with specialist personal lending, store credit and finance, including motor finance. Black Horse Consumer Finance, including the Retail and Motor businesses, acquire largely non-Lloyds TSB franchise customers through Point of Sale (POS) credit creating the opportunity to sell Black Horse personal loans subsequently. Asset Finance is also the Group’s provider of contract hire vehicles through Lloyds TSB Autolease. Asset Finance has approximately 3,650 staff throughout the UK, over 1.7 million individual customers and relationships with some 16,800 companies and small businesses.

### *International Banking*

Lloyds TSB Group has continued to shape its international network to support its UK operations. Its overseas banking operations include offices in the UK, the Channel Islands, the Isle of Man, Dubai, Hong Kong, Spain, France, Switzerland, Luxembourg, Belgium, Netherlands, Monaco, Gibraltar, Cyprus, South Africa, Japan, Singapore, Malaysia, China and the US. The business provides a wide range of private and retail banking, wealth management and expatriate services to local island residents, UK expatriates, foreign nationals and to other customers and also serves the corporate and institutional market in a number of these locations.

## **Competitive Environment**

The Lloyds TSB Group’s key markets are in the UK, in both the retail and wholesale financial services sectors, where the markets are relatively mature. Retail banking markets have shown strong rates of growth in recent years, but have slowed in 2008 as a result of low consumer confidence, a squeeze on household spending power, tightness in wholesale lending markets, the withdrawal of some competitors from the mortgage market and a sharply lower housing market. The markets for life, pensions and insurance products are expected to grow over time in a number of key areas although the weakness of stock markets in 2008 will in the short term limit demand for equity-based products. The fragmented nature of the life, pensions and insurance market in the UK has resulted in some consolidation within certain product sectors, although the overall share of new business of the top ten providers fell slightly in 2007. In the general insurance sector, the long-term trend of consolidation amongst underwriters and brokers continues, while distribution remains fragmented through growth in the number of affinity partnerships. Wholesale markets showed strong growth until mid-2007, since when the ongoing dislocation of global capital markets and growing concern about

economic prospects has had a severe impact. Slower growth is now evident and this trend is likely to intensify going forward, together with a return to more normal levels of bad debt from recent cyclical lows.

The Lloyds TSB Group's competitors include all the major financial services companies operating in the UK. In the retail banking market, the Lloyds TSB 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 providers, although some of these have had to reduce their business activity or exit as a result of capital and funding constraints. In the wholesale banking market, the Lloyds TSB Group competes with both UK and foreign financial institutions; in asset finance the main competition comes from other banks and specialised asset finance providers; and in the insurance market, competitors include bancassurance, life assurance and general insurance companies operating in the UK.

The current dislocation in global capital markets has been the most severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment for many years and individual institutions have faced varying degrees of stress. Many competitors have reacted to short-term funding concerns by withdrawing products and/or tightening lending criteria. Lloyds TSB Group expects these conditions to continue throughout the remainder of 2008 and in 2009.

## **Regulation and Supervision in the United Kingdom**

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

The Lloyds TSB Group and the HBOS Group are subject to the financial regulation and supervisory regime in the United Kingdom. Non-financial companies within the Lloyds TSB Group and the HBOS Group (such as investment and insurance companies) are also subject to their appropriate regulatory and supervisory regimes. Responsibility for banking, insurance, investment and other financial services supervision in the United Kingdom rests with the FSA. The FSA's powers and responsibilities are derived from the FSMA. The FSA has responsibility for: (i) regulating and authorising all businesses carrying on regulated activities in the UK (which currently includes all forms of deposit taking, investment activity, mortgages and insurance business); (ii) regulating and authorising unit trusts and open ended investment companies; and (iii) recognising and supervising markets and investment exchanges. The Lloyds TSB Group's ability to conduct its business is dependent upon its retention of its regulatory licences with the FSA.

The FSA is required to observe and pursue four statutory objectives: (i) to maintain confidence in the UK financial system; (ii) to promote public understanding of the financial system; (iii) to secure the right degree of protection for consumers; and (iv) to reduce financial crime.

### ***Banking supervision in the UK***

Deposit taking business is a regulated activity under the FSMA. The FSA is broadly empowered to request information from and give directions to banks and also sets standards that serve as guidelines for banks under its supervision. Each bank is obliged to submit regular reports to the FSA which provide material for supervisory assessment. The approach adopted by the FSA in supervising banks is risk based with the objectives of: (i) systematic assessment of whether a bank meets FSMA authorisation criteria; (ii) understanding the quality of the management and the risks banks face; (iii) using appropriate supervisory tools to identify risks such as skilled persons' reports on internal controls; and (iv) allocating resources proportionate to risk by focusing on banks with a high risk profile.

The FSA may also obtain independent confirmation from skilled persons as to the accuracy of accounting records and prudential returns and the adequacy of internal controls.



### *European Commission Directive on Consumer Credit*

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council of the European Union on the harmonisation of the laws, regulations and administrative provisions of the member states concerning credit for consumers.

This proposal has now become the Consumer Credit Directive, the text of which was finally approved by the European Parliament in January 2008 after many years of negotiation. The Directive was approved by the European Council in April 2008 and published in the Official Journal on 22 May 2008. The UK Government has a period of two years in which to implement the Directive, meaning that it is currently estimated that this will happen sometime in the spring of 2010.

In this regard, for credit risk Lloyds TSB have adopted the Foundation Internal Ratings Based approach for its non retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures and with effect from 1 January 2008 the Advanced Measurement Approach for Operational Risk.

### *Insurance business supervision*

Effecting and carrying out contracts of insurance is a regulated activity under the FSMA. The FSA's powers in regulating insurance business are equivalent to those described in relation to the supervision of banking business.

### *Financial services supervision*

Aspects of the Lloyds TSB Group's and the HBOS Group's business activities such as advising on, dealing in or managing investments such as bonds, money market derivative products and equities and also the sale of personal financial services and investments, undertaken through bank branches and other business channels (e.g. telephone and online banking), are regulated by the FSA.

Accordingly, companies within the Lloyds TSB Group and the HBOS Group carrying on these businesses are subject to the regulation of the FSA. FSA regulation on mortgages and mortgage advice was introduced on 31 October 2004, with sales of general insurance by intermediaries coming under FSA regulation on 14 January 2005.

### *Financial Services Compensation Scheme*

FSMA introduced the Financial Services Compensation Scheme which combines the functions of previous compensation schemes. From 7 October 2008, under this compensation scheme and subject to the rules of the scheme, eligible deposit claimants have been entitled to receive 100 per cent. compensation for financial loss up to £50,000. The limits in respect of investment business and mortgage advice and arranging claims are £48,000 (100 per cent. of the first £30,000 and 90 per cent. of the next £20,000), and in respect of insurance claims are 100 per cent. of the first £2,000 and 90 per cent. of the remainder of the claim (except compulsory insurance for which it is 100 per cent. of the claim). These levels of compensation may vary over time and may differ from those applicable to claims in respect of firms in other jurisdictions.

The European Commission has proposed to amend the Directive on Deposit Guarantee Schemes (1994/19/EC) to increase the minimum level of coverage for deposits from €20,000 to €100,000 within one year, and initially to €50,000 in the intervening period. The payout period in the event of bank failure will be reduced from three months to three days. The coverage level of €50,000 would apply from 15 October 2008 and all other provisions will be effective as of 31 December 2008.

Further information relating to the Financial Services Compensation Scheme is set out in paragraph 3 ("Financial Services Compensation Scheme") of Part V ("Update on the Acquisition and the Placing and

Open Offer, Payment Protection Insurance, and Certain Other Matters”) on page 11 of the Lloyds TSB Supplementary Placing and Open Offer Prospectus, as incorporated by reference herein.

#### *Capital adequacy*

Lloyds TSB, HBOS, and certain members of the Lloyds TSB Group and the HBOS Group respectively, are subject to capital adequacy guidelines adopted by the FSA for a bank or a bank holding company, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on a solo-consolidated basis expressed as a percentage.

