



# LLOYDS TSB BANK plc

(acting through its London office and Australia branch)

(incorporated in England with limited liability under the Companies Act 1862  
and the Companies Act 1985 with registered number 2065 and operating in Australia through its Australia branch  
with ABN 77 142 617 605)

**€50,000,000,000**

## Euro Medium Term Note Programme

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

Notes to be issued under the Programme may comprise (i) unsubordinated Notes (“**Senior Notes**”), (ii) Notes which are subordinated as described herein with a maturity date and with terms capable of qualifying as Lower Tier 2 Capital (as defined below) (the “**Dated Subordinated Notes**”) and (iii) Notes which are subordinated as described herein with no maturity date and with terms capable of qualifying as Upper Tier 2 Capital (“**Undated Subordinated Notes**”) and, together with the Dated Subordinated Notes, the “**Subordinated Notes**”). The terms “Upper Tier 2 Capital” and “Lower Tier 2 Capital” have the respective meanings given to them from time to time by the Financial Services Authority (the “**FSA**”).

Application has been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for Notes issued under the Programme for the period of twelve months from the date of this Prospectus to be admitted to the Official List of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms (as defined herein) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or listed on any other stock exchange).

Each Tranche (as defined herein) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”) and, together with the temporary Global Notes, the “**Global Notes**”). Notes in registered form may also be issued.

As at the date of this Prospectus: (i) long-term senior obligations of the Bank are rated “A” by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), “A1” by Moody’s Investors Service Ltd. (“**Moody’s**”) and “A” by Fitch Ratings Limited (“**Fitch**”); and (ii) short-term obligations of the Bank are rated “A-1” by S&P, “P-1” by Moody’s and “F1” by Fitch. Each of Fitch, Moody’s and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

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

Prospective investors in Notes should ensure that they understand the nature of the relevant Notes and the extent of their exposure to risks and that they consider the suitability of the relevant Notes as an investment in the light of their own circumstances and financial condition. CERTAIN ISSUES OF NOTES INVOLVE A HIGH DEGREE OF RISK AND POTENTIAL INVESTORS SHOULD BE PREPARED TO SUSTAIN A LOSS OF ALL OR PART OF THEIR INVESTMENT. It is the responsibility of prospective investors to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Notes and are not relying on the advice of the Bank, the Trustee (as defined herein) or any Dealer (as defined herein) in that regard.

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

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

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

**Dealers**

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

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

This Prospectus comprises a base prospectus for the purposes of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Bank and the Bank and its subsidiary and associated undertakings (the “Lloyds TSB Bank Group”) which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank.

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

Neither this Prospectus nor any other disclosure document in relation to the Notes or the Programme has been, or will be, lodged with the Australian Securities and Investment Commission (“ASIC”) or any other Australian government agency. The Prospectus is not a prospectus or other disclosure document for the purposes of the Corporations Act 2001 of Australia (the “Australian Corporations Act”).

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

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

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

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

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

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

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

**Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or any other persons named or referred to in the section “Non-exempt offer” of the Final Terms (if any), as the case may be.**

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

**The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Bank, the Dealers, the Arranger and the Co-arranger to inform themselves about and to observe any**

such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the accounts or benefit of, U.S. persons. The Notes are being offered and sold outside the United States to persons that are not U.S. persons (as defined in Regulation S (“Regulation S”) under the Securities Act) in reliance on Regulation S. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see “Selling Restrictions”.

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

The Bank has been granted an authority to carry on banking business in Australia under the Banking Act 1959 of Australia (“Australian Banking Act”) by the Australian Prudential Regulation Authority (“APRA”). The depositor protection provisions of Division 2 of Part II of the Australian Banking Act do not apply to the Bank (including the Bank acting through its Australia branch). However, under section 11F of the Australian Banking Act, if the Bank (whether in or outside Australia) suspends payment or becomes unable to meet its obligations, the assets of the Bank in Australia are to be available to meet its liabilities in Australia (including where those liabilities are in respect of the Notes issued by the Bank acting through its Australia branch) in priority to all other liabilities of the Bank. Further, under section 86 of the Reserve Bank Act 1959 of Australia, debts due by the Bank to the Reserve Bank of Australia shall in any winding-up of the Bank have priority over all other debts of the Bank.

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

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

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

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

If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“NGN”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or any other agreed clearing system. If a Global Certificate is held under the new safekeeping structure (the “NSS”), the Global Certificate will be delivered on or prior to the original issue date of the relevant

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

In connection with the issue of any Tranche (as defined in “Summary of the Programme”), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Final Terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

## Certain Definitions

In this Prospectus, reference to:

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

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## FORWARD LOOKING STATEMENTS

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

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

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



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

## DOCUMENTS INCORPORATED BY REFERENCE

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

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

- (i) The Bank's Annual Report and Accounts 2011 including the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2011, together with the audit report thereon, as set out on pages 17 to 143 and 15 to 16, respectively (the "**Bank's 2011 Annual Report**"); and
- (ii) The Bank's Annual Report and Accounts 2010 including the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 12 to 129 and 10 to 11, respectively.

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

- (i) The audited consolidated financial statements of the Company for the financial year ended 31 December 2011, together with the audit report thereon, as set out on pages 208 to 343 and 206 to 207, respectively, of the Company's Annual Report and Accounts 2011 (the "**Company's 2011 Annual Report**"); and
- (ii) The audited consolidated financial statements of the Company for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 146 to 270 and 144 to 145, respectively, of the Company's Annual Report and Accounts 2010.

### *Other documents incorporated by reference:*

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

all of which have been previously published and filed with the FSA and which shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any documents or information themselves incorporated by reference in, or cross-referred to in, the documents incorporated by reference in this Prospectus shall not form part of this Prospectus unless also separately incorporated by reference above. In each case, where only certain sections of a document referred to above are incorporated

by reference in the Prospectus, the parts of the document which are not incorporated by reference are either not relevant to prospective investors in the Notes or covered elsewhere in this Prospectus.

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

The Bank will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to the Bank at its principal office set out at the end of this Prospectus.

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

## PRESENTATION OF FINANCIAL INFORMATION

In this Prospectus, references to the “**consolidated financial statements**” or “**financial statements**” are to Lloyds Banking Group’s consolidated financial statements included in the Company’s 2011 Annual Report unless indicated otherwise. References to the “**Financial Services Authority**” or “**FSA**” are to the United Kingdom (the “**UK**”) Financial Services Authority.

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

## SUMMARY OF THE PROGRAMME

*This summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (an “**EEA State**”), no civil liability will attach to the Responsible Person in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

### **Issuer**

Lloyds TSB Bank plc (acting through its London office and Australia branch)

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

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

Issuance of Senior Notes under the Programme may be undertaken by the Bank through its London office or its Australia branch.

Issuance of Subordinated Notes under the Programme may be undertaken by the Bank through its London office only.

**Risk Factors Relating to the Group**

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

**Risks:**

- Relating to the shareholding of The Commissioners of Her Majesty’s Treasury.
- Arising from certain undertakings provided to Her Majesty’s Treasury in relation to the operation of the Group’s business.
- Associated with state aid obligations.
- Arising from general and sector specific economic conditions in the UK and other markets and further adverse economic developments, including credit rating downgrades of sovereigns.
- Of material negative changes to the estimated fair values of financial assets of the Group.
- Relating to borrower and counterparty credit quality.
- Relating to concentrations of credit and market risk.
- Concerning the Group’s access to liquidity and sources of funding.
- Relating to the Group’s insurance businesses and employee pension schemes.
- Associated with the proposed new UK regulatory architecture.
- Relating to adverse regulatory developments or changes in UK Government or EU policy.
- Associated with the Banking Act 2009.
- Relating to competition and related issues, including the Independent Commission on Banking.
- Associated with changes in taxation rates, accounting policy, law or interpretation of the law.
- That the Group could fail to attract or retain senior management or other key employees.
- Of assumptions and estimates on which the Group’s financial statements are based being wrong.

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

- There is no assurance that a liquid secondary market for certain Notes will develop or continue.
- Certain Notes may be subject to early redemption at

the Bank's discretion.

- The Bank may issue Notes with interest calculations in one or more currencies which may differ from the currency in which the principal of the Notes is denominated.
- The Bank's obligations under Subordinated Notes are subordinated.
- Upon the occurrence and continuation of a Capital Event, the Bank may, without the need for any consent of the Holders or the Trustee, substitute all (but not some only) of certain Subordinated Notes, or vary the terms of such Subordinated Notes so that they remain or, as appropriate, become, Compliant Securities.
- Investors who hold through CREST through the issuance of CDIs ("CDI Holders") hold or have an interest in a separate legal instrument, will have only indirect interests in the Underlying Notes and will be subject to external provisions.
- Associated with certain provisions of the U.S. Internal Revenue Code (commonly referred to as "FATCA").
- Renminbi is not freely convertible and it has limited availability outside of the People's Republic of China, which may affect the liquidity of any CNH Notes.

**Description**

Euro Medium Term Note Programme.

**Size**

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

**Arranger**

Merrill Lynch International

**Co-arranger**

Lloyds TSB Bank plc

**Dealers**

Barclays Bank PLC  
BNP PARIBAS  
Citigroup Global Markets Limited  
Commerzbank Aktiengesellschaft  
Crédit Agricole Corporate and Investment Bank  
Credit Suisse Securities (Europe) Limited  
Daiwa Capital Markets Europe Limited  
Deutsche Bank AG, London Branch  
DZ BANK AG Deutsche Zentral-Genossenschaftsbank  
Frankfurt am Main  
Goldman Sachs International  
HSBC Bank plc

J.P. Morgan Securities Ltd.  
Lloyds TSB Bank plc  
Merrill Lynch International  
Mizuho International plc  
Morgan Stanley & Co. International plc  
Nomura International plc  
RBC Europe Limited  
SMBC Nikko Capital Markets Limited  
Standard Chartered Bank  
The Royal Bank of Scotland plc  
UBS Limited  
UniCredit Bank AG  
Wells Fargo Securities International Limited

(together, the “**Dealers**”). The Bank may terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or the Programme.

**Trustee**

The Law Debenture Trust Corporation p.l.c.

**Issuing and Paying Agent**

Citibank, N.A., London Branch and, in respect of CMU Notes only, Citicorp International Limited

**CMU Lodging Agent**

Citicorp International Limited

**Method of Issue**

The Notes will be issued on a syndicated or non-syndicated basis and will be issued in series (each, a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each, a “**Tranche**”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant final terms (each, the “**Final Terms**”).

**Issue Price**

Notes may be issued at their nominal amount or at a discount or premium thereto. Notes may be issued on a partly paid basis (“**Partly Paid Notes**”), the issue price of which will be payable in two or more instalments.

**Form**

The Notes may be issued in bearer form only (“**Bearer Notes**”), in bearer form exchangeable for Registered Notes (“**Exchangeable Bearer Notes**”) or in registered form only (“**Registered Notes**”) represented by a Global Certificate.

In respect of CDIs, to the extent applicable, CDI Holders will hold CDIs constituted and issued by the CREST Depository and representing indirect interests in the Notes. The CDIs will be

issued and settled through CREST.

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

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

**Clearing Systems**

With respect to Notes (other than CMU Notes), Clearstream, Luxembourg, Euroclear and such other clearing system as agreed between the Bank, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s). With respect to CMU Notes, the CMU Service operated by the Hong Kong Monetary Authority (the “**HKMA**”). With respect to CDIs, to the extent applicable, CREST.