The risk-adjusted capital guidelines (the “Basel Accord”) promulgated by the Basel Committee on Banking Supervision (the “Basel Committee”), which form the basis for the FSA’s capital adequacy guidelines, have been revised and implemented in the UK with effect from 1 January 2007 (“Basel II”). The principal changes effected by the revised guidelines include a range of options to determine risk-weighting. In this regard, for credit risk Lloyds TSB have adopted the Foundation Internal Ratings Based approach for its non retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures and with effect from 1 January 2008, the Advanced Measurement Approach for Operational Risk. HBOS has adopted the Advanced Internal Ratings Based Approach (for Credit Risk) and the Advanced Measurement Approach (for Operational Risk) with effect from 1 January 2008, following a year of parallel running of these approaches. Certain HBOS portfolios remain on the standardised approach with agreement with the FSA of a timetable for further roll out of credit risk models over the next two years. Under Basel II, capital requirements are inherently more volatile than under previous regimes and will increase if economic conditions or default trends worsen.

The Lloyds TSB Group’s and the HBOS Group’s banking businesses outside the UK are subject to the capital adequacy regimes of those jurisdictions, some of which will implement Basel II on a longer time frame.

The Lloyds TSB Group’s and the HBOS Group’s life assurance and general insurance businesses in the UK are also subject to the risk-based capital requirements prescribed by the FSA, and the HBOS Group’s life and general insurance companies outside the UK are subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary legislation to define broad “framework” principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. At this early stage of development, it is not possible to predict the ultimate impact of this proposed regime on the Lloyds TSB Group’s, the HBOS Group’s or the Enlarged Group’s capital. However, the final regime could significantly impact the capital the Lloyds TSB Group’s and the HBOS Group’s life assurance and general insurance businesses are required to hold.

The Lloyds TSB Group’s and the HBOS Group’s failure to maintain adequate capital ratios may result in administrative actions or sanctions against the Lloyds TSB Group or the Enlarged Group which may have a material adverse impact on the Lloyds TSB Group’s and the Enlarged Group’s business, financial position and results of operations.

#### *The Bank of England*

The Bank of England has the task of ensuring stability in the financial markets which it undertakes in co-operation with the FSA. The agreed framework for co-operation in the field of financial stability is set out in detail in the Memorandum of Understanding published jointly by HM Treasury, the FSA and the Bank of England at the end of October 1997 and updated in March 2006. The Bank of England is responsible for the

overall stability of the financial system as a whole, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems at home and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FSA's Board.

#### *UK Government*

The UK Government is responsible for the overall structure of financial regulation and the legislation which governs it. It has no operational responsibility for the activities of the FSA or the Bank of England. However, there are a variety of circumstances where the FSA and the Bank of England will need to alert HM Treasury about possible problems, for example where there may be a need for a support operation or a problem arises which could cause wider economic disruption.

In order to deal with the crisis caused by the failure of Northern Rock, the BSP Act was enacted on an expedited basis in February 2008, when it became apparent that it would not be possible to achieve a private sector sale of Northern Rock plc which would adequately protect taxpayers' and consumers' interests. The key provisions of the BSP Act are subject to a sunset clause and are due to expire in February 2009. The BSP Act confers on HM Treasury various powers including, for example, the power to take UK deposit-taking institutions into temporary public ownership by way of the compulsory transfer of the securities or property of such UK deposit-taker to the Bank of England, a nominee of HM Treasury, a company wholly owned by the Bank of England or HM Treasury, or to any other company. The powers under the BSP Act have been exercised in relation to Northern Rock, Bradford and Bingley, Heritable Bank and Kaupthing, Singer and Friedlander.

Lloyds TSB understands that HM Treasury has been working with the Bank of England and the FSA (collectively, the "Tripartite Authorities") in developing proposals for a permanent set of measures to replace the BSP Act. In October 2008, following a process of consultation, the Banking Bill was introduced to Parliament. The Bill sets out the permanent measures which are designed to achieve a number of key policy priorities, including reducing the likelihood, and impact, of individual banks failing.

In particular, the measures include a special resolution regime (the "SRR"), which will provide the Tripartite Authorities with significant new tools for facilitating the resolution of a failing bank before it becomes insolvent. These tools consist of three "stabilisation options", which are designed to address a distressed bank which is failing or is likely to fail to meet the threshold conditions set out in the FSA Handbook and cannot be assisted through normal regulatory action or marketbased solutions. The stabilisation options comprise powers to transfer the property, assets and liabilities ("property") or the securities of a failing bank to a private sector purchaser; the property of a bank to a "bridge bank" controlled by the Bank of England; or the securities of a bank into temporary public ownership. In addition, the Bill provides for a special bank insolvency procedure, which may be triggered at existing insolvency thresholds and provides a mechanism to enable fast and orderly Financial Services Compensation Scheme payments and minimise the risk of a run on a bank. The Bill also makes provision for the "bank administration procedure" which is a special form of insolvency which may be used where only part of a failing bank is transferred to a bridge bank, a private sector purchaser or by way of an onwards transfer from temporary public ownership, leaving behind an insolvent "residual company".

The details of this regime and possible other proposals have not been fully developed and so it is not clear how they would operate in practice and how they would impact the relationship between the Bank of England, HM Treasury and the FSA. Changes to the Memorandum of Understanding referred to above may also be required.

Further information relating to the BSP Act and the proposed Banking Bill is set out in paragraph 3.2 of the section entitled “Risk Factors - Risk factors relating to the Lloyds TSB Group” contained in this document.

#### *Data protection*

Members of the Lloyds TSB Group and the HBOS Group in the UK which hold, control and/or process data relating to identifiable individuals are subject to the UK data protection regime, consisting principally of the Data Protection Act 1998 and subordinate legislation made thereunder. The UK data protection regime is supervised by the Information Commissioner. The regime imposes limitations on the manner in which, and the extent to which, persons controlling personal data can hold, process and transfer that data to third parties, including between members of the same group of companies. Similar data protection and security requirements apply to members of the respective groups carrying on business in EEA member states other than the UK.

#### *Retail Distribution Review*

As a part of its Treating Customers Fairly initiative, the FSA announced a Retail Distribution Review (“RDR”) in June 2006 with the aim of identifying measures that would increase consumer confidence in the retail market and encourage more frequent use of its products and services. Following discussions with stakeholders, the FSA published a Discussion Paper in June 2007, followed by an Interim Report in April 2008 and a feedback statement in November 2008. The FSA intends to continue to develop its thinking in this area in consultation with all relevant stakeholders. No firm proposals will be known for at least several months and no assessment of the ultimate potential outcome for the Lloyds TSB Group or the HBOS Group is possible at this time.

#### *UK Competition Commission investigation of payment protection insurance*

The Competition Commission is formally investigating the supply of Payment Protection Insurance (“PPI”) services (except store card PPI) to non-business customers in the UK. Various members of the Lloyds TSB Group underwrite PPI, while other members of the Lloyds TSB Group distribute PPI, by offering it for sale with various of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with resulting detriments to consumers.

On 13 November 2008, the Competition Commission issued its provisional decision as to what remedies it proposes to adopt to address the adverse effects on competition identified in its provisional findings, on the assumption that it decides to adopt, in its final report, the provisional findings outlined in its publication of 5 June 2008. In summary, the Competition Commission has provisionally decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within 14 days of the distributor’s sale of credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials, and a requirement on distributors to advertise personal loan PPI and second mortgage PPI in close proximity to their respective credit advertisements; (iii) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (iv) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (v) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vi) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors will be permitted

to charge only regular premiums at a constant rate, paid monthly or annually. This remedy would therefore preclude the selling of multiyear PPI policies for a single premium.

The Competition Commission invited comments on its proposed remedies by 4 December 2008.

The Competition Commission is expected to adopt its final report by February 2009. The final report will contain the Competition Commission's final decision on the competition issues addressed in its provisional findings and the remedies to be adopted to address any adverse competition effects which the report identifies. After adoption of the report, it will be open to the Competition Commission to adopt statutory orders implementing the remedies included in its final report. Whilst the impact of the final remedies as a whole remains uncertain, if the provisional remedies were to be adopted in any statutory orders this could have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Lloyds TSB Group and the Enlarged Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Lloyds TSB Group or the Enlarged Group, as appropriate, were able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams.

On 1 July 2008 the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Lloyds TSB Group and other industry members and trade associations have made submissions to the FSA regarding this referral. The matter was considered at the FSA Board meeting on 25 September 2008. The Lloyds TSB Group is awaiting further developments.