**Initial Delivery of Notes**

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

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

**Currencies**

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

**Maturities**

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



	years.
<b>Denomination</b>	Definitive Notes will be in such denominations as agreed between the Bank and the relevant Dealer and as specified in the relevant Final Terms save that the minimum denomination of each Note shall be at least the minimum amount allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.
<b>Fixed Interest Rate Notes</b>	Fixed interest will be payable in arrear on the date(s) in each year specified in the relevant Final Terms at the rate specified in the relevant Final Terms.
<b>Floating Rate Notes</b>	<p>Floating Rate Notes will bear interest as follows (and/or as specified in the relevant Final Terms):</p> <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as amended and supplemented) published by the International Swaps and Derivatives Association, Inc.; or</li> <li>(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.</li> </ul> <p>Floating Rate Notes may also have a maximum interest rate and/or a minimum interest rate.</p>
<b>Zero Coupon Notes</b>	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest other than after the Maturity Date.
<b>Dual Currency Notes</b>	Payments (of principal or interest and/or at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as specified in the relevant Final Terms.
<b>Other Notes</b>	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, Partly Paid Notes and any other type of Note that the Bank and any Dealer(s) may agree that the Bank may issue under the Programme will be set out in the relevant Final Terms and/or any drawdown prospectus.
<b>Redemption</b>	The relevant Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified circumstances) or that such Notes will be redeemable at the option of the Bank and/or the Noteholders upon giving notice to the Noteholders or the Bank, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be

	specified in the relevant Final Terms and/or any drawdown prospectus.
<b>Redemption by Instalments</b>	The Final Terms issued in respect of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts at which, such Notes may be redeemed.
<b>Status of Notes</b>	Senior Notes will constitute unsecured and unsubordinated obligations of the Bank and Subordinated Notes will constitute unsecured, subordinated obligations of the Bank. Where the Bank acts through its Australia branch, it may only issue Senior Notes.
<b>Early Redemption</b>	Except as provided in “Redemption” above, Notes will be redeemable at the option of the Bank prior to maturity only for tax reasons.
<b>Withholding Tax</b>	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the United Kingdom and, when the Issuer is acting through its Australia branch, the Commonwealth of Australia, in all cases subject to Condition 8.
<b>Governing Law</b>	English.
<b>Listing and Admission to Trading</b>	Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Market or as otherwise specified in the relevant Final Terms, and references to listing shall be construed accordingly. A Series of Notes may be unlisted.
<b>Ratings</b>	<p>Standard &amp; Poor’s Credit Market Services Europe Limited (“<b>S&amp;P</b>”) is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more “A”; Senior Notes issued by the Bank with a maturity of less than one year “A-1”; Subordinated Notes issued by the Bank “BBB-”; and Junior Subordinated Notes issued by the Bank “BB+”.</p> <p>Fitch Ratings Limited (“<b>Fitch</b>”) is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more “A”; and Senior Notes issued by the Bank with a maturity of less than one year “F1”. Subordinated Notes issued by the Bank will be rated by Fitch on a case-by-case basis.</p> <p>Moody’s Investors Service Limited (“<b>Moody’s</b>”) is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more “A1”; Senior Notes issued by the Bank with a maturity of less than one year “P-1”; Subordinated Notes issued by the Bank “Baa2”; and Junior Subordinated Notes issued by the Bank “Baa3” (ratings under review for downgrade).</p> <p>The credit ratings referred to and included in this Prospectus have been issued by S&amp;P, Fitch and Moody’s, each of which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and</p>

of the Council of 16 September 2009 on credit rating agencies.

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

### **Selling Restrictions**

United States, the Public Offer Selling Restriction under the Prospectus Directive, United Kingdom, Australia, Japan, Singapore, Hong Kong, Republic of Korea, Belgium, People’s Republic of China, Sweden, France, United Arab Emirates, Dubai International Financial Centre, Spain, Malta, Switzerland, Ireland and other restrictions as may be required in connection with a particular issue of Notes. See “Selling Restrictions”. The Bank is Category 2 for the purposes of Regulation S under the Securities Act.

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

## RISK FACTORS

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

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

### **1 Government related risks**

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

As at 23 March 2012, HM Treasury holds approximately 39.8 per cent. of the ordinary share capital of the Company. In the longer term, it is possible that the shareholding of HM Treasury may be diluted upon any further equity capital raising or potential conversion of the Company’s enhanced capital notes (the “**Enhanced Capital Notes**” or “**ECNs**”) into ordinary shares pursuant to their terms, although, in such case, it is expected that HM Treasury would remain a significant shareholder in the Company. It is also possible that the Group may seek to raise further capital or to obtain other support from the UK Government, which could result in an increase in HM Treasury’s shareholding in the Company.

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

There is also a risk that, through the interest of HM Treasury in the Company, the UK Government and HM Treasury may attempt to influence the Group in other ways that would have a material adverse effect on the Group’s business, including, for example, through the election of directors, the appointment of senior management at the Company, staff remuneration policies, lending policies and commitments and management

of the Group's business (in particular, the management of the Group's assets such as its existing retail and corporate loan portfolios, significant corporate transactions and the issue of new ordinary shares). Moreover, HM Treasury also has interests in other UK financial institutions, as well as an interest in the general health of the UK banking industry and the wider UK economy. The pursuit of those interests may not always be aligned with the commercial interests of the Group.

For more information see "Risk Factors – Regulatory risks (including risks arising from failing to comply with the applicable laws, regulations and codes) – The Group's businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on the Group's results of operations, financial condition and prospects."

**1.2 *The Group is subject to European state aid obligations following the approval of its restructuring plan. The implementation of this restructuring plan may have consequences that are materially adverse to the interests of the Group. Moreover, should the Group require additional state aid in the future, further restructuring measures could be required and these may be materially adverse to the interests of the Group.***

On 18 November 2009 the European Commission approved a restructuring plan (the "**Restructuring Plan**") that the Group was required to submit as a result of HM Treasury's investment in the Company in the context of the placing and open offer in November 2008. The principal elements of the Restructuring Plan seek to support the long-term viability of the Group and to remedy any distortions to competition and trade in the EU arising from the state aid that the Group has received, including HM Treasury's subsequent participation in the Company's placing and compensatory open offer in June 2009 and the rights issue in November 2009 (the "**Rights Issue**"). The Restructuring Plan also seeks to address any commercial benefit received by the Group following its announcement in March 2009 of its then intention to participate in the Government Asset Protection Scheme ("**GAPS**"). The approval also covered the Group's participation in HM Treasury's credit guarantee scheme (the "**Credit Guarantee Scheme**") from October 2008 up to June 2010. In the deed of withdrawal from GAPS in November 2009 (the "**GAPS Withdrawal Deed**") the Company agreed with HM Treasury to comply with the terms of the European Commission's decision.

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

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

For more detail on the principal elements of the Restructuring Plan and associated timescales see “Business review – Risk management – State funding and state aid” in the Company’s 2011 Annual Report as set out on page 102 therein which is incorporated by reference into this Prospectus.

**1.3 *The Group has agreed to undertakings with HM Treasury in relation to the operation of its business. The Group has also agreed to certain other commitments in the GAPS Withdrawal Deed, and subsequently. These undertakings and commitments could have a material adverse effect on the Group’s results of operations, financial condition and prospects and limit operational flexibilities.***

In connection with HM Treasury’s participation in the placing and open offers in November 2008 and June 2009, the Group’s participation in the Credit Guarantee Scheme and its then proposed participation in GAPS, the Group provided undertakings aimed at ensuring that the acquisition by HM Treasury of the Group’s shares and the participation of the Group in the UK Government funding scheme was consistent with the then current European state aid clearance. These undertakings included (i) supporting UK Government policy in relation to mortgage lending and lending to businesses through to the end of February 2011; (ii) regulating the remuneration of management and other employees; and (iii) regulating the rate of growth of the Group’s balance sheet.

For more information see “Lloyds Banking Group – Major Shareholders and Related Party Transactions – Information about Lloyds Banking Group’s Relationship with the UK Government – Other Related Party Transactions with the UK Government”.

The formal lending commitments period described above has now expired. In February 2011, the Group (together with Barclays, HSBC, RBS and Santander) announced, as a part of the ‘Project Merlin’ agreement with HM Treasury, its capacity and willingness to increase its gross business lending (including to small and medium-sized enterprises) during the 2011 calendar year. At the same time, the Group (together with Barclays, HSBC and RBS) announced its intentions in relation to a number of other areas, including its continuing support for the recommendations of the BBA Business Finance Taskforce, certain aspects of remuneration policy and its support for the proposed Business Growth Fund and Big Society Capital.

The ‘Project Merlin’ agreement was not a formal contract between the Group and HM Treasury. The Company has made a unilateral lending pledge for 2012 as part of its publicly announced SME Charter. However, there remains a risk that current or future requirements introduced by HM Treasury could have a materially adverse effect on the operations of the Group.

## **2 Business and economic risks**

**2.1 *The Group’s businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, particularly in the UK and the Euro-zone, could cause the Group’s earnings and profitability to decline.***

The Group’s businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom, in which the Group’s earnings are predominantly generated. Any significant deterioration in the UK and/or other economies in which the Group operates could have a material adverse impact on the future results of operations of the Group. Additionally, the profitability of the Group’s businesses could be affected by increased insurance and other claims arising from market factors such as increased unemployment, which may continue even following the return to economic growth in certain parts of the markets in which the Group operates. Lack of, or reduced, economic growth in the UK, higher unemployment in the UK or elsewhere, or the lack of economic growth in the UK, reduced corporate profitability, reduced personal income levels, reduced Government and/or consumer expenditure, increased personal or corporate insolvency rates, increased tenant defaults or increased interest rates may reduce borrowers’ ability to repay loans and may cause prices of

residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Group's assets. These, in turn, could cause increased impairments and/or fair value adjustments.

In addition to the possibility of further economic deterioration, financial market instability represents another downside risk. The Group has significant exposures, particularly by way of loans, in a number of overseas jurisdictions, notably the Republic of Ireland, Spain, Australia and the United States, and is therefore subject to a variety of risks relating to the performance of those economies as well. The global financial system has suffered considerable turbulence and uncertainty in recent years and the outlook for the global economy over the near to medium term remains challenging. In Europe, the ongoing economic deterioration of several countries, including Greece, Italy, the Republic of Ireland, Spain and Portugal, together with the risk of contagion to other more stable countries, has exacerbated further the global economic crisis. In particular, the risk of default on the sovereign debt of those countries and the impact this would have on the Euro-zone countries, including the potential that some countries (albeit those with a relatively small GDP) could leave the Euro-zone (either voluntarily or involuntarily) has raised concerns about the ongoing viability of the euro currency and the European Monetary Union (the "EMU"). Despite the various rescue packages and other stabilising measures adopted throughout Europe to deal with the worsening Euro-zone sovereign debt crisis, global markets continue to record high levels of volatility and uncertainty. Uncertainty over the best way forward for the highly indebted Euro-zone persists and poses a serious threat to the global economic recovery, with the spread of political instability and contagion to other Euro-zone countries increasing in the last quarter of 2011. Financial markets are expected to remain dislocated and volatile, with the risk of contagion unlikely to dissipate in the near term, and this continues to place strains on funding markets at a time when many financial institutions (in particular) have material ongoing funding needs. In 2011, continuing concerns about the fiscal position in Euro-zone countries resulted in increased credit spreads in the areas affected, and fears of contagion affected the euro and widened spreads between central bank and interbank rates. The Group has exposure to corporates, financial institutions and securities which may have material direct and indirect exposures in these countries. With the exception of the Group's lending exposures in the Republic of Ireland and Spain, its direct exposure to the Euro-zone through sovereign and private sector exposure is relatively small and has been managed steadily downward since 2008. However, a wide-scale break-up of the Euro-zone would most likely be associated with a significant deterioration in the economic and financial environment in the UK and Euro-zone that would materially affect the capital and the funding position of participants in the banking industry, including the Group. This could also give rise to operational disruptions to the Group's business.

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

In 2011 and early 2012, a number of UK and other European financial institutions, including the Company, the Bank and other Group members, and the sovereign debt of several European countries

experienced downgrades by one or more of the major rating agencies in connection with macroeconomic conditions, prospects for growth, progression of structural reforms and austerity measures, and in the case of the Group members, a review of the systemic support assumptions incorporated into bank ratings and a reduction of implied UK Government support for the banking sector. The Group notes the announcements made by Moody's Investors Service Limited ("**Moody's**") in February 2012 placing the rating of 114 European financial institutions, including the Group, on review for downgrade. Any downgrade of the UK sovereign credit rating or the credit rating of any other country in which the Group has significant direct and/or indirect exposures, or the perception that such a downgrade may occur, may (i) destabilise the markets and the UK economy, (ii) have a material adverse effect on the Group's operating results, financial condition and prospects, and (iii) adversely affect the Group's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which it is difficult to predict. These risks are exacerbated by the Euro-zone sovereign debt crisis.

**2.2 *The Group's businesses are inherently subject to the risk of market fluctuations, which could materially adversely affect its results of operations, financial condition and prospects.***

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

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

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

For further information, see "Risk Factors – Business and economic risks – The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, particularly in the UK and the Euro-zone, could cause the Group's earnings and profitability to decline."

Changes in foreign exchange rates, including U.S. dollars, euros and Australian dollars, affect the value of assets and liabilities denominated in foreign currencies. Such changes and the degree of volatility with respect thereto may affect earnings reported by the Group. In the Group's international businesses,



earnings and net assets are denominated in local currencies, which will fluctuate with exchange rates in pounds sterling terms. In 2011 and the first quarter of 2012 it was difficult to predict with any accuracy changes in market conditions, and such changes may have a material adverse effect on the Group's operating results, financial condition and prospects.

**2.3 *Market conditions have resulted, and are expected to result in the future, in material changes to the estimated fair values of financial assets of the Group. Negative fair value adjustments have had, and may continue to have in the future, a further material adverse effect on the Group's results of operations, financial condition and prospects. The accuracy of valuations may be affected by market disruptions, illiquidity and the potential ineffectiveness of hedging and other risk management strategies.***

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

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

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

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

The markets for UK financial services, and the other markets within which the Group operates, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, and the impact of consolidation, regulatory actions and other factors. The Group's financial performance and its ability to capture additional market share depends significantly upon the competitive environment and management's response thereto. Intervention by the UK Government and/or European bodies and/or governments of other countries in which the Group operates may impact the competitive position of the Group relative to its international competitors, which may be subject to

different forms of government intervention, thus potentially putting the Group at a competitive disadvantage. Additionally, one effect of implementing the Restructuring Plan may be the emergence of one or more new viable competitors in the UK banking market or a material strengthening of one or more of the Group's existing competitors in that market. Any of these factors or a combination thereof could result in a significant reduction in the profit of the Group.