On 30 September 2008 the FSA published a statement arising from its ongoing thematic review of PPI sales. In the statement, which was directed at the industry generally, the FSA highlighted certain concerns and indicated that it was escalating its regulatory intervention and considering appropriate action to deal with ongoing non-compliant sales practices and to remedy non-compliant past sales. The FSA plans to publish an update on the third phase of the thematic work in the first quarter of 2009.

### ***UK Office of Fair Trading***

#### *Fairness of current account overdraft charges*

In April 2007, the OFT commenced an investigation into the fairness of current account overdraft charges. At the same time, it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions' terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions' current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 23 May 2008, the Lloyds TSB Group and the HBOS Group along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

A further hearing was held on 7 to 9 July 2008 to consider whether the financial institutions' historic terms and conditions are similarly not capable of being penalties, and to consider whether their historic terms are assessable for fairness. On 8 October 2008, the High Court issued its group judgment broadly holding that these unplanned overdraft charges are assessable for fairness but are not capable of being penalties, although it invited clarification from a number of banks, including the Lloyds TSB Group, before making any formal ruling on their historical terms and conditions. A further hearing was held on 9 December 2008 to enable Lloyds TSB Group and the other relevant banks to provide such further clarification. The judgment from this hearing is also awaited. Subject to the outcome of any appeal in relation to whether the charges are assessable for fairness, it is expected that there will be further substantive hearings to establish whether the charges are fair. If various appeals are pursued, the proceedings may take a number of years to conclude.

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the legal proceedings initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations and any Appeal Court determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

#### *Interchange Fees*

The European Commission has adopted a formal decision finding that an infringement of EC competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with EC competition laws. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. As part of this initiative the OFT will also intervene in the Court of First Instance appeal supporting the European Commission position. The ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

#### *Personal current accounts*

In April 2007, the OFT launched a market study into personal current accounts which resulted in a report that was published on 16 July 2008. The OFT stated that it had found evidence of competition in the personal current account market. Banks could also demonstrate high consumer satisfaction and low fees on the more visible elements of current accounts – such as withdrawals from ATMs. Internet and telephone banking have

also made it easier for consumers to manage their accounts. However, the OFT concluded that the personal current account market as a whole is not working well for consumers. A combination of complexity and a lack of transparency means that consumers and competition are focused almost exclusively on more visible fees and not on the less visible elements, such as insufficient funds charges and foregone interest – despite the fact that these make up the vast bulk of banks’ revenues. For insufficient fund charges, this effect is exacerbated by a lack of simple mechanisms to control, or opt out of, an unarranged overdraft. Furthermore, a significant proportion of consumers believe that it is complex and risky to switch accounts, with the result that switching rates are very low.

The OFT invited comments from interested parties, with a deadline for responses of 31 October 2008. It has in particular highlighted the low levels of transparency and switching and complexity of charges as issues upon which it would welcome comments together with potential measures to address those issues. The OFT has indicated that, depending upon the outcome of the consultation, it may publish a further or final report early in 2009. Its objective is to produce recommendations that the banking industry, in consultation with government and other relevant stakeholders, will take forward. Failing resolution of its concerns by that means, the OFT has indicated that it would consider alternative remedies including changes to the Banking Code, recommendations to government or regulatory bodies or a market reference to the Competition Commission.

#### *Continuing review of certain markets*

In the Secretary of State’s announcement on 31 October 2008 that the Acquisition would not be referred to the Competition Commission (noted in paragraph 2.4 of the section entitled “Risk Factors - Risk factors relating to the Lloyds TSB Group” contained in this document), he said that, in view of the fact that there were some concerns about the possible effects of the Acquisition on competition, he was asking the OFT to keep the relevant markets under review in order to protect the interests of UK consumers and the British economy.

The concerns to which the Secretary of State referred are identified in the OFT’s report to him on the effects of the Acquisition on competition. The OFT’s concerns relate to three markets, namely personal current accounts, SME banking (primarily in Scotland) and mortgages. The OFT stated that it was not required to reach a definite conclusion as to the competitive effects of the Acquisition. Rather, it was only required to conclude whether the test for reference of the Acquisition to the Competition Commission was satisfied. Applying that test, the OFT concluded that it believed there to be a realistic prospect that the Acquisition may give rise to a substantial lessening of competition in the three markets identified. It was by no means a foregone conclusion, the OFT said, that, in the event of a reference, the Competition Commission would find that, on a balance of probabilities, the Acquisition would give rise to a substantial lessening of competition in any of those markets.

In relation to the personal current account market, the OFT’s assessment follows closely the analysis and conclusions in the market study that it published in July 2008 (see preceding section). In the context of a market that, in the OFT’s opinion, is not working well for consumers, the OFT said that there was a realistic prospect that, by reason of the Enlarged Group’s greater market share, it would have a lesser incentive to reduce prices or raise standards of quality and service to established customers.

In relation to SME banking, the OFT’s assessment mirrored that applied to the personal current account market. It was particularly concerned about the possible effects of the Acquisition in Scotland where the Enlarged Group and Royal Bank of Scotland plc would together account for a substantial proportion of SME banking. The OFT also said that it could not exclude the risk of adverse effects in other local markets.

In relation to mortgages, the OFT said that its concerns were more marginal. Prior investigations (notably the Competition Commission’s investigation of Lloyds TSB’s proposed acquisition of Abbey National in 2001)

had concluded that the mortgage market was competitive. However, the OFT observed that, under current conditions, the mortgage market may be tighter than it was with higher barriers to entry and greater obstacles to customer switching: under such conditions, the combination of the largest and third largest mortgage providers was significant enough to cause concern.

The OFT also assessed the impact of the Acquisition on other markets (wealth management savings, personal loans, credit cards, pensions, banking services to large corporations, treasury and capital markets, asset finance/fleet car hire, life insurance and general insurance) and concluded that it did not raise competition concerns in any of those markets. The market for payment protection insurance is currently under investigation by the Competition Commission which has proposed a number of possible remedies to address adverse effects on competition that it has identified in the market: the OFT concluded that, given the present factual situation and the uncertain effect of the Competition Commission's possible remedies, it could not be said that there was a reasonable prospect that the Acquisition would result in a substantial lessening of competition in that market.

The OFT has not yet indicated what steps it will take to keep the relevant markets under review. In relation to personal current accounts, however, it is to be expected that those steps will consist of a continuation of the process initiated by the market study (discussed above).

#### *The European Commission*

On 10 January 2007, the European Commission published the Final Report of its sector inquiry into European retail banking markets covering payment cards and (non-card) payment systems and current accounts and related services. The Commission found that markets were fragmented along national lines, limiting consumer choice and leading to higher costs for current accounts, loans or payments. High degrees of variation of prices, profit margins and selling patterns between Member States and high degrees of homogeneity within Member States were found to be indicative of persisting regulatory or behavioural barriers to competition.

The Final Report identified competition concerns in several areas of retail banking, including:

- the combination of sustained high profitability, high market concentration and evidence of entry barriers in some Member States raise concerns about banks' ability to influence the level of prices for consumers and small firms;
- large variations in merchant and interchange fees between banks across the EU may indicate competition barriers;
- the existence of high joining fee for payment cards, co-branding, surcharging and the practice of "blending" card fees where a retailer is charged the same merchant fee irrespective of the different costs of card types;
- some credit registers, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets;
- some aspects of co-operation among banks, including savings and co-operative banks, can reduce competition and deter market entry;
- product tying by banks is widespread in Member States and can reduce consumer choice and increase banks' power in the market place to influence prices; and
- obstacles to customer mobility in banking, notably the inconvenience of changing a current account, are high.



Some of these concerns have already been addressed, at least in part. For example, following the interim report being published, the Commission met with Austrian banks who agreed to review arrangements for setting interchange fees and announced that a reduction can be expected. In Portugal, issuers and acquirers have met some of the concerns raised in the report by reducing domestic interchange fees and removing preferential bilateral domestic interchange fees. The establishment of a Single Euro Payments Area (“SEPA”) is also seen as a method of remedying some of the competition concerns raised in the report. Since 1 January 2008, banks have been able to make the first SEPA products available and are aiming to make SEPA a reality for all customers by the end of 2010.

The Final Report also listed the following specific areas where enforcement action by the European Commission and the national competition authorities is appropriate:

- high interchange fees and merchant fees in some payment card networks;
- access barriers and discriminatory rules in relation to credit registers;
- tying of products by some banks; and
- bank co-operation (in respect to which the Commission indicated that it intended to gather more information before acting).