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

### **3 Credit related risks**

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

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

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

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

the Group will fail to identify the proper factors or that it will fail to estimate accurately the impact of factors that it identifies.

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

Although the Board believes that overall impairments for the Group have peaked, against its base case economic assumptions, the risk remains that further material impairments in the Group's portfolios could emerge, particularly in the event of any further deterioration in the economic environment. The performance of some of the Group's exposures might deteriorate further even in the absence of further economic decline, particularly in the Republic of Ireland, where impairment charges recorded by the Group have been substantial. Any unforeseen material further impairments could have a significant adverse effect on the Group's operations, financial condition and prospects.

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

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

As a result of the Acquisition, the composition of the Group's wholesale portfolio materially changed, with much larger sectoral concentrations (for example in real estate and real estate-related lending, leveraged lending, certain asset based lending products (for example, shipping), asset-backed securities and floating rate notes issued by financial institutions) and substantially greater overseas exposures, particularly in the Republic of Ireland, Australia and the U.S.

The Acquisition has increased the Group's exposure to concentration risk, since the combination of the two portfolios inevitably gave rise to some greater concentrations than would otherwise have been permitted. Market conditions at present mean that it is difficult to achieve the required level of sales to ameliorate these concentrations.

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

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

exposures are adequately provided for within the Board's base case assumptions, they remain vulnerable to downside risks.

The heritage HBOS portfolio in the Republic of Ireland is heavily exposed to the commercial (including hotel) and residential real estate sectors, which have been negatively impacted by the economic recession, whilst the portfolio in Australia has material exposure to real estate and leveraged lending. In the United States there are notable exposures to a number of sectors which are cyclically weak and have been negatively impacted by the economic recession. As in the UK, the heritage HBOS portfolio overseas is also particularly exposed to a small number of long-term customer relationships and these single name concentrations place the Group at risk of loss should default occur.

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

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

The Group has credit exposure to market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter derivative contracts, mainly credit default swaps ("CDSs") which are recorded at fair value. The fair value of these CDSs and other securities, and the Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought and the credit quality of the protection provider (for example, a CDS counterparty). Market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived creditworthiness has deteriorated significantly since 2007. Although the Group seeks to limit and manage direct exposure to market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of market counterparties or their perceived creditworthiness deteriorates further, the Group may record further credit valuation adjustments on the underlying instruments insured by such parties. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Group.

**4 Financial soundness related risks**

**4.1 *The Group's businesses are subject to inherent risks concerning liquidity and funding, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale funding markets continues to be limited or becomes more limited. The Group continues to be reliant on various legacy government facilities and will face refinancing risk as transactions under these facilities mature. Future use of generally available open market operation facilities from central banks will be considered as part of normal liquidity management processes.***

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

The Group's profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a prolonged period of time. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, a reduction in its short-term credit rating could result in outflows in excess of the Group's liquidity resources, meaning that it might be unable to meet its liabilities. In addition, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank facilities) could affect the Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access. These factors may have a material impact on the Group's solvency, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding, or changes in credit ratings as well as market-wide phenomena such as market dislocation, regulatory change and major disasters.

There is also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Group (or to all banks) which could increase the Group's cost of funding and limit its access to liquidity. In addition, the funding structure employed by the Group may prove to be inefficient giving rise to a level of funding cost that is not sustainable longer term. The funding needs of the Group may increase and such increases may be material. The Group relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets and the legacy Credit Guarantee Scheme to meet its funding needs. The ability of the Group to gain access to wholesale and retail funding sources on satisfactory economic terms is subject to a number of factors outside its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the UK banking system, any of which could affect the Group's profitability or, in the longer term under extreme circumstances, its ability to meet its financial obligations as they fall due.

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

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

The Group has relied substantially on the legacy Bank of England liquidity facilities as well as the legacy Credit Guarantee Scheme. The Group will continue to face a refinancing concentration during 2012 largely associated with the maturity of the Credit Guarantee Scheme issuance undertaken by the Group prior to the closure of that scheme. While the quantum is significantly reduced compared to 2011 and the Group expects that the impact of this refinancing concentration can be mitigated by a combination of alternative funding and reductions in the Group's net wholesale funding requirement, there can be no assurance that these mitigation efforts will be successful, which could lead to liquidity constraints.

The second half of 2011 saw more difficult funding markets as investor confidence was impacted by concerns over the U.S. debt ceiling and subsequent downgrade. This was followed by increased fears over Euro-zone sovereign debt levels, downgrades and possible defaults, and concerns are ongoing over the potential downside effects from financial market volatility.

If the continuing difficulties in the wholesale funding markets are not resolved or central bank provision of liquidity to the financial markets is abruptly curtailed, or the Group's credit ratings are downgraded (for more information see "Risk Factors – Financial soundness related risks – The Group's borrowing costs and access to the capital markets is dependent on a number of factors, and increased costs or reduction in access could materially adversely affect the Group's results of operations, financial condition and prospects."), it is likely that wholesale funding will prove even more difficult to obtain. Such increased refinancing risk, in isolation or in concert with the related liquidity risks noted above, could have a material adverse effect on the Group's profitability and, in the longer term under extreme and unforeseen circumstances, its ability to meet its financial obligations as they fall due.

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

In the fourth quarter of 2011, the Group experienced downgrades in its long-term rating of between one and two notches from three of the major rating agencies. The impact that the Group experienced following the downgrades was consistent with the Group's modelled outcomes based on the stress testing framework. The Group's stress testing shows that further credit rating downgrades may reduce investor appetite for some of the Group's liability classes and, therefore, its funding capacity. The Group's borrowing costs and issuance in the capital markets are dependent on a number of factors, and increased cost or reduction of capacity could materially adversely affect the Group's results of operations, financial condition and prospects.

In particular, reduction in the credit rating of the Group or deterioration in the capital markets' perception of the Group's financial resilience could significantly increase its borrowing costs and limit its issuance capacity in the capital markets. As an indicator, during 2011 the spread between an index of "A" rated long term senior unsecured bank debt and an index of similar "BBB" rated bank debt, both of which are publicly available, has ranged between 60 and 115 basis points. The applicability to and implications for the Group's funding cost would depend on the type of issuance, and prevailing market conditions. The impact on the Group's funding cost is subject to a number of assumptions and uncertainties and is therefore impossible to quantify precisely.

Downgrades of the Group's long term debt rating could lead to additional collateral posting and cash outflow. A hypothetical simultaneous two notch downgrade of the Group's long-term debt rating from all major rating agencies, after initial actions within management's control, could result in an outflow of £11 billion of cash, £4 billion of collateral posting related to customer financial contracts and £24 billion of collateral posting associated with secured funding. These effects do not take into account additional

management and restructuring actions that the Group has identified that could materially reduce the amount of required collateral postings under derivative contracts related to its own secured funding programmes.

The downgrades that the Group experienced in the fourth quarter of 2011 did not significantly change its borrowing costs, reduce its issuance capacity or require significant collateral posting. The Group notes the announcements made by Moody's in February 2012 placing the ratings of 114 European financial institutions, including the Group, on review for downgrade.

For further information see "Risk Factors – Business and economic risks – The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, particularly in the UK and the Euro-zone, could cause the Group's earnings and profitability to decline."

The Group's borrowing costs and access to capital markets could also be affected by regulatory developments such as the UK's Independent Commission on Banking (the "ICB"), Basel III, the Capital Requirements Directive or the removal of effective state guarantee behind investment banking, restrictions on the treatment of contingent convertible bonds or the imposition of capital surcharges. Noteholders may also require an increased return if the prospects of bail-in scenarios become more likely, which would increase the Group's funding costs. Unfavourable developments could materially adversely affect the Group's access to liquidity, increase its funding costs and, hence, have a material adverse effect on the Group's business, financial position and results of operations.

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

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

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

The Group may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section.

The Group may experience an increased demand for capital. For example:

- The Group is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. The Group currently meets, and expects to continue to meet, all regulatory capital requirements. However, the FSA could, for example, impose new or revised minimum and buffer capital requirements, apply increasingly stringent stress case scenarios and/or change the manner in which it applies existing regulatory requirements to the Group.
- Extensive regulatory reforms are being implemented within the EU and the UK relating to the proposals of the Basel Committee on Banking Supervision, known as 'Basel III', and the proposals of the ICB. These reforms include:
  - increased minimum levels of capital and additional minimum capital buffers;

- enhanced quality standards for capital including new requirements for capital instruments to be capable of write-down or conversion to equity in the event of a bank being deemed to be non-viable, which could apply to new and existing instruments;
  - increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk;
  - the introduction of a minimum leverage ratio;
  - additional capital buffers and reporting requirements for systemically important banks; and
  - the ring-fencing of the retail activities of banks from their investment banking activities.
- There still remains uncertainty about the detailed implementation of these reforms within the EU and the UK including the timing and any transitional arrangements. There is a risk that the reforms may give rise to higher regulatory capital expectations than the Group had anticipated within its strategic plans.
  - The Group's reported regulatory capital requirements depend upon the level of risk weighted assets calculated from the Group's approved models. These are subject to regular review on a rolling basis to ensure that they remain appropriate in prevailing economic and business conditions. Additionally the Group is currently effecting a programme of new model roll-out and is in the process of some model replacement as a part of the integration of the HBOS and Lloyds TSB businesses. These reviews and new models may lead to increased levels of risk weighted assets, and so to lower reported capital ratios.
  - The Group's life assurance and general insurance businesses in the UK are subject to capital requirements prescribed by the FSA, and the Group's life and general insurance companies outside the UK are subject to local regulatory capital requirements. Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry, aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. Solvency II is still in the later stages of development, but there is a risk that the final regime could increase the planned amount of regulatory capital which the Group's life assurance and general insurance businesses are required to hold, thus decreasing the amount of capital available for other uses.

The Group holds an additional 'management' capital buffer over the regulatory minimum and buffer requirements. To an extent, the Group determines the amount of the management buffer by reference to market expectations driven by the capital levels or targets amongst its peer banks or through the views of rating agencies or investors. However, the market's view of the desirable optimum level of capital is evolving partly as a result of the changing regulatory environment and the changes made by rating agencies to their rating methodologies. Consequently the Group may experience pressure to increase its capital ratios as a result of increased market and rating agency expectations.

**4.4 *The Group has been and could continue to be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems,***



*losses or defaults by other financial institutions and counterparties, and which could materially adversely affect the Group's results of operations, financial condition and prospects.*

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

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

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

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

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

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

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

UK banks recognise an insurance asset in their balance sheets representing the Value of In-Force business ("VIF") in respect of long-term life assurance contracts, being insurance contracts and investment contracts with discretionary participation features. This asset represents the present value of future profits expected to arise from the portfolio of in-force life assurance contracts. Adoption of this accounting treatment results in the earlier recognition of profit on new business, but subsequently a lower contribution from existing business, when compared to the recognition of profits on investment contracts under IAS 39 (Financial Instruments: "Recognition and Measurement"). Differences between actual and expected

experience may have a significant impact on the value of the VIF asset, as changes in experience can result in significant changes to modelled future cash flows. The VIF asset is calculated based on best-estimate assumptions made by management, including mortality experience and persistency. If these assumptions prove incorrect, the VIF asset could be materially reduced, which in turn could have a material adverse effect on the Group's financial condition and results of operations.

## **6 Regulatory risks (including risks arising from failing to comply with the applicable laws, regulations and codes)**

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

The Group's businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK, the European Union and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector, which the Group expects to continue for the foreseeable future. The UK Government, the FSA and other regulators in the UK, the European Union or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Group. Future changes are difficult to predict and could materially adversely affect the Group's business.

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

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

The Group continues to face political and regulatory scrutiny as a result of the Group's perceived systemic importance following the Acquisition.

Evolving capital and liquidity requirements continue to be a priority for the Group (for more information see "Risk Factors – Financial soundness related risks – The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators."). The Basel Committee on Banking Supervision has put forward proposals for a reform package which changes the regulatory capital requirements and liquidity standards, introduces new definitions for the calculation of counterparty credit risk and leverage ratios, requires additional capital buffers and development of a global liquidity standard. Implementation of these changes is expected to be phased in between 2013 and 2018.

The Group takes very seriously its responsibilities for complying with legal and regulatory sanctions requirements in all the jurisdictions in which it operates. In order to assist adherence to relevant economic sanctions legislation, the Group has enhanced its internal compliance processes including those associated with customer and payment screening. The Group has continued the delivery of a programme of staff training regarding policies and procedures for detecting and preventing economic sanctions non-compliance.

The Group is continually assessing the impacts of legal and regulatory developments which could have a material effect on the Group and will participate in relevant consultation and calibration processes to be undertaken by the various regulatory and other bodies. Implementation of such regulatory developments could result in additional costs or limit or restrict the way that the Group conducts business. The Group continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to the Group and its stakeholders. For further information see “Lloyds Banking Group – Regulation”.

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

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

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

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. The Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Group believes that it has no liability. The Group may also do so when the potential consequences of failing to prevail would be

disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for their losses even in situations where the Group does not believe that it is legally compelled to do so.

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

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

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

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

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

### **7.1 *The Group may be subject to the provisions of the Banking Act 2009 in the future. The potential impact on the Group is inherently uncertain.***

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

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

## **8 Competition related risks**

### **8.1 *The Independent Commission on Banking and the UK Treasury Select Committee have reviewed competition in the UK retail banking industry. The potential impact of the recommendations is inherently uncertain and could have a material adverse effect on the interests of the Group.***

The UK Government appointed the ICB to review competition and financial stability in the UK banking sector. The ICB published its final report on 12 September 2011, and is now disbanded. The Government gave its initial response to the report on 19 December 2011, supporting the ICB and Treasury Select Committee's recommendations to implement a new industry-wide 7 day current account switching process by September 2013, and to amend the Financial Services Bill to enhance the competition remit of the FCA with implementation likely in 2013. The Government also confirmed that it will continue to consider the best ways to promote transparency and that it has no intention to use its shareholding to deliver an enhancement of the Project Verde divestment. The Group continues to work with HM Treasury and other stakeholders to progress the recommendations.

For more information see "Lloyds Banking Group – Regulation – Other Bodies Impacting the Regulatory Regime".

## **9 Operational risks and related issues**

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

The Group's success depends on its ability to attract, retain and develop high calibre talent. Achievement of this aim cannot be guaranteed, particularly in light of ongoing regulatory and public interest in remuneration practices (the Group is subject to the FSA's Remuneration Code). The Group also made a number of other commitments regarding its pay policy, including those set out within the statement agreed with the Government as part of 'Project Merlin', encompassing pay governance, transparency and engagement with its shareholders on pay policy.

The Group's continuing structural consolidation and the sale of part of the branch network under Project Verde may result in disruption to its ability to lead and manage its people effectively, and macroeconomic conditions and negative media attention on the banking sector may impact retention, colleague sentiment and engagement.

Failure to attract and retain senior management and key employees could have a material adverse impact on the Group's financial results, operational effectiveness, and presents a significant risk to the delivery of the Group's overall strategy.

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

Operational risks, through inadequate or failed internal processes and/or systems (including financial reporting and risk monitoring processes) or from people-related or external events, including the risk of fraud and other criminal acts (such as cyber attack) carried out against the Group, are present in the Group's businesses. The Group's businesses are dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in these internal controls and processes could have a negative impact on the Group's results, reporting such results, and on the ability to deliver appropriate customer outcomes, during the affected period. Furthermore, damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies,

weaknesses or failures in Group systems or processes could have a significant adverse impact on the Group's businesses.

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

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

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

**10 Other risks**

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgements and estimates, include impairment of financial assets; valuation of financial instruments; pensions; insurance; and taxation are discussed in detail in the Company's 2011 Annual Report under the section entitled "Critical Accounting Estimates and Judgements" as set out on pages 228 to 230 therein.

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

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

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

In order to pay dividends, UK subsidiaries need to have distributable reserves. Whilst, as at the date of this Prospectus, the Company's direct subsidiary, the Bank, has distributable reserves, one of the Company's indirect principal subsidiaries, Bank of Scotland plc, does not and is currently unable to pay dividends. There is a risk that any profits earned by Bank of Scotland plc and its subsidiaries cannot be remitted to the holding company as dividends. This risk could be mitigated if management elect to restructure the capital resources of a subsidiary entity.

The restrictions imposed upon the Company's ability to pay dividends as part of the European Commission's restructuring plan following the Company's receipt of state aid expired on 31 January 2012.

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

The Bank is a holding company as well as a bank and as such one of its sources of income is dividends from its operating subsidiaries. Following the Group Reorganisation, a proportion of the Bank's income is derived from the businesses and assets of the HBOS Group. Therefore, in order to be able to pay the obligations to debt holders as they fall due, the Bank relies in part on the remittance of dividends and other funds from its operating subsidiaries including the HBOS Group. The remittance of dividends is subject to certain restrictions – see Risk Factor 10.2 above for further information.

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

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in increased charges, financial loss including penalties, and reputational damage. Failure to manage these risks adequately could impact the Group materially and adversely and could have a material negative impact on the Group's performance or reputation.

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

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

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

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

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

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

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

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

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

The Bank's obligations under Dated Subordinated Notes will be unsecured and subordinated and will, in the event of the winding-up of the Bank, be subordinated, in the manner provided in the Trust Deed, to the

claims of depositors and all other creditors of the Bank other than Subordinated Creditors (as defined in “Terms and Conditions of the Notes” herein). Although Dated Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Dated Subordinated Notes will lose all or some of his investment should the Bank become insolvent.

#### *Undated Subordinated Notes*

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

#### *Basel III and related reforms*

The Basel Committee on Banking Supervision has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the “**Basel III Reforms**”). The Basel III Reforms are expected to be implemented by relevant authorities by 1 January 2013. It is possible that relevant authorities may also apply requirements comparable to those in the Basel III Reforms to other banks which they regulate.

The Basel III Reforms provide that instruments, such as the Subordinated Notes, which do not contain any contractual terms providing for their writing off or conversion into ordinary shares upon the occurrence of a Non-Viability Event (as defined below), will cease to be eligible to count in full as Tier 2 Capital from 1 January 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written off upon the occurrence of a Non-Viability Event, or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss.

It is possible that the powers which either currently exist under the Banking Act or which may result from any future change in relevant law could be used in such a way as to result in the Subordinated Notes absorbing losses in the manner described in (i) or (ii) above. Accordingly, the operation of any such current or future legislation may have an adverse effect on the position of holders of the Subordinated Notes.

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

Furthermore, there can be no assurance that, prior to their implementation in 2013, the Basel Committee on Banking Supervision will not amend the Basel III Reforms. Further, the European Union and/or relevant authorities in the United Kingdom may implement the Basel III Reforms, including the provisions relating to terms which capital instruments are required to have, in a manner that is different from that which is currently envisaged or may impose more onerous requirements on UK banks.

#### *Substitution and Variation upon the occurrence of a Capital Event*

Upon the occurrence and continuation of a Capital Event (as defined in Condition 7), the Bank may, subject as provided in Condition 7 and without the need for any consent of the Holders, the Couponholders or the Trustee, substitute all (but not some only) of any Series of Dated Subordinated Notes or Undated Subordinated Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Compliant Securities (as defined in Condition 7).



*Notes are obligations of the Bank only*

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

*Notes subject to optional redemption by the Bank*

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

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

Other than in relation to Subordinated Notes and unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the Bank would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, the Bank may redeem all outstanding Notes in accordance with the Conditions.

*Potential Conflicts of Interest*

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

*Partly-paid Notes*

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

*Variable Rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

*Inverse Floating Rate Notes*

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

*Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the Bank may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Bank's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Bank may be expected to convert

the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

*Notes issued at a substantial discount or premium*

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

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

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

*Modification, waivers and substitution*

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

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

*EU Savings Directive*

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

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

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

### *Change of law*

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

### *Notes where denominations involve integral multiples*

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

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

### *Holding CREST Depository Interests*

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

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

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

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

Under certain provisions of the U.S. Internal Revenue Code (commonly referred to as “**FATCA**”), the Bank and its non-U.S. subsidiaries will be subject to withholding on certain payments of U.S. source income made after 31 December 2013, on certain payments of gross proceeds made after 31 December 2014, and on certain payments made from other non-U.S. financial institutions (regardless of source) after 31 December 2016 unless the Group enters an agreement with the U.S. Internal Revenue Service (“**IRS**”) to report to the IRS information about the Group’s “United States accounts” and comply with certain reporting, verification, due diligence, withholding and other procedures to be established by the IRS. The Company expects to enter into such an agreement with the IRS (a “**FATCA agreement**”), but there can be no assurance that it will do so. The U.S. Treasury Department and the IRS recently proposed regulations that would implement certain provisions of FATCA. This discussion is based in part on these proposed regulations, which are not yet effective and may be modified in a way that would alter the application of FATCA to the Bank and the Notes.

Provided that the Notes are not treated as equity for U.S. federal income tax purposes, and unless the Notes are materially modified on or after 1 January 2013, no payment on a Note issued before that date will be subject to FATCA withholding. With respect to Notes that are treated as equity for U.S. federal income tax purposes or issued, or materially modified, on or after 1 January 2013 (“**non-grandfathered Notes**”), if the Bank enters a FATCA agreement, generally, the Bank will be required, pursuant to such FATCA agreement, to withhold amounts from “foreign passthru payments” made after 31 December 2016 on the non-grandfathered Notes if such Notes are “financial accounts” and payments are made to an account holder that does not provide information sufficient for the payor to determine whether the account holder is a U.S. person or

should otherwise be treated as holding a “United States account” or fails to provide a waiver in any case in which a foreign law would prevent the reporting of such information (a “**recalcitrant account holder**”). Under proposed U.S. Treasury Regulations, the non-grandfathered Notes will not be “financial accounts” for these purposes unless the value of the Notes is determined primarily by reference to certain U.S. assets (e.g., debt or equity interests of U.S. domestic corporations). FATCA withholding may also be required on payments on the non-grandfathered Notes by the Bank, or by a financial intermediary with respect to the non-grandfathered Notes, that are made after 31 December 2016 (i) to, or through, a foreign financial institution that has not entered, or has not been deemed to have entered, a FATCA agreement or (ii) to a recipient that is a recalcitrant account holder, in each case to the extent that such payments are “foreign passthru payments”. Under current guidance, the term “foreign passthru payments” is not defined and it is not clear the extent to which payments on non-grandfathered Notes that are not “financial accounts” may be treated as “foreign passthru payments,” if at all.

In addition, on 8 February 2012, HM Treasury and the U.S. Treasury Department issued a joint statement expressing a mutual intent to enter an intergovernmental framework for the implementation of FATCA. Under preliminary guidance, if such a framework were entered, the Bank would not need to enter into a FATCA agreement with the IRS to avoid FATCA withholding on payments to it and the Bank would not need to withhold under FATCA on any payment to a financial institution or to a recalcitrant account holder in the UK or another jurisdiction that has entered the intergovernmental framework.

The Conditions specify that the Bank may issue further notes (“**New Notes**”) having terms and conditions the same as any Series of Notes already issued (“**Existing Notes**”) so that the New Notes shall be consolidated and form a single Series with the Existing Notes. As explained above, Notes issued prior to 1 January 2013 are generally exempt from the withholding tax imposed by FATCA. However, there is uncertainty as to how an issue of New Notes on or after 1 January 2013 that will be consolidated, form a single Series with, and have the same ISIN as Existing Notes issued prior to 1 January 2013 will affect the grandfathered status of the Existing Notes under FATCA.

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

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

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

##### *The secondary market generally*

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

limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

*Exchange rate risks and exchange controls*

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

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

*Interest rate risk*

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

*Credit ratings may not reflect all risks*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. As at 31 January 2012, the total amount of Renminbi deposit held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB576 billion. In addition, participating banks

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

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

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

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

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

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

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

The Bank's primary obligation is to make all payments of interest and principal with respect to Notes in the relevant Specified Currency (or, in the case of Dual Currency Notes, the currency in which payment is otherwise to be made on such Notes). However, if so specified in the Notes, in the event access to the Specified Currency becomes restricted to the extent that, by reason of a Scheduled Payment Currency Disruption Event (as defined in the Conditions), it would, (having been requested to make such a determination by the Bank) in the opinion of the nominated adjudication agent (which may be the Bank, if so specified), be commercially impracticable for the Bank to pay interest or principal in the Specified Currency,

the Bank may in its sole and absolute discretion (i) postpone the payment of any such amounts, (ii) make any such payment in the relevant Alternative Currency at the rates, and in the manner, set out in Condition 6(i) and the relevant Final Terms, (iii) postpone the payment and make such payment in the relevant Alternative Currency or (iv) cancel or redeem the Notes.



## TERMS AND CONDITIONS OF THE NOTES

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

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

The Notes are issued by Lloyds TSB Bank plc (the “**Bank**”) acting through its London office or its Australia branch (as specified hereon), and are constituted by a Trust Deed originally dated 4 October 1996 and amended and restated on 20 April 2012 (as modified and/or supplemented and/or restated as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) between the Bank and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An Agency Agreement dated 4 October 1996 and amended and restated on 20 April 2012 (as modified and/or supplemented and/or restated as at the Issue Date, the “**Agency Agreement**”) has been entered into in relation to the Notes between the Bank, the Trustee, Citibank, N.A., London Branch, as issuing and paying agent and, in respect of CMU Notes (as defined below), Citicorp International Limited and the other agents named in it. The issuing and paying agent in respect of Notes other than CMU Notes, the issuing and paying agent in respect of CMU Notes, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**CMU Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall, where the context so permits, include the Issuing and Paying Agent and the CMU Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall, where the context so permits, include the Registrar) and the “**Calculation Agent(s)**” provided that references in these Conditions to the Issuing and Paying Agent shall, in respect of CMU Notes, be construed as references to the CMU Issuing and Paying Agent. Copies of the Trust Deed and the Agency Agreement are available for inspection free of charge during usual business hours at the registered office of the Trustee (being, for the time being, Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying Agents and the Transfer Agents.