Since the Final Report was published, the Commission has adopted three decisions affecting payment card services. On 3 October 2007, the Commission fined Visa International and Visa Europe €10.2 million for refusing to admit Morgan Stanley as a member from March 2000 to September 2006. In a decision of 17 October 2008, the Commission concluded that the *Groupement des Cartes Bancaires* infringed Article 81 of the Treaty by adopting price measures hindering the issuing of cards in France at competitive rates by certain member banks, thereby keeping the price of payment cards artificially high and thus favouring the major French banks. On 19 December 2007, the Commission adopted a decision prohibiting MasterCard’s multilateral interchange fees for cross-border card payments with MasterCard and Maestro consumer credit and debit cards between Member States of the European Economic Area (intra-EEA MIFs).

In addition, a number of EU directives, including the Unfair Commercial Practices Directive, Acquisitions Directive and the Payment Services Directive are currently being implemented in the UK. The EU is also considering regulatory proposals for, *inter alia*, Consumer Credit, Mortgage Credit, Single European Payments Area, Retail Financial Services Review and capital adequacy requirements for insurance companies (Solvency II).

### *International Regulation*

Certain entities within the Lloyds TSB Group and the HBOS Group are also subject to the supervision of international regulators, including the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and various state regulators in the United States, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority in Australia, the Irish Financial Regulator in the Republic of Ireland and the Irish Financial Regulator and the FSA in Northern Ireland.

### *Recapitalisation of financial institutions*

The global financial system has recently experienced an unprecedented degree of volatility. The UK Government has announced recently a package of measures to address the current instability in the financial markets, which include a recapitalisation scheme for the UK banking sector. As part of the recapitalisation scheme, HM Treasury is underwriting, and may acquire, a significant shareholding in certain financial institutions issued under placings and open offers. HM Treasury has announced that its intention is to return to the private sector its holdings in the financial institutions participating in the recapitalisation scheme as soon

as feasibly possible. The new HM Treasury preference shares are being issued by Lloyds TSB Group plc to HM Treasury as part of the recapitalisation scheme.

## **Capital, Liquidity and Funding Arrangements**

### ***Overview***

Capital risk is defined as the risk that the Lloyds TSB Group has insufficient capital to absorb any losses or that the capital structure is inefficient. An exposure would arise if the Lloyds TSB Group had insufficient regulatory capital resources to support its strategic objectives and plans, or to meet external stakeholder requirements and expectations.

Liquidity risk is defined as the risk that the Lloyds TSB Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. Funding risk is further defined as the risk that the Lloyds TSB Group does not have sufficiently stable and diverse sources of funding or that funding structure is inefficient. An exposure would arise if the amount of potential outflows in any future period less committed inflows in that period is such that the Lloyds TSB Group is unable to meet its financial obligations as they fall due, or can meet them by securing funds only at excessive cost.

### ***Capital Arrangements***

The effective management of capital and risk remains central to Lloyds TSB's strategy. Lloyds TSB continues to be focused on the maintenance of a strong capital base, to ensure this base expands appropriately and to utilise capital efficiently throughout Lloyds TSB's activities to both maintain a prudent relationship between the capital base and the underlying risks of the business and also optimise returns to shareholders. It is intended that this same approach will apply in the Enlarged Group. In the pursuit of this focused approach to capital and risk management, Lloyds TSB follows the supervisory requirements of the FSA. During 2008, the key focus of capital adequacy has shifted to the ratio of core Tier 1 capital to risk-weighted assets. At 30 June 2008 Lloyds TSB had a core Tier 1 ratio of 6.2 per cent.

In the context of continued turbulence and uncertainty in financial markets, combined with the deteriorating global economic outlook, the Lloyds TSB Board believes it is essential to maintain higher levels of capital in order to ensure the Enlarged Group remains resilient to any further shocks to the financial system and that it remains competitive. Upon completion of the Placing and Open Offer, Lloyds TSB will issue approximately 2.6 billion Open Offer Shares in accordance with the terms of the Placing and Open Offer Agreement and HBOS will issue approximately 7.5 billion HBOS Open Offer Shares in accordance with the terms of the HBOS Placing and Open Offer Agreement (which will as a result of the Acquisition be exchanged into approximately 4.5 billion Lloyds TSB Shares), raising in aggregate approximately £13 billion. The fair value of these new shares is £7.0 billion based on the Closing Price of the Lloyds TSB Shares of 98.4 pence per share on 16 January 2009, the last practicable date prior to the date of publication of this Prospectus. Upon completion of the Acquisition and the Placing and Open Offer, Lloyds TSB will also issue 1 million New Preference Shares with an aggregate liquidation preference of £1 billion to HM Treasury in accordance with the terms of the Preference Share Subscription Agreement, and HBOS will issue 3 million New HBOS Preference Shares with an aggregate liquidation preference of £3 billion to HM Treasury in accordance with the terms of the HBOS Preference Share Subscription Agreement, such issues raising in aggregate approximately £4 billion. Based on published information at 30 June 2008, and taking into account Lloyds TSB's equity placing completed on 19 September 2008, the Placing and Open Offer, HBOS' rights issue announced on 29 April 2008 and the HBOS Placing and Open Offer, Lloyds TSB estimates that the Enlarged Group would have had a core Tier 1 ratio of 8.8 per cent. at 30 June 2008. Lloyds TSB has made a preliminary assessment that net negative capital adjustments of no more than £10 billion after tax would need

to be made to HBOS' financial position for core Tier 1 capital purposes as a result of the Acquisition, the effect of which would mean that the Enlarged Group would have a core Tier 1 ratio in excess of 7 per cent.

### ***Liquidity and Funding Arrangements***

Within Lloyds TSB, the liquidity management framework focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the maturity mismatch of assets and liabilities across the balance sheet, as well as from undrawn commitments and other contingent obligations. The aim of Lloyds TSB's balance sheet structure management is to maintain substantial diversification, minimise concentration across Lloyds TSB's various deposit sources and control the level of reliance on total short-term wholesale sources of funds (both secured and unsecured). As part of Lloyds TSB's planning process, it regularly reviews the forecast structure of its balance sheet over the planning period, and updates the funding plan as appropriate. In addition, Lloyds TSB continuously monitors the level of large deposits taken from individual bank, corporate, non-bank financial institution and other customer types and also reviews the significant cash outflows therefrom to monitor concentration and trends. Lloyds TSB operates within the context of a full suite of liquidity metrics to ensure that the Lloyds TSB Group is within the liquidity risk appetite set by the Lloyds TSB Board.

During 2008, global financial markets have experienced extremely turbulent conditions. As a consequence of this, governments and central banks have undertaken a series of escalating actions in an attempt to improve liquidity within their respective banking systems. In September and October, the Bank of England, the European Central Bank and the US Federal Reserve announced a number of new mechanisms and tools for the provision of liquidity to banks in their respective jurisdictions, including those in which Lloyds TSB and HBOS operate. Such measures include weekly and longer term repurchase agreements, expanding the types of collateral accepted by these central banks as security for funding; and co-ordinating global action to strengthen the banking system and functioning of the interbank markets. On 8 October 2008, the UK Government announced a broad range of measures intended to ease both the cause and the symptoms of the current difficulties in the UK banking system, including the provision of liquidity and funding support to banks. This currently consists of the Special Liquidity Scheme, whereby banks and building societies can exchange eligible securities for UK Treasury bills; and a guarantee on short and medium term debt issuance by HM Treasury.

However, there can be no assurance that these global measures will succeed in improving the funding and liquidity of the markets in which the major banks, including Lloyds TSB and HBOS, operate. Lloyds TSB believes the Enlarged Group remains relatively well positioned to access a number of wholesale funding sources from a range of counterparties, markets, sectors and geographical markets. However, despite the relatively advantageous situation enjoyed by the Enlarged Group, the uncertainty facing the markets is such that management believe that no institution is immune from the effects of an extended closure of the wholesale markets without the support of the central bank and/or government. It is likely that in this context, the Enlarged Group will continue to draw on the Special Liquidity Scheme, and will take advantage of the guaranteed funding provided by HM Treasury. See paragraph 1.5 of the section headed "Risk Factors - Risk factors relating to the Lloyds TSB Group contained in this document.