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

## 1 Form, Denomination and Title

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

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

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

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

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

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

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

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

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

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate nominal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 6(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

*(b) Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and such other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Bank, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

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

In the case of an exercise of the Bank's or a Noteholder's option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

*(d) Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a), (b) or (c) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 5(e)) or surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

*(e) Exchange Free of Charge*

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Bank, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require).

*(f) Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the

period of 15 days prior to any date on which Notes may be called for redemption by the Bank at its option pursuant to Condition 5(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

### 3 Status

#### (a) *No Set-off*

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

#### (b) *Status of Senior Notes*

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

#### (c) *Status of Dated Subordinated Notes*

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

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

*Dated Tier 2 Notes have no provisions for the deferral of payments.*

*(d) Status of Undated Subordinated Notes*

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

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

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

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

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

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

#### 4 Interest and other Calculations

(a) *Interest on Fixed Rate Notes*

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

(b) *Interest on Undated Subordinated Notes*

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

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

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

- (i) the Bank may not declare, pay or distribute a dividend or make a payment on: (A) any class of its share capital or its securities (excluding any Non Deferrable Capital other than the Preference Shares) or (B) guarantees given by the Bank, in each case ranking *pari passu* with or below the Cumulative Preference Share;
- (ii) the Bank may not redeem, purchase or otherwise acquire any class of its share capital or its securities ranking *pari passu* with or below the Cumulative Preference Share (save where those shares or securities being redeemed, purchased or acquired are (A) the Preference Shares or (B) replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or in respect of a

distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired); and

- (iii) the Bank will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any subsidiary undertaking (other than payments made in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, any such subsidiary or the Bank) on any security (howsoever named or designated) benefiting from a guarantee given by the Bank ranking *pari passu* with or below the Cumulative Preference Share,

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

For the purposes of these Conditions:

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

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

(c) *Interest on Floating Rate Notes*

(i) *Interest Payment Dates*

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

(ii) *Business Day Convention*

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

Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

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

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

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated hereon) the Margin (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

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

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

Unless otherwise stated hereon, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

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

- (i) the offered quotation; or
- (ii) the arithmetic mean of the offered quotations,

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



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

- (y) If the Relevant Screen Page is not available or if sub-paragraph (x)(i) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(ii) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.
- (z) If paragraph (y) above applies, the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which at the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Bank suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

*(d) Zero Coupon Notes*

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the due date for redemption, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified hereon.

*(e) Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon, provided, however, that interest on Undated Subordinated Notes shall (subject to Condition 3(d)) be payable only at the option of the Bank.

*(f) Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon, provided, however, that interest on Undated Subordinated Notes shall (subject to Condition 3(d)) be payable only at the option of the Bank.

*(g) Accrual of Interest*

Interest (if any) shall cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless (upon due presentation thereof where presentation is required), payment of principal is improperly withheld or refused or is not made by reason of Condition 3(d) or unless default is otherwise made in respect of payment, in which event, interest shall continue to accrue or, in the case of Zero Coupon Notes, shall accrue (in each case, both before and after judgment) at the Rate of Interest in the manner provided in this Condition 4 to (but excluding) the Relevant Date (as defined in Condition 8).

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

- (i) If any Margin is specified hereon (either (A) generally, or (B) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (B), calculated in accordance with Condition 4(c) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.
- (ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (B) all figures shall be rounded to seven significant figures (with halves being rounded up) and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(i) *Calculations*

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

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

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

(k) *Determination or Calculation by Trustee*

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

(l) *Definitions*

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

“**Business Day**” means:

- (i) in the case of a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency (which in the case of Australian dollars shall be Sydney); or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); or
- (iii) in the case of Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; and
- (iv) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in any Business Centre(s) specified hereon.
- (v) “**CMU Notes**” means Notes denominated in any lawful currency which the CMU Service accepts for settlement from time to time that are, or are intended to be, cleared through the CMU Service.
- (vi) “**CMU Service**” or “**CMU**” means the Central Moneymarkets Unit Service operated by the HKMA;

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in such Calculation Period divided by the product of:

(x) the number of days in such Determination Period; and

(y) the number of Determination Periods normally ending in any year; or

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year; and

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

where:

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

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

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

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

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

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

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

“**Interest Amount**” means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless

otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending on the Interest Period of which such Interest Accrual Period forms part; and

- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period. “**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

*(m) Calculation Agent*

The Bank shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more

than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent or, pursuant to Condition 4(k), the Trustee fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Bank shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

(n) *Nature of the Return*

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

## 5 Redemption, Purchase and Options

(a) *Redemption by Instalments and Final Redemption*

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 5, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount(s) (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.
- (iii) Undated Subordinated Notes have no final maturity date and are only redeemable in accordance with the following provisions of this Condition 5.

(b) *Early Redemption*

- (i) *Zero Coupon Notes*
  - (A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 5(c) or upon it becoming due and repayable as provided in Condition 10, shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
  - (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount(s) of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield applied on a compounded or non-compounded basis as specified



hereon (which, if none is shown hereon, shall be such rate (compounded annually) as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date).

- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 5(c) or upon it becoming due and repayable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as calculated in accordance with sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the reference therein to the Maturity Date were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount(s) of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 4(d).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) Other Notes

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

- (c) *Redemption for Taxation Reasons other than in respect of Dated Subordinated Notes and Undated Subordinated Notes*

- (i) Save in relation to any Dated Subordinated Notes and any Undated Subordinated Notes, if at any time the Bank satisfies the Trustee immediately prior to the giving of the notice referred to below that if a payment of principal or interest in respect of the Notes were to be due (whether or not the same is in fact then due) on or before the next Interest Payment Date (if applicable) or the Maturity Date, the Bank would, for reasons outside its control, be unable (after using such endeavours as the Trustee shall consider reasonable) to make such payment of principal or interest without having to pay additional amounts as provided or referred to in Condition 8, the Bank may at its option, having given not less than 30 nor more than 60 days' notice in accordance with Condition 15, redeem on such Interest Payment Date (if the Note is an interest bearing Note other than a Fixed Rate Note) or, at any time (if the Note is a Fixed Rate Note or a non-interest bearing Note) all, but not some only, of the Notes then outstanding at the Early Redemption Amount (as described in Condition 5(b) above) (together with interest accrued to the date fixed for redemption, if applicable). If Unwind Costs is specified hereon, the applicable Early Redemption Amount will be reduced by an amount equal to the cost to the Bank of unwinding any funding and/or hedging arrangements in relation to such Notes.
- (ii) Subject only to the obligation of the Bank to use such endeavours as aforesaid, it shall be sufficient to establish the existence of the circumstances required to be established pursuant to this paragraph (c) if the Bank shall deliver to the Trustee a certificate of an independent lawyer or accountant satisfactory to the Trustee, in a form satisfactory to the Trustee, to the effect either that such circumstances exist or that, upon a change in, or amendment to, the taxation laws (or regulations made thereunder) of the applicable Relevant Jurisdiction (as defined in Condition 8)

or any authority thereof or therein having power to tax or any change in the application or official interpretation of such laws or regulations, which at the date of such certificate is proposed and which in the opinion of such lawyer or accountant can reasonably be expected to become effective on or prior to such Interest Payment Date or time as is referred to in (i) above, becoming so effective, such circumstances would exist.

*This Condition 5(c) shall not apply to the redemption of Dated Subordinated Notes or Undated Subordinated Notes.*

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

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

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

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

*(e) Redemption at the Option of Noteholders other than holders of Undated Subordinated Notes*

If Put Option is specified hereon, the Bank shall, at the option of the holder of any Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Bank (or such other notice period as may be specified hereon), redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption (including, in the case of Undated Subordinated Notes, Arrears of Interest (if any)).

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Bank.

*N.B. In the case of redemption of Dated Subordinated Notes (save for final redemption on the relevant Maturity Date in accordance with Condition 5(a)(ii)) and Undated Subordinated Notes, the FSA requires to be notified by the Bank one month (or such other period, longer or shorter, as the FSA may then require or accept) before it becomes committed to the proposed repayment providing details of its position after such payment in order to show how it will (a) meet its Capital Resources Requirement and (b) have sufficient financial resources to meet the Overall Financial Adequacy Rule and the FSA must have raised no objection thereto (if required), where:*

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

*“Capital Resources”, “Capital Resources Requirement” and “Overall Financial Adequacy Rule” have the respective meanings given to such terms in the Capital Regulations and shall include any successor terms from time to time equivalent thereto as agreed between the Bank and the Trustee; and*

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

*(f) Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

*(g) Purchases*

The Bank or any of its subsidiaries or any holding company of the Bank or any other subsidiary of any such holding company may at any time, but is not obliged to, purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

Any Notes so purchased or otherwise acquired may, at the Bank’s discretion, be held or resold or surrendered for cancellation.

*(h) Cancellation*

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

## **6 Payments and Talons**

*(a) Bearer Notes*

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 6(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 6(f)(ii)), as the case may be:

- (i) in the case of a currency other than euro or Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank in the principal financial centre for such currency;
- (ii) in the case of euro, at the specified office of any Paying Agent outside the United States by a cheque payable in euro drawn on, or, at the option of the holder, by transfer to an account

denominated in euro with, a bank in a city in which banks have access to the TARGET System; and

- (iii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

*(b) Registered Notes*

- (i) Payments of principal (which for the purposes of this Condition 6(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 6(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made:
  - (a) in the case of a currency other than Renminbi, in the relevant currency by a cheque drawn on a bank in the principal financial centre of such currency, subject as provided in paragraph (a) above, and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of such currency; and
  - (b) in the case of Renminbi, by transfer to the registered account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

*(c) Payments in the United States*

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

*(d) Payments subject to Fiscal Laws*

All payments are subject in all cases to any applicable fiscal or other laws, regulations, directives, orders of any court of competent jurisdiction and any agreement between the Bank and any taxing authority relating to fiscal matters, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments. The Bank reserves the right to require a Noteholder or Couponholder to provide a Paying Agent, the Registrar or a Transfer Agent with such certification or information as may be required to enable the Bank to comply with the requirements of the United States federal income tax laws or any agreement between the Bank and any taxing authority. The Issuer will not be liable for any taxes, duties, assessments, fees, or governmental charges of whatever

nature imposed or levied by such laws, regulations, directives, orders of any court of competent jurisdiction, or agreements, save as provided in Condition 8.

*(e) Appointment of Agents*

The Issuing and Paying Agent, the other Paying Agents, the Registrar and the Transfer Agents initially appointed by the Bank and their respective specified offices are listed below. Subject as provided in the Trust Deed and the Agency Agreement, the Issuing and Paying Agent, the other Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Bank and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Bank reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Bank shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes which may be the Registrar, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in Europe, which, so long as the Notes are listed on the official list (the “**Official List**”) of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) and are admitted to trading on the London Stock Exchange plc’s Regulated Market, shall be in London, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case as approved by the Trustee and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. In addition, the Bank shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

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

*(f) Unmatured Coupons and Receipts and unexchanged Talons*

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than (i) any Fixed Rate Notes where the total value of the unmatured coupons appertaining thereto exceeds the nominal amount of such Note or (ii) Dual Currency Notes, such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9). In relation to any Undated Subordinated Note, if any payment is to be made in respect of interest the Interest Payment Date for which falls on or after the date on which the winding-up of the Bank is deemed to have commenced, such payment shall be made only against presentation of the relevant Note and the Coupon for any such Interest Payment Date shall be void. In addition, any Undated Subordinated Note presented for payment after an order is made or an effective resolution is passed for the winding-up in England of the Bank must be presented together with all Coupons in respect of Arrears of Interest relating to Interest Payment Dates falling prior to such commencement of the winding-up of the Bank, failing which there shall be withheld from any payment otherwise due

to the holder of such Undated Subordinated Note such proportion thereof as the Arrears of Interest due in respect of any such missing Coupon bears to the total of the principal amount of the relevant Undated Subordinated Note, all Arrears of Interest in respect thereof and interest (other than Arrears of Interest) accrued on such Undated Subordinated Note in respect of the Interest Period current at the date of the commencement of the winding-up.

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

*(g) Talons*

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

*(h) Non-Business Days*

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

- (i) (in the case of a payment in a currency other than euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which

foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

- (ii) (in the case of a payment in Renminbi) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; or
- (iii) (in the case of a payment in euro) which is a TARGET Business Day.

(i) *Payment of Alternative Currency Equivalent*

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

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

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

Upon the occurrence of a Scheduled Payment Currency Disruption Event and the Alternative Currency Adjudication Agent making a determination that, by reason of such Scheduled Payment Currency Disruption Event, it would, in the opinion of the Alternative Currency Adjudication Agent, be commercially

impracticable for the Bank to satisfy its payment obligations in respect of the Notes when due in the Scheduled Payment Currency, the Bank shall give notice as soon as practicable to Noteholders in accordance with Condition 15 stating the occurrence of the Scheduled Payment Currency Disruption Event, giving details thereof and the action proposed to be taken in relation thereto.

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

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

As used herein:

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

“**Alternative Currency Adjudication Agent**” means the Alternative Currency Adjudication Agent specified hereon (or any lawful successor to the Alternative Currency Adjudication Agent);

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

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

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

“**Illiquidity**” means (i) in respect of any payment obligation in respect of the Notes of any sum, foreign exchange markets for the Scheduled Payment Currency becoming illiquid (including, without limitation, the existence of any significant price distortion) or unavailable as a result of which it is impossible or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Bank and/or any of its affiliates to obtain a sufficient amount of the Scheduled Payment Currency in order to satisfy



any such obligation or (ii) it becomes impossible or impracticable to obtain a firm quote for exchange of the Scheduled Payment Currency into the Alternative Currency, in each case, as determined by the Alternative Currency Adjudication Agent in its sole and absolute discretion;

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

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

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

“**Rate Calculation Date**” means the day which is the number of Rate Calculation Business Days specified hereon (which shall be two Rate Calculation Business Days where the Scheduled Payment Currency is Renminbi) before the due date for payment of the relevant amount under the Notes or, unless specified otherwise hereon, if the relevant Spot Rate is not available on such day, the last preceding Rate Calculation Business Day on which the relevant Spot Rate was most recently available, as determined by the Alternative Currency Calculation Agent;

“**Rate Calculation Jurisdiction**” means the jurisdiction(s) specified hereon, which shall be the Euro-zone where the Scheduled Payment Currency is euro or Hong Kong where the Scheduled Payment Currency is Renminbi;

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

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

- (i) Inconvertibility;
- (ii) Non-transferability;
- (iii) Illiquidity;

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

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

“**Settlement Rate Option**” means, unless otherwise specified hereon, the specified “Settlement Rate Option” as may be included from time to time in Annex A to the 1998 FX and Currency Option Definitions, published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association and the Foreign Exchange Committee and where (if applicable) for the purposes thereof, “**Specified Time**” shall have the meaning given to it in the applicable Final Terms;

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

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

“**USD Settlement Rate Option**” means, unless otherwise specified hereon, any Rate Source Option for the exchange of U.S. dollars into the Alternative Currency, as may be included from time to time in Annex A to the 1998 FX and Currency Option Definitions, published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association and the Foreign Exchange Committee and where (if applicable) for the purposes thereof, “**Specified Time**” shall have the meaning given to it in the applicable Final Terms; and

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

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

If a Capital Event (as defined below) has occurred and is continuing, then the Bank may, subject to the other provisions of this Condition 7 (without any requirement for the consent or approval of the Holders or the Trustee (subject to the notice requirements below)) either substitute all (but not some only) of the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) for, or vary the terms of the Dated Subordinated Notes or the Undated Subordinated Notes (as applicable) so that they remain or, as appropriate, become, Compliant Securities. Upon the expiry of the notice required by this Condition 7, the Bank shall either vary the terms of, or substitute, the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) in accordance with this Condition 7, as the case may be and, subject as set out below, the Trustee shall agree to such substitution or variation.

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

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

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

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

The Trustee shall concur in the substitution of the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) for, or the variation of the terms of the relevant Notes so that they become, Compliant Securities, provided that the Trustee shall not be obliged to concur in any such substitution or variation if the terms of the proposed alternative Compliant Securities or the concurring in such substitution or variation would impose, in the Trustee’s opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured and/or pre-funded to its satisfaction.

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

A “**Capital Event**” is deemed to have occurred if, as a result of any amendment to, or change in, the Capital Regulations, the relevant Series of Dated Subordinated Notes or Undated Subordinated Notes (as the case may be) (or any part thereof) may no longer be included in full in the Tier 2 Capital of the Bank and/or the Group by reason of their non-compliance with CRD IV.

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

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

- (a) have terms not materially less favourable to an investor than the terms of the Dated Subordinated Notes or the Undated Subordinated Notes, as the case may be, (as reasonably determined by the Bank, and provided that a certification to such effect of two authorised signatories of the Bank shall have been delivered to the Trustee prior to the issue of the relevant

securities), provided that such securities (1) contain terms such that they comply with the then current requirements of the FSA in relation to Tier 2 Capital; (2) include terms which provide for the same Rate of Interest from time to time and (as appropriate) Maturity Date applying to the Dated Subordinated Notes or Undated Subordinated Notes (as the case may be); (3) rank *pari passu* with the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be); and (4) shall preserve any existing rights under the Conditions to any accrued interest, principal and premium which has not been satisfied; and

- (b) are listed on (i) the regulated market of the London Stock Exchange or (ii) such other Recognised Stock Exchange as selected by the Bank; and
- (c) where the Dated Subordinated Notes or the Undated Subordinated Notes (as the case may be) which have been substituted or varied had a published rating from a Rating Agency immediately prior to their substitution or variation each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published rating to the relevant Dated Subordinated Notes or the Undated Subordinated Notes (as applicable).

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

“**CRD IV Directive**” means a directive of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms amending Directive 2002/87/EC, a draft of which was published on 20 July 2011.

“**CRD IV Regulation**” a regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, a draft of which was published on 20 July 2011.

“**Future Capital Instruments Regulations**” means regulatory capital rules which may in the future be introduced by the FSA and which are applicable to the Bank (on a solo or consolidated basis) as applied and construed by the FSA, which lay down the requirements to be fulfilled by financial instruments for inclusion in the regulatory capital of the Bank (on a solo or consolidated basis) as required by (i) the CRD IV Regulation or (ii) the CRD IV Directive.

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

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

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

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

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

## 8 Taxation

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

- (a) presented for payment by or on behalf of any holder who is liable to such tax, duty, assessment or governmental charge in respect of such Note, Receipt or Coupon by reason of such holder having some connection with the applicable Relevant Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the applicable Relevant Jurisdiction, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a holder that is a partnership, or a holder that is not the sole beneficial owner of the Note, Receipt or Coupon, or which holds the Note, Receipt or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment at the expiry of such period of 30 days; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (g) in the case of any Note, Receipt or Coupon issued by the Bank acting through its Australia branch only:
  - (i) to, or to a third party on behalf of, a holder if such withholding or deduction arises by reason of that person not supplying an appropriate tax file number or Australian Business Number (or details of an applicable exemption from these requirements); or

- (ii) to, or to a third party on behalf of, a holder if such withholding or deduction arises by reason of such holder being an Offshore Associate of the Bank.

As used herein:

“**Offshore Associate**” means an associate (as defined in section 128F(9) of the Income Tax Assessment Act 1936 of Australia) that is either:

- (a) a non-resident of Australia which does not acquire the relevant Note, Receipt or Coupon in the course of carrying on a business at or through a permanent establishment in Australia; or
- (b) a resident of Australia that acquires the relevant Note, Receipt or Coupon in the course of carrying on a business at or through a permanent establishment outside Australia,

which is not acquiring the relevant Note, Receipt or Coupon or receiving payment under the relevant Note, Receipt or Coupon in the capacity of a dealer, manager or underwriter in relation to the placement of the Notes or in the capacity of a clearing house, custodian, funds manager or responsible entity of a registered managed investment scheme.

The “**Relevant Date**” in respect of any payment means the date on which such payment first becomes due or (if the full amount of the moneys payable has not been duly received by the Issuing and Paying Agent or the Trustee on or prior to such date) the date on which notice is given to the Noteholders that such moneys have been so received.

“**Relevant Jurisdiction**” means each of (i) the United Kingdom and (ii) in respect of Notes issued by the Bank acting through its Australia branch only, the Commonwealth of Australia.

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

## 9 Prescription

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

The prescription period in respect of Talons shall be:

- (a) as to any Talon the original due date for exchange of which falls within the 12 years immediately prior to the due date for redemption (pursuant to Condition 5(a) or 5(c)) of the Note to which it pertains, six years from the Relevant Date for the redemption of such Note, but

so that the Coupon sheet for which it is exchangeable shall be issued without any Coupon itself prescribed in accordance with this Condition 9 or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Note and without a Talon; and

- (b) as to any other Talon, 12 years from the Relevant Date for payment of the last Coupon of the Coupon sheet of which it formed part.

## 10 Events of Default and Enforcement

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

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

- (b) If, other than in the case of Undated Subordinated Notes, otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for winding-up the Bank, the Trustee may at its discretion give notice to the Bank that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount, together with accrued interest (calculated as provided in the Trust Deed).
- (c) The Trustee shall not be bound to institute proceedings and/or take the action referred to in paragraph (a) or (b) above or (d) below to enforce the obligations of the Bank in respect of the Notes, Receipts and Coupons or to take any other actions under the Trust Deed unless (i) it shall have been so requested by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding (as defined in the Trust Deed) and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

- (d) No Noteholder, Receiptholder or Couponholder shall be entitled to institute such proceedings and/or take such other action as is referred to in paragraph (a)(i) above or institute proceedings for the winding-up in England (but not elsewhere) of the Bank as is referred to in paragraph (a)(ii) above, or to prove in such winding-up, except that if the Trustee, having become bound to proceed against the Bank as aforesaid, fails to do so, or, being able to prove in such winding-up, fails to do so, in either case within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or take such other action or institute proceedings for the winding-up in England (but not elsewhere) of the Bank and/or prove in such winding-up to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do. In the case of Dated and Undated Subordinated Notes, no remedy against the Bank, other than the institution of proceedings for the winding-up of the Bank in England or, as the case may be, proving in the winding-up of the Bank in the manner and by the persons aforesaid, shall be available to the Trustee or the Noteholders, Receiptholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Bank of any of its obligations under the Notes or the Trust Deed (other than for recovery of the Trustee's remuneration or expenses). The Bank has undertaken in the Trust Deed to pay English stamp and other duties (if any) on or in connection with the execution of the Trust Deed and English, Belgian, Luxembourg, (in the case of CMU Notes only) Hong Kong and (in the case of Notes issued by the Bank acting through its Australia branch only) Australian stamp and other duties or taxes (if any) on the constitution and issue of the Notes in temporary global, permanent global or definitive form (provided such stamp and other duties or taxes result from laws applicable on or prior to the date 40 days after the Issue Date specified hereon of such Notes and, in the case of exchange of a global Note for Notes in definitive form, such tax results from laws applicable on or prior to the date of such exchange) and stamp and other duties or taxes (if any) payable in England and (in the case of Notes issued by the Bank acting through its Australia branch only) Australia (but not elsewhere) solely by virtue of and in connection with any permissible proceedings under the Trust Deed or the Notes, save that the Bank shall not be liable to pay any such stamp or other duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the holder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Bank will not be otherwise responsible for stamp or other duties or taxes otherwise imposed and in particular (but without prejudice to the generality of the foregoing) for any penalties arising on account of late payment where due by the holder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Notes in temporary global, permanent global or definitive form or the Receipts, Coupons or Talons (in each case other than as aforesaid) are the liability of the holders thereof.
- (e) If payment to any Noteholder of any amount due in respect of the Notes (other than interest) is improperly withheld or refused (any withholding or refusal effected in reliance upon the proviso to paragraph (a) of this Condition where the relevant law, regulation or order proves subsequently not to be valid or applicable shall be treated, for the purpose of ascertaining entitlement to accrued interest but not for any other purpose, as if it had been at all times an improper withholding or refusal), interest shall accrue until, but excluding, the date on which notice is given in accordance with Condition 15 that the full amount in the Specified Currency payable in respect of such Notes is available for payment or the date of payment, whichever first occurs and shall be calculated by applying the Rate of Interest determined in accordance with these Conditions on the first day of the then current Interest Period (and each relevant



Interest Period (if any) thereafter) to such amount withheld or refused, multiplying the sum by the relevant Day Count Fraction for such Interest Period and rounding the resultant figure to the nearest unit (as such term is defined in Condition 4(h)(iii)).