As discussed above, the global markets for short, medium, and long term sources of funding on which banks rely to support their business activities have undergone a period of unprecedented upheaval and contraction, which has led to direct intervention by HM Treasury (via the introduction of the government guarantee scheme for senior funding) and the Bank of England (via the extended Long Term Repo facility, and the new Discount Window facility) in order to provide further assurance of liquidity support for the markets. The Enlarged Group is eligible to participate in the schemes, and will use these tools as appropriate in future liquidity and funding management, particularly in an environment as currently experienced.

## **Legal actions**

### **1 UK Competition Commission investigation of payment protection insurance**

The Competition Commission is formally investigating the supply of Payment Protection Insurance (PPI) services (except store card PPI) to non-business customers in the UK. Various members of the Lloyds TSB Group underwrite PPI, while other members of the Lloyds TSB Group distribute PPI, by offering it for sale with various of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with resulting detriments to consumers.

On 13 November 2008, the Competition Commission issued its provisional decision as to what remedies it proposes to adopt to address the adverse effects on competition identified in its provisional findings, on the assumption that it decides to adopt, in its final report, the provisional findings outlined in its publication of 5 June 2008. In summary, the Competition Commission has provisionally decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within 14 days of the distributor's sale of credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials, and a requirement on distributors to advertise personal loan PPI and second mortgage PPI in close proximity to their respective credit advertisements; (iii) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (iv) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (v) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vi) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors will be permitted to charge only regular premiums at a constant rate, paid monthly or annually. This remedy would therefore preclude the selling of multi-year PPI policies for a single premium.

The Competition Commission invited comments on its proposed remedies by 4 December 2008.

The Competition Commission is expected to adopt its final report by February 2009. The final report will contain the Competition Commission's final decision on the competition issues addressed in its provisional findings and the remedies to be adopted to address any adverse competition effects which the report identifies. After adoption of the report, it will be open to the Competition Commission to adopt statutory orders implementing the remedies included in its final report. Whilst the impact of the final remedies as a whole remains uncertain, if the provisional remedies were to be adopted in any statutory orders this could have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Lloyds TSB Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Lloyds TSB Group were able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams.

On 1 July 2008 the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Lloyds TSB Group and other industry members and trade associations have made submissions to the FSA regarding this referral. The matter was considered at the FSA Board meeting on 25 September 2008. The Lloyds TSB Group is awaiting further developments.

On 30 September 2008 the FSA published a statement arising from its ongoing thematic review of PPI sales. In the statement, which was directed at the industry generally, the FSA highlighted certain concerns and indicated that it was escalating its regulatory intervention and considering appropriate action to deal with ongoing non-compliant sales practices and to remedy non-compliant past sales. The FSA plans to publish an update on the third phase of the thematic work in the first quarter of 2009.

## **2 UK Office of Fair Trading**

### *2.1 The following reviews and inquiries are being carried out:*

In April 2007, the UK Office of Fair Trading (“OFT”) commenced an investigation into the fairness of current account overdraft charges. At the same time it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions’ terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions’ current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 23 May 2008, the Lloyds TSB Group and the HBOS Group, along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

A further hearing was held on 7 to 9 July to consider whether the financial institutions’ historical terms and conditions are similarly not capable of being penalties, and to consider whether their historical terms are assessable for fairness. On 8 October 2008, the High Court issued its judgment broadly holding that these unplanned overdraft charges are assessable for fairness but are not capable of being penalties, although it invited clarification from a number of banks, including the Lloyds TSB Group, before making any formal ruling on their historical terms and conditions. A further hearing was held on 9 December 2008 to enable Lloyds TSB Group and the other relevant banks to provide such further clarification. The judgment from this hearing is also awaited. Subject to the outcome of any appeal in relation to whether the charges are assessable for fairness, it is expected that there will be further substantive hearings to establish whether the charges are fair. If various appeals are pursued, the proceedings may take a number of years to conclude.

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the legal proceedings.

initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

## **2.2 *Interchange Fees***

The European Commission has adopted a formal decision finding that an infringement of EC competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with EC competition laws. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. As part of this initiative the OFT will also intervene in the Court of First Instance appeal supporting the European Commission position. The ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

## **2.3 *Continuing Obligations***

The Issuer intends to comply with its obligations as a company with securities admitted to the Official List in connection with further disclosures in relation to the impact of the reviews and inquiries being conducted by the UK Office of Fair Trading as disclosed above on the Issuer.

# **3 Office of Foreign Assets Control**

There has been increased scrutiny of the financial institutions sector, especially in the US, with respect to combating money laundering and terrorist financing and enforcing compliance with economic sanctions. The Office of Foreign Assets Control ("OFAC") administers US laws and regulations in relation to US economic sanctions against designated foreign countries, nationals and others and the Lloyds TSB Group has been conducting a review of its conduct with respect to historical US dollar payments involving countries, persons or entities subject to those sanctions. The Lloyds TSB Group has provided information relating to its review of such historical payments to a number of authorities including OFAC, the US Department of Justice and the New York County District Attorney's office which, along with other authorities, have been reported to be conducting a broader review of sanctions compliance by non-US financial institutions. On 9 January 2009, the Lloyds TSB Group announced that it had reached a settlement with both the United States Department of Justice and the New York County District Attorney's office in relation to their investigations. The Lloyds TSB Group provided £180 million in respect of this matter in the first half of 2008. That provision was hedged into US dollars at the time and fully covers the settlement.

The Lloyds TSB Group is continuing discussions with OFAC regarding the terms of the resolution of its investigation. OFAC has confirmed to the Lloyds TSB Group that the amount paid to the United States Department of Justice and the New York County District Attorney's Office will be credited towards satisfying

any penalty it imposes. Accordingly, the Lloyds TSB Group does not believe there will be any payment due to OFAC and no further provisions are necessary.

The Lloyds TBS Group does not anticipate any further enforcement actions as to these issues.

### **Recent Developments**

- On 30 July 2008, Lloyds TSB Group plc published its 2008 Company Interim Results and the Issuer published its Interim Management Report for the half-year to 30 June 2008. Certain recent developments referred to in the 2008 Company Interim Results are described below (compared to the first half of 2007):
  - On a statutory basis, profit before tax for the first half of 2008 fell by 70 per cent to £599 million which was largely resultant of the impact of market dislocation and volatility relating to the Group's insurance businesses.
  - At the end of June 2008, the Group had a total capital ratio on a Basel II basis of 11.3 per cent, a tier 1 ratio of 8.6 per cent and a core tier 1 ratio of 6.2 per cent.
- On 18 September 2008, Lloyds TSB Group plc published the Acquisition Announcement. A copy of the Acquisition Announcement has been filed with the Financial Services Authority and certain parts of the Acquisition Announcement are incorporated by reference in, and form part of, this Prospectus.
- On 18 September 2008, Moody's Investors Service Limited published a ratings update placing the Issuer's 'B+' financial strength rating, its 'Aaa' senior debt and long-term deposit ratings and Lloyds TSB's 'Aa1' senior debt rating on review for possible downgrade and affirming the Issuer's 'P-1' short term rating.
- On 8 October 2008, HM Treasury issued a press release entitled "Financial support to the banking industry" (the "Government's Announcement") announcing proposals by the UK Government to ensure stability of the financial system and to protect ordinary savers, depositors, businesses and borrowers.
- On 8 October 2008, Lloyds TSB Group plc issued an announcement via the London Stock Exchange plc's Regulatory News Service confirming that it welcomed the Government's Announcement, and stating that Lloyds TSB Group plc would make a further announcement in due course once it had fully assessed the implications of the Government's Announcement.
- On 13 October 2008, Lloyds TSB Group plc published the Acquisition and Capital Announcement. A copy of the Acquisition and Capital Announcement has been filed with the Financial Services Authority and certain parts of the Acquisition and Capital Announcement are incorporated by reference in, and form part of, this Prospectus.
- On 3 November 2008, Lloyds TSB Group plc:
  - published the Management Statement; and
  - posted the Share Circular.

Copies of the Management Statement and the Share Circular have been filed with the Financial Services Authority and the Management Statement and certain parts of the Share Circular are incorporated by reference in, and form part of, this Prospectus.

- (i) On 18 November 2008, Lloyds TSB Group plc published the Lloyds TSB Placing and Open Offer Prospectus and (ii) on 19 November 2008, Lloyds TSB Group plc published an announcement

regarding the publication of the Lloyds TSB Placing and Open Offer Prospectus and an update on the timetable for and details of the excess application facility for Lloyds TSB Group plc's shareholders in the context of the placing and open offer. A copy of the Lloyds TSB Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the Lloyds TSB Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.