- (f) If, in reliance upon the proviso to paragraph (a) above, payment of any amount (each a “**withheld amount**”) in respect of the whole or any part of the principal and/or any interest due in respect of the Notes, or any of them, is not paid or provided by the Bank to the Trustee or to the account of or with the Issuing and Paying Agent, or is withheld or refused by any of the Paying Agents, the Registrar or the Transfer Agents, in each case other than improperly within the meaning of paragraph (e) above, or which is paid or provided after the due date for payment thereof, such withheld amount shall, where not already an interest bearing deposit, if lawful, promptly be so placed, all as more particularly described in the Trust Deed. If subsequently it shall be or become lawful to make payment of such withheld amount in the Specified Currency, notice shall be given in accordance with Condition 15, specifying the date (which shall be no later than seven days after the earliest date thereafter upon which such interest bearing deposit falls or may (without penalty) be called due for repayment) on and after which payment in full of such withheld amount (or that part thereof which it is lawful to pay) will be made. In such event (but subject in all cases to any applicable fiscal or other law or regulation or the order of any court of competent jurisdiction), the withheld amount or the relevant part thereof, together with interest accrued thereon from, and including, the date the same was placed on deposit to, but excluding, the date upon which such interest bearing deposit was repaid, shall be paid to (or released by) the Issuing and Paying Agent for payment to the relevant holders of Notes and/or Receipts and/or Coupons, as the case may be (or, if the Issuing and Paying Agent advises the Bank of its inability to effect such payment, shall be paid to (or released by) such other Paying Agent, Registrar or Transfer Agent (as the case may be) as there then may be or, if none, to the Trustee, in any such case for payment as aforesaid). For the purposes of paragraph (a) above, the date specified in the said notice shall become the due date for payment in respect of such withheld amount or the relevant part thereof. The obligations under this paragraph (f) shall be in lieu of any other remedy otherwise available under these Conditions, the Trust Deed or otherwise in respect of such withheld amount or the relevant part thereof.
- (g) Any interest payable as provided in paragraph (f) above shall be paid net of any taxes applicable thereto and Condition 8 shall not apply in respect of the payment of any such interest.

## **11 Indemnification of the Trustee**

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

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

### *(a) Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any of the provisions of the Notes, the Receipts, the Coupons

or the Trust Deed, except that certain provisions of the Trust Deed may only be modified subject to approval by Extraordinary Resolution passed at a meeting of Noteholders to which special quorum provisions shall have applied. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

*(b) Modification of the Trust Deed*

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

*(c) Substitution – Senior Notes*

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

*(d) Substitution – Subordinated Notes*

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

*(e) Change of Governing Law*

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

(f) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder, Receiptholder or Couponholder shall, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim, and the Trustee shall not be entitled to require, from the Bank any indemnification or payment in respect of any tax or other consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent provided for by Condition 8.

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

- (a) If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other place of which notice shall be given in accordance with Condition 15 in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Bank on demand the amount payable by the Bank in respect of such Note, Certificate, Receipt, Coupon or further Coupons) and otherwise as the Bank may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued. In addition, the Bank may require the person requesting delivery of a replacement Note, Certificate, Receipt, Coupon or Talon to pay, prior to delivery of such replacement Note, Certificate, Receipt, Coupon or Talon, any stamp or other tax or governmental charges required to be paid in connection with such replacement. No replacement Note shall be issued having attached thereto any Receipt, Coupon or Talon, claims in respect of which shall have become void pursuant to Condition 9.
- (b) Where:
- (i) a Talon (the “**relevant Talon**”) has become prescribed in accordance with Condition 9; and
  - (ii) the Note to which the relevant Talon pertains has not become void through prescription; and
  - (iii) no Coupon sheet (or part thereof, being (a) Coupon(s) and/or a Talon, hereinafter called a “*part Coupon sheet*”), which Coupon sheet would have been exchangeable for the relevant Talon or for any subsequent Talon bearing the same serial number pertaining to such Note, has been issued; and
  - (iv) either no replacement Coupon sheet or part Coupon sheet has been issued in respect of any Coupon sheet or part Coupon sheet referred to in (iii) above or, in the reasonable opinion of the Bank, there is no reasonable likelihood that any such replacement has been issued,

then upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity or security as the Bank may reasonably require there may be obtained at the specified office of the Issuing and Paying Agent (or such other place of which notice shall be given in accordance with Condition 15) a Coupon sheet or Coupon sheets or part Coupon sheet(s), as the circumstances may require, issued:

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

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

#### **14 Further Issues**

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

#### **15 Notices**

Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be the Financial Times) and, in respect of Notes issued by the Bank acting through its Australia branch only, in a daily newspaper of general circulation in the Commonwealth of Australia (which is expected to be The Australian Financial Review). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in the United Kingdom and (as appropriate) the Commonwealth of Australia, approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

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

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

## **16 Governing Law**

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

## **17 Third Party Rights**

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

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

### 1 Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the relevant Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), they are intended to be eligible collateral for Eurosystem monetary policy and the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

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

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

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

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

### 2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (“**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or such Alternative Clearing System as to the nominal amount

of Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such nominal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than in respect of the payment of principal and interest on such Notes, the right to which shall be vested, as against the Bank and the Trustee, solely in the bearer of the relevant Global Note or the registered holder of the relevant Global Certificate in accordance with and subject to its terms and the terms of the Trust Deed. Accountholders shall have no claim directly against the Bank in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Bank will be discharged by payment to or to the order of the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

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

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

### **3 Exchange**

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

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined in paragraph 6 below):

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

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

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

### **3.2 Permanent Global Notes**

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes”, in part for Definitive Notes or, in the case of 2.3 below, Registered Notes:

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

### **3.3 Global Certificates**

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

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

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

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

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



### **3.4 Partial Exchange of Permanent Global Notes**

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

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

### **3.5 Delivery of Notes**

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

### **3.6 Exchange Date**

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

## **4 Amendment to Conditions**

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

### **4.1 Payments**

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange

Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement (provided that, in respect of CMU Notes, the crediting of interests in the relevant Global Note in the CMU Service shall be deemed to be presentation of such Global Note) and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 6(e)(vii) and Condition 8(f) will apply to Definitive Notes only. If the Global Note is a NGN, or if the Global Certificate is held under the NSS, the Bank shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Bank's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "**business day**" set out in Condition 6(h) (Non-Business Days).

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

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

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

#### **4.2 Prescription**

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

#### **4.3 Cancellation**

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

#### **4.4 Purchase**

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

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

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

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

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

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

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

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

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

such interests as if such Accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

#### **4.9 Notices**

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

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

#### **4.10 Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Bank may forfeit such Notes and shall have no further obligation to their holder in respect of them.

### **5 CMU**

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

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

## **USE OF PROCEEDS**

The net proceeds of each issue of Notes will be used for the general business purposes of Lloyds Banking Group. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

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

### Current Account Items

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

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

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

### Capital Account Items

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

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

On 7 April 2011, the State Administration of Foreign Exchange (“SAFE”) published the Circular on Issues Concerning the Capital Account Items in Connection with Cross-border Renminbi (國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知) (the “SAFE Circular”), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to contribute towards an onshore enterprise or to make payment for the purchase of any equity interest in an onshore enterprise from a PRC resident, such onshore enterprise shall be required to (i) submit the prior written consent obtained from the relevant Ministry of Commerce (“MOFCOM”) to the relevant local branches of SAFE that oversee such onshore enterprise and (ii) register for foreign invested enterprise status. Furthermore, the SAFE Circular states that any foreign debts borrowed, and any external guarantees provided, by an onshore entity (including a financial institution) denominated in RMB shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

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

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

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

The PBOC RMB FDI Measures also state that the foreign debt quota of a foreign invested enterprise constitutes its Renminbi debt and foreign currency debt owed to its offshore shareholders, offshore affiliates

and offshore financial institutions, and that a foreign invested enterprise may open a Renminbi account (人民幣一般存款賬戶) to receive Renminbi proceeds borrowed offshore by submitting the applicable Renminbi loan contract to the relevant commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the such commercial bank.

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



## CLEARING AND SETTLEMENT

### **Book-Entry Ownership**

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

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

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

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

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

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

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

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

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

#### **Individual Certificates**

Registration of title to Registered Notes in a name other than a depository or its nominee for Clearstream, Luxembourg, Euroclear and the CMU Service or for an Alternative Clearing System will be permitted only in the circumstances set forth in "Summary of Provisions Relating to the Notes while in Global Form – Exchange – Global Certificates". In such circumstances, the Bank will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and

despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Bank and the Registrar may require to complete, execute and deliver such individual Certificates.

### **CREST Depository Interests**

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

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

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

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

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

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

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

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

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

to the Underlying Notes or to interests in the Underlying Notes will depend on the rules of the clearing system in or through which the Underlying Notes are held.

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

## CMU

The CMU Service is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the CMU Members of capital markets instruments (“**CMU Instruments**”) which are specified in the CMU Manual (as defined in the Trust Deed) as capable of being held within the CMU Service.

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

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

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

## LLOYDS BANKING GROUP

### Overview

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

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

### History and development of Lloyds Banking Group

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

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

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

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

Pursuant to two placing and open offers which were completed by the Company in January and June 2009 and the Rights Issue completed in December 2009, the UK Government acquired 43.4 per cent. of the Company's issued ordinary share capital. Following further issues of ordinary shares, the UK Government's holding has been reduced to approximately 39.8 per cent. as at 23 March 2012.

### Ratings

On 7 October 2011, the long-term ratings of the Bank, the Company, HBOS plc and Bank of Scotland plc together with a number of other UK financial institutions, were downgraded by Moody's, and on 13 October 2011, the short- and long-term ratings of the Bank, the Company, HBOS plc and Bank of Scotland

plc, together with a number of other UK financial institutions, were downgraded by Fitch Ratings Limited (“Fitch”). These downgrades resulted from the rating agencies’ review of systemic support assumptions incorporated into bank ratings and a reduction of implied UK Government support for the banking sector. On 11 October 2011 and 13 October 2011, respectively, these rating agencies also downgraded the ratings of the Group’s insurance subsidiaries. Moody’s downgraded their ratings as a result of the downgrade of the Bank and the restructuring of the Company’s insurance businesses whilst Fitch downgraded their ratings as a result of the downgrade of the Company.

On 9 November 2011, Standard & Poor’s Ratings Services updated its methodologies and assumptions for rating banks entitled “Criteria – Financial Institutions – Banks: Rating Methodology and Assumptions” and confirmed that as a result Standard & Poor’s Credit Market Services Europe Limited (“S&P”) expected to announce changes to current bank ratings within the following six months. On 29 November 2011, the short- and long-term ratings of the Company and HBOS plc and the long-term ratings of the Bank and Bank of Scotland plc, together with a number of other UK financial institutions, were downgraded by S&P. On 15 February 2012, Moody’s placed the ratings of 114 European financial institutions, including the Bank, the Company, HBOS plc and Bank of Scotland plc, on review for downgrade.

As at the date of this Prospectus: (i) long-term senior obligations of the Bank are rated “A” by S&P, “A1” by Moody’s and “A” by Fitch; and (ii) short-term obligations of the Bank are rated “A-1” by S&P, “P-1” by Moody’s and “F1” by Fitch. Each of Fitch, Moody’s and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

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

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

Moody’s is expected to rate: Senior Notes issued by the Bank with a maturity of one year or more “A1”; Senior Notes issued by the Bank with a maturity of less than one year “P-1”; Subordinated Notes issued by the Bank “Baa2”; and Junior Subordinated Notes issued by the Bank “Baa3” (ratings under review for downgrade).

As defined by S&P:

- (a) an “A” rating means the obligation rated “A” is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong;
- (b) an “A-1” rating means the obligation rated “A-1” is rated in the highest category by S&P. The obligor’s capacity to meet its financial commitment on the obligation is strong;
- (c) a “BBB-” rating means the obligation rated “BBB-” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation; and
- (d) a “BB+” rating means the obligation rated “BB+” is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse

business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

As defined by S&P, an addition of a plus (+) or minus (-) sign shows relative standing within the major rating categories.

As defined by Fitch:

- (a) an “A” rating indicates expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings; and
- (b) an “F1” rating indicates the strongest intrinsic capacity for timely payment of financial commitments.

As defined by Moody's:

- (a) an “A1” rating means the obligation rated “A1” is considered upper-medium grade and is subject to low credit risk. The modifier “1” indicates that the obligation ranks in the higher end of its generic rating category;
- (b) a “P-1” rating means the obligor is considered to have a superior ability to repay the obligation;
- (c) a “Baa2” rating means the obligation rated “Baa2” is subject to moderate credit risk and is considered medium grade and as such may possess certain speculative characteristics. The modifier “2” indicates the obligation ranks in the mid-range of its generic rating category; and
- (d) a “Baa3” rating means the obligation rated “Baa3” is subject to moderate credit risk and is considered medium grade and as such may possess certain speculative characteristics. The modifier “3” indicates the obligation ranks in the lower end of its generic rating category.

The rating definitions set out above constitute third-party information and were obtained in the English language from (i) the publication entitled “Standard & Poor's Ratings Definitions – 24 February 2012” published by S&P (available at [www.standardandpoors.com](http://www.standardandpoors.com)), (ii) the publication entitled “Rating Symbols and Definitions – April 2012” published by Moody's (available at [www.moodys.com](http://www.moodys.com)) and (iii) the publication entitled “Definitions of Ratings and Other Forms of Opinion – April 2012” published by Fitch (available at [www.fitchratings.com](http://www.fitchratings.com)). The information found at the websites referred to in the previous sentence does not form part of and is not incorporated by reference into this Prospectus. The rating definitions set out above have been accurately reproduced from the sources identified above and, so far as the Bank is aware and is able to ascertain from information published by the third parties referred to above, no facts have been omitted which would render the ratings definitions set out above inaccurate or misleading.