- On 18 November 2008, HBOS plc published the HBOS Placing and Open Offer Prospectus relating to the placing and open offer of 7,482,394,366 open offer shares at 113.6 pence per open offer share in connection with the proposed acquisition of HBOS plc by Lloyds TSB Group plc. A copy of the HBOS Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the HBOS Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.
- On 20 November 2008, Lloyds TSB Group plc published a prospectus relating to certain classes of preference share proposed to be issued by Lloyds TSB Group plc in connection with the Preference Share Scheme.
- On 17 December 2008, Lloyds TSB Group plc published the Lloyds TSB Supplementary Placing and Open Offer Prospectus. A copy of the Lloyds TSB Supplementary Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the Lloyds TSB Supplementary Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.
- On 9 January 2009, the Lloyds TSB Group announced that it had reached a settlement with both the United States Department of Justice and the New York County District Attorney's office in relation to their investigations into certain historic US dollar payment practices by the Lloyds TSB Group. For further information, see "Legal actions – Office of Foreign Assets Control" on page 126 above.
- On 14 January 2009, Standard & Poor's Ratings Services published a ratings update lowering the Issuer's long-term counterparty credit rating by one notch to 'AA-' (AA minus) from 'AA' and affirming the Issuer's 'A-1+' short-term counterparty credit rating. In addition, Standard & Poor's Ratings Services lowered Lloyds TSB's long- and short-term counterparty credit ratings from 'AA-/A-1+' to 'A+/A-1' and removed the long-term counterparty credit rating of the Issuer and the long- and short-term counterparty credit ratings of Lloyds TSB from CreditWatch with negative implications where they had been placed on 18 September 2008.
- On 16 January 2009, Fitch Ratings Ltd published a ratings update downgrading the Issuer's long-term issuer default ratings and senior unsecured debt ratings from 'AA+' to 'AA-' (AA minus), its individual rating from 'A' to 'B' and its subordinated debt ratings from 'AA' to 'A+', and removed these ratings of the Issuer from Rating Watch Negative where they were placed on 18 September 2008. Fitch Ratings Ltd affirmed each of the Issuer's short-term issuer default ratings and debt at 'F1+', its Support Rating at '1' and its Support Rating Floor at 'AA-' (AA minus). In addition, Fitch Ratings Ltd downgraded Lloyds TSB's long-term issuer default ratings and senior unsecured debt ratings from 'AA+' to 'AA-' (AA minus), its individual rating from 'A' to 'B/C', its preference shares from 'AA' to 'A-' (A minus) and its subordinated debt ratings from 'AA' to 'A+', and (other than in respect of Lloyds TSB's preference shares rating) removed these ratings of Lloyds TSB from Rating Watch Negative where they were placed on 18 September 2008. Fitch Ratings Ltd also affirmed each of Lloyds TSB's short-term issuer default ratings at 'F1+', its Support Rating at '5' and its Support Rating Floor at 'No Floor'.



- On 16 January 2009, DBRS published a ratings update downgrading the Issuer's Senior Debt & Deposit rating from 'AA (high)' to 'AA' and Subordinated Debt rating from 'AA' to 'AA (low)', and affirming the Issuer's 'R-1 (high)' short-term debt rating. In addition, DBRS removed the long-term ratings of the Issuer from Under Review with Negative Implications where they were placed on 18 September 2008.
- On 16 January 2009, Lloyds TSB Group plc announced that the Scheme by which the Acquisition of HBOS plc was being implemented had become effective in accordance with its terms.
- On 16 January 2009, following the Scheme becoming effective, Lloyds TSB Group plc re-registered a change of name by the Registrar of Companies in Scotland with the name "Lloyds Banking Group plc" pursuant to a resolution passed at the meeting of its shareholders held on 19 November 2008 and to a certificate of re-registration on change of name dated 16 January 2009.
- On 19 January 2009, Lloyds TSB published the Acquisition Update Announcement. A copy of the Acquisition Update Announcement has been filed with the Financial Services Authority and certain parts of the Acquisition Update Announcement are incorporated by reference in, and form part of, this Prospectus.
- On 19 January 2009, HM Treasury announced its intention to establish an asset protection scheme under which HM Treasury intends, in return for a fee, to insure eligible financial institutions in respect of possible future losses on certain defined asset classes exceeding prescribed levels. The Government has said it expects the details of the scheme to be published by the end of February. Accordingly, as at the date of this Prospectus, the Issuer is not in a position to determine whether or not it will participate in any such scheme when implemented or assess the impact of such scheme for the Lloyds TSB Group.

## Directors

The directors of Lloyds TSB Group plc and of the Issuer, 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 Issuer, are as follows:

Name	Principal outside activities
<b>Sir Victor Blank</b> Chairman	A member of the Financial Reporting Council from 2002 to 2007 and a member of the Council of Oxford University from 2000 to 2007. A senior adviser to the Texas Pacific Group and appointed by the Prime Minister as a Business Ambassador. Chairs two charities, Wellbeing of Women and UJS Hillel, as well as the Council of University College School.
<b>Executive directors</b>	
<b>J. Eric Daniels</b> Group Chief Executive	A non-executive director of BT Group.
<b>Archie G. Kane</b> Group Executive Director, Insurance and Investments	Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, The Takeover Panel and the Chancellor's Insurance Industry Working Group. □
<b>G. Truett Tate</b>	A non-executive director of BritishAmerican Business

Group Executive Director, Wholesale & International Banking

**Tim J.W. Tookey**

Group Finance Director

**Helen A. Weir CBE**

Group Executive Director, UK Retail Banking

**Non-executive directors**

**Wolfgang C.G. Berndt**

**Ewan Brown CBE FRSE**

**Jan P. du Plessis**

**Philip N. Green**

**Sir Julian Horn-Smith**

**Lord Leitch**

**Sir David Manning GCMG CVO**

**Carolyn J. McCall OBE**

**Martin A. Scicluna**

Inc. A member of the fund-raising board of the National Society for the Prevention of Cruelty to Children.

None.

A non-executive director of Royal Mail Holdings. A member of the Said Business School Advisory Board.

A non-executive director of Cadbury, GfK AG and MIBA AG.

A non-executive director of Noble Grossart and Stagecoach Group, senior governor of the Court of the University of St Andrews and vice chairman of the Edinburgh International Festival.

Chairman of British American Tobacco and a non-executive director of Rio Tinto and Marks and Spencer Group.

Chief Executive of United Utilities. A director of Business in the Community, a member of the government's UK Commission for Employment and Skills and a trustee of the Philharmonia Orchestra.

A non-executive director of Digicel Group, a member of the Altimo International advisory board and a senior adviser to UBS in relation to the global telecommunications sector.

Appointed chairman of Scottish Widows in 2007. Chairman of the government's Review of Skills and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster.

A non-executive director of BG Group and Lockheed Martin UK Holdings.

Group Chief Executive of Guardian Media Group. Chair of Opportunity Now and a board member of Business in the Community.

A non-executive director of Great Portland Estates.

None of the directors of Lloyds TSB Group plc and of the Issuer have any actual or potential conflict between their duties to Lloyds TSB Group plc or the Issuer and their private interests or other duties as listed above.

## TAXATION

*The following discussion is a summary of the current taxation treatment of payments of interest on the Bank Capital Securities under tax law in the United Kingdom. The discussion does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Capital Securities. The discussion is based on the tax laws of the United Kingdom and the published practice of HM Revenue & Customs as in effect on the date of this document, which are subject to change, possibly with retroactive effect. The discussion does not consider any specific facts or circumstances that may apply to a particular Holder and relates only to the position of persons who are absolute beneficial owners of their Capital Securities and may not apply to certain classes of persons such as dealers or certain professional investors. The discussion does not necessarily apply where the income is deemed for tax purposes to be the income of any other person. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than that discussed should consult their professional advisers.*

### United Kingdom Taxation

For so long as the Capital Securities continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Income Tax Act 2007, payments of interest on the Capital Securities may be made without withholding or deduction for or on account of United Kingdom tax. The London Stock Exchange is a recognised Stock Exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange.

Interest on the Capital Securities may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Capital Securities is paid to a person who belongs in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Capital Securities is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely 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.

In other cases, interest will generally be paid under deduction of income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be provided to the tax authorities in other countries.

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

The interest on the Capital Securities will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom tax by direct assessment even if paid without withholding or deduction. However, such interest received without deduction or withholding is not chargeable to United Kingdom tax in the hands of a Holder who is not resident for tax purposes in the United Kingdom unless the

Holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency or, in the case of a corporate holder, a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Capital Securities are attributable in which case (subject to exemptions for certain categories of agent) tax may be levied on the United Kingdom branch or agency or permanent establishment.

Holders should be aware that the provisions relating to additional payments referred to in Condition 11 of Terms and Conditions of the Capital Securities would not apply if HM Revenue & Customs sought to assess the person entitled to the relevant interest on any Capital Security directly to United Kingdom income tax.

However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

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

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Austria, Belgium and Luxembourg may instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in Switzerland).

Investors should note that the European Commission has enacted proposals to amend the Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU resident individual and (ii) a wider range of income similar to interest.

## GENERAL INFORMATION

- (1) The listing of the Capital Securities on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Capital Securities on the Official List and admission of the Capital Securities to trading on the Market will be granted on or around the Issue Date, subject only to the issue of a temporary or permanent Global Capital Security. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- (2) The issue of the Capital Securities by the Issuer has been duly authorised by resolutions of the Board of Directors of the Issuer passed on 19 September 2008 and 12 December 2008.
- (3) The Issuer estimates that the expenses in connection with the issue of the Capital Securities are expected to be £20.5 million.
- (4) The Capital Securities have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code. The International Securities Identification Number (ISIN) for the Series A Sterling Capital Securities is XS0408620135, the ISIN for the Series B Sterling Capital Securities is XS0408620721, and the ISIN for the Euro Capital Securities is XS0408623311.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

- (5) All Capital Securities and Coupons will carry a legend to the following effect “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”. The sections referred to in such legend provide that United States persons, with certain exceptions, will not be entitled to deduct any loss, and will not be entitled to capital gains treatment with respect to any gain, realised on any sale, exchange or redemption of a Capital Security or Coupon.
- (6) Save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed “Strong relationship banking growth in Wholesale and International Banking”, the third paragraph of the section headed “In a difficult economic environment, asset quality remains satisfactory” and the section headed “Insurance volatility” in the Management Statement, as incorporated by reference herein, there has been no significant change in the financial or trading position of Lloyds TSB Bank Group since 30 June 2008, and save as disclosed in the Issuer’s Interim Management Report as incorporated by reference herein and save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed “Strong relationship banking growth in Wholesale and International Banking”, the third paragraph of the section headed “In a difficult economic environment, asset quality remains satisfactory” and the section headed “Insurance volatility” in the Management Statement, as incorporated by reference herein, and save as disclosed in Part V of the Lloyds TSB Supplementary Placing and Open Offer Prospectus, as incorporated by reference herein, there has been no material adverse change in the prospects of the Lloyds TSB Bank Group since 31 December 2007.
- (7) Save as disclosed in section 1 (“UK Competition Commission investigation of payment protection insurance”), sub-section 2.1 of section 2 (“UK Office of Fair Trading”), sub-section 2.2 of section 2 (“UK Office of Fair Trading”) and section 3 (“Office of Foreign Assets Control”) of the section entitled “Lloyds TSB Group – Legal actions” on pages 124-127 of this Prospectus, sections 18.1.1 to

18.1.3 (“Litigation – HBOS”) of Part XXII (“Additional Information”) of the HBOS Placing and Open Offer Prospectus and section 18 (“Litigation”) of Part XVIII (“Additional Information”) of the HBOS Rights Issue Prospectus (each as incorporated by reference herein), there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of the Lloyds TSB Group.

- (8) For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the office of, and copies may be obtained free of charge from, Lloyds TSB Bank plc, Investor Relations, 25 Gresham Street, London EC2V 7HN, telephone: +44 207 356 1273, email: investor.relations@ltsbfinance.co.uk:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the Trust Deed;
  - (c) the Agency Agreement;
  - (d) the Annual Report and Accounts of the Issuer for the two financial years ending 31 December 2006 and 31 December 2007;
  - (e) copies of documents incorporated by reference, as set out in the section “Documents Incorporated by Reference” in this Prospectus; and
  - (f) a copy of this Prospectus together with any supplemental Prospectus or further Prospectus.
- (9) PricewaterhouseCoopers LLP, Chartered Accountants and Registered 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 Issuer and its subsidiaries for the two financial years ended 31 December 2006 and 31 December 2007.
- (10) The Memorandum of Association of the Issuer was last altered on 24 April 1991 and the most recent Articles of Association of the Issuer were adopted on 1 October 2008.
- (11) The Memorandum of Association of the Issuer provides, amongst other things, that the main objects for which the Issuer is formed and incorporated are to carry on the business of banking including (but without limitation) the transaction of all financial, monetary and other businesses which are now or may be at any time during the existence of the Issuer usually or commonly carried on in any part of the world by banks, merchant banks, discount houses or financiers. The objects of the Issuer are set out in full in clause 4 of its Memorandum of Association.
- (12) The Issuer’s authorised share capital is comprised of (i) 1,650 million £1.00 ordinary shares, (ii) one £1.00 cumulative floating rate preference share; (iii) 100 £1.00 6 per cent. non-cumulative redeemable preference shares; (iv) 600,000 £0.25 floating rate non-cumulative redeemable Series III preference shares; (v) 174,400,000 £0.25 preference shares; (vi) 160,000,000 €0.25 preference shares; (vii) 50,000,000 ¥25.00 preference shares; (viii) 1,000,000 U.S.\$0.25 floating rate non-cumulative redeemable Series III preference shares and (ix) 159,000,000 U.S.\$0.25 preference shares.
- (13) The issued share capital of the Issuer is comprised of
  - (i) 1,542 million £1.00 ordinary shares;
  - (ii) 100 £1.00 6 per cent. non-cumulative redeemable preference shares (the “6% Preference Shares”), which are redeemable at the option of the Issuer at any time and carry rights to a

fixed-rate non-cumulative preferential dividend at a rate of 6 per cent. per annum. No dividend shall be payable in the event that the directors of the Issuer determine that prudent capital ratios would not be maintained if the dividend were paid. Upon winding up or administration of the Issuer, the 6% Preference Shares rank equally with any other preference shares issued by the Issuer;

- (iii) 600,000 £0.25 floating rate non-cumulative redeemable Series III preference shares, issued with a liquidation preference of £1,000 (the “Sterling Series III Preference Shares”) which carry rights to a floating rate non-cumulative preferential dividend, payable quarterly in arrear. The Sterling Series III Preference Shares may be redeemed on 25 August 2015 or upon any dividend payment date thereafter. Upon winding up or administration of the Issuer, the Sterling Series III Preference Shares rank equally with certain other preference shares issued by the Issuer; and
- (iv) 1,000,000 U.S.\$0.25 floating rate non-cumulative redeemable Series III preference shares, issued with a liquidation preference of U.S.\$1,000 (the “Dollar Series III Preference Shares”) which carry rights to a floating rate non-cumulative preferential dividend, payable monthly in arrear. The Dollar Preference Shares may be redeemed on 14 November 2016 or every ten years thereafter. Upon winding up or administration of the Issuer, the Dollar Preference Shares rank equally with certain other preference shares issued by the Issuer.

- (14) The Issuer has paid the following dividends on its ordinary shares for the previous five years:

<b>Year</b>	<b>Interim Dividend</b>	<b>Final Dividend</b>
	<i>(pence per ordinary share)</i>	
2008 .....	42.0	—
2007 .....	41.0	105.1
2006 .....	39.0	85.9
2005 .....	38.9	85.4
2004 .....	38.9	85.2
2003 .....	38.7	85.2

## DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

<b>2008 Company Interim Results</b>	has the meaning given in (v) on page 4;
<b>A Ordinary Shares</b>	means the A ordinary shares of 25 pence each in the capital of HBOS, as created on the reclassification of HBOS share capital pursuant to the Scheme Special Resolution and the Scheme, and “A Ordinary Shares” means any one of them;
<b>Acquisition</b>	means the proposed acquisition by Lloyds TSB Group plc of HBOS by means of the Scheme (or by means of an offer if Lloyds TSB so elects in accordance with the terms of the Share Circular and subject to the consent of the Panel);
<b>Acquisition Announcement</b>	has the meaning given in (vi) on page 4;
<b>Acquisition and Capital Announcement</b>	has the meaning given in (vii) on page 4;
<b>B Ordinary Shares</b>	means the B ordinary shares of 25 pence each in the capital of HBOS, as created on the reclassification of HBOS share capital pursuant to the Scheme Special Resolution and the Scheme, and “B Ordinary Shares” means any one of them;
<b>Capital Reduction</b>	means the proposed reduction of share capital of HBOS comprised in the Scheme;
<b>Competition Commission</b>	means the body corporate known as the Competition Commission as established under section 45 of the Competition Act 1998, as amended;
<b>Court Meeting or HBOS Court Meeting</b>	means the meeting of the Scheme Shareholders (and any adjournment thereof) to be convened pursuant to an order of the Court of Session in Edinburgh pursuant to section 896 of the Companies Act 2006 (as amended) in so far as in force for the purpose of considering and, if thought fit, approving the Scheme (with or without amendment);
<b>Deferred Share</b>	means one unissued ordinary shares of 25 pence in the share capital of HBOS that is to be reclassified as a non-voting deferred share of 25 pence and issued to Lloyds TSB prior to the Scheme record date;
<b>Disclosure and Transparency Rules</b>	means the Disclosure and Transparency Rules made by the FSA under Part VI of the FSMA;
<b>Effective</b>	means, in the context of the Acquisition:  if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or  if the Acquisition is implemented by way of a takeover offer under section 974 of the Companies Act 2006 (as amended) in so far as in force, the takeover offer having been declared or become unconditional in all respects in accordance with the



	requirements of the City Code on Takeovers and Mergers;
<b>Effective Date</b>	means the date on which the Scheme becomes effective in accordance with its terms;
<b>Enlarged Group</b>	means, with effect from the Effective Date, the combined Lloyds TSB Group and HBOS Group;
<b>HBOS</b>	means HBOS plc, registered in Scotland with registered number SC218813;
<b>HBOS ADSs</b>	means the American Depositary Shares of HBOS, each representing one HBOS Share and evidenced by American Depositary Receipts, and “HBOS ADS” means any one of them;
<b>HBOS Articles</b>	means the articles of association of HBOS in force from time to time;
<b>HBOS General Meeting</b>	means the general meeting of HBOS Shareholders (and any adjournment thereof) to be convened for the purposes of considering and, if thought fit, approving, among other things, certain resolutions in connection with the Scheme, including any adjournment thereof;
<b>HBOS Group</b>	means HBOS and its subsidiary undertakings;
<b>HBOS Open Offer</b>	means the offer by HBOS to qualifying HBOS Shareholders to apply for the HBOS Open Offer Shares on the terms and subject to the prospectus to be published by HBOS and any associated application form;
<b>HBOS Open Offer Shares</b>	means approximately 7.5 billion new HBOS Shares to be offered pursuant to the HBOS Placing and Open Offer and which HM Treasury has agreed to acquire pursuant to the HBOS Placing and Open Offer Agreement, subject to clawback in respect of valid applications by qualifying HBOS Shareholders;
<b>HBOS Placing</b>	means the conditional placing by HBOS of the HBOS Open Offer Shares with HM Treasury;
<b>HBOS Placing and Open Offer</b>	means the HBOS Placing and the HBOS Open Offer;
<b>HBOS Placing and Open Offer Agreement</b>	means the agreement relating to the HBOS Placing and Open Offer entered into with effect from 13 October 2008 by HBOS, HM Treasury, Morgan Stanley and Dresdner Kleinwort;
<b>HBOS Placing and Open Offer Prospectus</b>	has the meaning given in (xi) on page 6;
<b>HBOS Rights Issue Prospectus</b>	has the meaning given in (xii) on page 6;
<b>HBOS Shareholders</b>	means the registered holders of HBOS Shares and such term shall include holders of HBOS ADSs, as the case may be, and “HBOS Shareholder” means any of such holders;
<b>HBOS Shares</b>	means the ordinary shares of 25 pence each in the capital of HBOS (including Shares underlying HBOS ADSs) and HBOS

	Share means any one of them;
<b>Hearing Record Time</b>	means 6:00 p.m. on the Business Day (meaning any day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London and Edinburgh) immediately preceding the Reduction Court Hearing;
<b>HM Treasury</b>	means the Commissioners of Her Majesty's Treasury (or, where HM Treasury has nominated a nominee to acquire any shares which HM Treasury would otherwise be obliged to acquire, such nominee);
<b>Issuer's Interim Management Report</b>	has the meaning given to it in (iv) on page 4;
<b>Listing Rules</b>	means the Listing Rules made by the FSA under Part VI of FSMA;
<b>Lloyds TSB Bank Group</b>	means the Bank and its subsidiary undertakings from time to time;
<b>Lloyds TSB Group or Group</b>	means Lloyds TSB and its subsidiary undertakings from time to time and being the Enlarged Group following completion of the Acquisition (except that for the purposes of the sections headed "Forward-Looking Statements" and "Risk Factors", and the following sub-sections under the heading "Lloyds TSB Group": "Overview", "History and development of Lloyds TSB", "Strategy", "Principal Activities", "Competitive Environment", "Regulation and Supervision in the United Kingdom", "Capital, Liquidity and Funding Arrangements", "Legal Actions" and "Recent Developments", it shall not include the HBOS Group);
<b>Lloyds TSB Placing and Open Offer Prospectus</b>	has the meaning given in (x) on page 5;
<b>Lloyds TSB Scotland</b>	means Lloyds TSB Scotland plc;
<b>Lloyds TSB Supplementary Placing and Open Offer Prospectus</b>	has the meaning given in (xiii) on page 6;
<b>Panel or Takeover Panel</b>	means the Panel on Takeovers and Mergers;
<b>Prospectus Rules</b>	means the prospectus rules made by the FSA under Part VI of FSMA;
<b>Reduction Court Hearing</b>	means the hearing by the Court of Session in Edinburgh, Scotland of the petition to confirm the Capital Reduction under section 137 of the Companies Act 1985 (as amended or re-enacted) and authorising the re-registration of HBOS as a private company under section 139 of the Companies Act 1985 (as amended or re-enacted);
<b>Scheme or Scheme of Arrangement</b>	means the proposed scheme of arrangement under sections 895 to 899 of the Companies Act 2006, (as amended) in so far as in force between HBOS and the holders of the Scheme Shares, with or subject to any modification thereof or in addition thereto or condition agreed by HBOS and Lloyds TSB and

	which the Court of Session in Edinburgh may think fit to approve or impose;
<b>Scheme Document</b>	means the document dated 14 November 2008 containing, <i>inter alia</i> , the Scheme and the notice of the Court Meeting and the HBOS General Meeting;
<b>Scheme Shares</b>	means HBOS Shares: <ul style="list-style-type: none"> <li>(a) in issue on the date of the Scheme Document;</li> <li>(b) issued after the date of the Lloyds TSB Placing and Open Offer Prospectus and prior to the Voting Record Time;</li> <li>(c) issued on or after the Voting Record Time but before the Hearing Record Time either on terms that the original or any subsequent holder thereof shall be bound by the Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the HBOS Articles to be adopted at the HBOS General Meeting, in respect of which the holder thereof shall have agreed in writing to be bound by the Scheme.</li> </ul> <p>and including, for the avoidance of doubt, the HBOS Open Offer Shares and, where the context requires, the A Ordinary Shares and (if any) the B Ordinary Shares but excluding the Deferred Shares and Scheme Share means any one of them;</p>
<b>Scheme Shareholders</b>	means the holders of Scheme Shares and <b>Scheme Shareholder</b> means any one of them;
<b>Scheme Special Resolution</b>	means resolution 2 to be proposed at the HBOS General Meeting in connection with the implementation of the Scheme;
<b>Scottish Widows</b>	means Scottish Widows plc, registered in Scotland (no. 199549);
<b>Share Circular</b>	has the meaning given in (ix) on page 4; and
<b>Voting Record Time</b>	means the time fixed by the Court of Session in Edinburgh for determining the entitlement to vote at the Court Meeting as set out in notice thereof, which will be 6.00 pm on the day which is two days prior to the date of the Court Meeting and the HBOS General Meeting or, if the Court Meeting and/or the HBOS General Meeting is adjourned, 6.00 pm on the day which is two days after the date of such adjourned meeting.

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