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

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

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

For detail on credit ratings risks see “Risk Factors – Financial soundness related risks”. In particular, see Risk Factor 4.2 entitled, “The Group’s borrowing costs and access to the capital markets is dependent on a number of factors, and increased costs or reduction in access could materially adversely affect the Group’s results of operations, financial condition and prospects.”.

## **Strategy of Lloyds Banking Group**

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

The Group’s corporate strategy is built around becoming the best bank for individual, commercial and corporate customers across the UK and creating value by investing in areas that make a real difference to these customers. Customer leadership driven by superior customer insight, tailored products, better service and relationship focus is the overriding priority. There are a number of other key elements to the strategy announced in June 2011, including simplifying the business, improving the Group’s agility and efficiency, whilst focusing on core markets which offer strong returns and attractive growth, maintaining a prudent approach to risk and further strengthening the Group’s balance sheet.

The four key elements of the Group’s action plan to deliver its strategy are:

### *Reshape the Group’s business portfolio to fit its assets, capabilities and risk appetite*

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

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

### *Simplify the Group to improve agility and efficiency*

The HBOS integration programme was substantially completed in 2011, delivering a single IT platform and a run-rate of £2 billion per annum in cost synergies and other operating efficiencies. The Group is now targeting a further £1.7 billion of cost savings in 2014 through a series of simplification initiatives.

Savings will be released through a fundamental review of the Group’s operations and processes, the creation of a more efficient distribution platform and increased use of digital channels, optimising sourcing and creating a more agile organisation through delayering the management structure, centralising control functions and simplifying the legal structures.

### *Invest to be the best bank for customers*

The Group intends to increase the investment in its business with a focus on becoming the best bank for customers, becoming the best through the cycle partner for its business customers and maintaining bancassurance as a core element of this proposition.

### *Strengthen the Group’s balance sheet and liquidity position*

The Group aims to continue to strengthen its balance sheet and liquidity position through:

- Targeting a core tier 1 capital ratio, prudently in excess of 10 per cent.;
- Exceeding regulatory liquidity requirements;



- Maintaining a stable funding base; and
- Improving the Group's loan to deposit ratio to 130 per cent. or below by end 2014, although this is expected to be achieved in 2012.

### *Summary*

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

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

The Group is organised into five segments: Retail; Wholesale; Commercial; Wealth and International; and Insurance.

### **Retail**

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

Retail is focused on effectively meeting the needs of its customers. The division provides current accounts, including packaged accounts and basic and social banking accounts. It is also the largest provider of personal loans in the UK, as well as being the UK's leading credit card issuer. Retail provides approximately one in five new residential mortgages making it one of the leading UK mortgage lenders and provided over 52,000 mortgages to help first time buyers in 2011. Retail is the largest private sector savings provider in the UK. It is also a major general insurance and bancassurance distributor, offering a wide range of long-term savings, investment and general insurance products.

### **Wholesale**

The division comprises Wholesale Banking and Markets ("WBM"), Wholesale Business Support Unit and the Group's Asset Finance business. The WBM business serves corporates with turnover above £15 million and financial institutions with a range of relationship focused propositions, segmented according to customer need.

WBM's businesses are grouped into three areas: (i) coverage, (ii) product and (iii) a support function providing centralised coordination of critical business processes and activities.

Coverage comprises Corporate Banking, Mid Markets and Sales. Corporate Banking is responsible for the overall management of relationships with major corporate and institutional customers, principally in the UK. Similarly, Mid Markets manages the relationships with mid market corporates which operate on a pan-UK basis. Sales provides customers with tailor-made risk management solutions through liability, foreign exchange, commodity and interest rate management products.

Product comprises Capital Markets, Portfolio Management, Trading, Structured Corporate Finance, Transaction Banking, Structured Transactions Group and Lloyds Development Capital. These product units work alongside the coverage teams to provide specialised lending, access to capital markets and multi product financing solutions to WBM's customers. In addition, these product units provide access to financial markets in order to meet the Group's balance sheet management requirements and provide trading infrastructure to support execution of customer driven risk management transactions.

Wholesale Business Support Unit supports corporate customers that encounter difficulties during economic downturns. Wholesale operates three teams to support customers in such difficulties – Corporate, Specialist Finance and Corporate Real Estate.

Asset Finance consists of a number of leasing and speciality lending businesses including Contract Hire (Lex Autolease) and Consumer Finance (Black Horse Motor and Personal Finance).

### **Commercial**

The Commercial business serves in excess of a million small and medium sized enterprises (“SMEs”) and community organisations with turnover of up to £15 million. Commercial’s customers range from start-up enterprises to established corporations, with a range of propositions aligned to customer needs. The business comprises Commercial Banking and Commercial Finance and the invoice discounting and factoring business which also offers hire purchase, leasing and supplier finance products.

Commercial supports the trading, investment and protection needs of business customers, principally in the UK. Its vision is to be the relationship bank of choice across the UK for SME customers; committed to supporting the economy and communities through encouraging enterprise, providing access to finance and fair and transparent pricing. As part of this the Group is working to meet its lending commitments agreed with the UK Government with a focus on a through the cycle credit policy and a proactive programme of support. The Group is investing both in Commercial and in other parts of the Group to enhance products and services to SMEs and support the lives and prospects of customers through their business life cycle.

### **Wealth and International**

The Wealth business comprises private banking, wealth management and asset management. Wealth’s global private banking and wealth management operations cater to the full range of wealth clients from affluent to Ultra High Net Worth within the UK, UK expatriates and others with UK connections. The private banking and wealth management business operates under the Lloyds TSB and Bank of Scotland brands. The asset management business, Scottish Widows Investment Partnership, has a broad client base, managing assets for Lloyds Banking Group customers as well as a wide range of clients including pension funds, charities, local authorities, Discretionary Managers and Financial Advisers. In addition, the Group holds a 60 per cent. stake in St James’s Place, the UK’s largest independent listed wealth manager.

The International business comprises the Group’s other international banking businesses outside the UK, with the exception of corporate business in North America which is managed through the Group’s Wholesale division. These largely comprise corporate, commercial and asset finance business in Australia and Continental Europe and retail businesses in Germany and the Netherlands.

### **Insurance**

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

#### *Life, Pensions and Investments UK*

The UK Life, Pensions and Investments business is the leading bancassurance provider in the UK and has one of the largest intermediary channels in the industry. The business provides long-term savings, protection and investment products distributed through the bancassurance, intermediary and direct channels using the Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows brands.

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

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

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

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

#### *Life, Pensions and Investments Europe*

The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands.

#### *General Insurance*

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

## **Competitive Environment**

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

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

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

For more information see “Risk Factors – Competition related risks – The Independent Commission on Banking and the UK Treasury Select Committee have reviewed competition in the UK retail banking industry. The potential impact of the recommendations is inherently uncertain and could have a material adverse effect on the interests of the Group.” and “Risk Factors – Business and economic risks – The Group’s businesses are conducted in highly competitive environments and the Group’s financial performance depends upon management’s ability to respond effectively to competitive pressures.”.

## **Regulation**

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

The FSA has responsibility under the FSMA for the regulation and oversight of a wide range of financial services activities in the UK and is responsible for the authorisation and supervision of institutions that perform regulated activities as defined in the FSMA.

### ***Regulatory Approach of the FSA***

The FSA's regulatory approach requires senior management of a financial institution to ensure that it takes reasonable care to organise and control its affairs responsibly and effectively and that it develops and maintains adequate risk management systems.

The FSA Handbook sets out rules and guidance across a range of issues with which financial institutions are required to comply including prudential rules relating to capital adequacy and liquidity, high level principles of business and detailed conduct of business standards and reporting standards.

On 27 January 2012, the Government published the Financial Services Bill. The proposed new UK regulatory architecture will see the transition of regulatory and supervisory powers from the FSA to the Financial Conduct Authority (the "FCA") and Prudential Regulatory Authority (the "PRA"). The PRA will be responsible for supervising banks, building societies and other large firms. The FCA will focus on consumer protection and market regulation. The Financial Services Bill is also proposing new responsibilities and powers for the FCA. The most noteworthy are the proposed greater powers for the FCA in relation to competition and the proposal to widen its scope to include consumer credit. The Financial Services Bill is expected to take effect in early 2013.

In April 2011, the FSA commenced an internal reorganisation as a first step in a process towards the formal transition of regulatory and supervisory powers from the FSA to the FCA and PRA in 2013. Until this time the responsibility for regulating and supervising the activities of the Group will remain with the FSA. On 2 April 2012 the FSA introduced a new 'twin peaks' model and the intention is to move the FSA as close as possible to the new style of regulation outlined in the Financial Services Bill. There are to be two independent groups of supervisors for banks, insurers and major investment firms covering prudential and conduct. All other firms (those not dual regulated) are to be supervised solely by the conduct supervisors.

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

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

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

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

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

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

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

likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including companies within the Group.

#### *Lending Standards Board*

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

#### *UK Office of Fair Trading (OFT)*

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

#### *UK Information Commissioner's Office*

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

#### *Independent Commission on Banking*

The Government appointed the ICB to review possible measures to reform the UK banking system and promote stability and competition. The ICB published its final report on 12 September 2011, putting forward recommendations to require ring-fencing of the retail activities of banks from their investment banking activities and additional capital requirements beyond those required under current drafts of the Capital Requirements Directive IV. The ICB's final report also makes recommendations in relation to the competitiveness of the UK banking market, including enhancing the competition remit of the FCA, implementing a new industry-wide current account switching process by September 2013, and improving transparency. The ICB, which following the publication of its final report was disbanded, only had the authority to make recommendations, which the Government could choose to accept or reject. The publication of the ICB's final report and the Government's response to it on 19 December 2011 are significant steps in providing greater clarity on changes to the regulatory framework for the UK banking industry to secure greater financial stability.

The Government has endorsed the ICB's proposals to ring-fence retail banking operations as part of a wider regulatory framework including capital and liquidity and effective macro- and micro-prudential supervision, which should remove any implicit tax-payers' guarantee for the ring-fenced entities. Given that the Group is predominantly a retail and commercial bank, it would expect to be less affected by the implementation of a retail ring-fence, but believes it will be important for any transition period to be flexible in order to minimise any impact on economic growth and for banks to implement the required structural changes.

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

The ICB specifically recommended in relation to the Group's EU mandated branch disposal ("**Project Verde**"), that, to create a strong challenger in the UK banking market, the entity which results from the

divestiture should have a share of the personal current account (“PCA”) market of at least 6 per cent. (although this does not need to arise solely from the current accounts acquired from the Company) and a funding position at least as strong as its peers. The ICB did not specify a definitive timeframe for the divested entity to achieve a 6 per cent. market share of PCAs but recommended that a market investigation should be carefully considered by competition authorities if ‘a strong and effective challenger’ has not resulted from the company’s divestiture by 2015. The ICB did not recommend that the Company should increase the size of the Project Verde disposal from that agreed with the European Commission but recommended that the Government prioritise the emergence of a strong new challenger over reducing market concentration through a ‘substantially enhanced’ divestiture by the Group. As at December 2011, Project Verde incorporated 632 branches and 5.2 million customers with a PCA market share in the UK of approximately 4.6 per cent. A negotiation process is ongoing in relation to the sale of the business. Total customer assets made available for sale amounted to £68.4 billion and total customer liabilities made available for transfer amounted to £31.6 billion. However, subject to certain conditions, buyers can reduce the amount of mortgage lending that they acquire from the Company.

The Government supported the recommendation that an entity with a larger share of the PCA market than the 4.6 per cent. originally proposed might produce a more effective competitor. In relation to the Group’s announcement that it was to pursue exclusive negotiations with the Co-Operative Group, the Government commented that such a transaction would deliver a significant enhancement of the PCA market share, with the share divested by the Group combining with the Co-Operative Group’s existing share to create a competitor with approximately 7-8 per cent. share of the PCA market. The Government also stated that the execution of the divestment is a commercial matter, and it has no intention of using its shareholding to deliver an enhancement.

The Group continues to play a constructive role in the debate with the Government and other stakeholders on all issues under consideration in relation to the ICB’s recommendations. The Group expects the Government to provide further details of its plans in the spring of 2012 and to outline which of the proposals it intends to progress to legislation. The Group will continue to work with HM Treasury and its regulators in the coming months ahead of the publication of the final white paper.

#### *EU Regulation and Regulatory Bodies*

At a European level, the pace of regulatory reform has increased with a number of new directives or changes to existing directives planned in the next twelve months including a revised Markets in Financial Instruments Directive, Transparency Directive, Insurance Mediation Directive, Alternative Investment Fund Managers Directive, Prospectus Directive and a Fifth Undertakings In Collective Investments in Transferable Securities Directive, as well as a proposed Directive regulating Packaged Retail Investment Products.

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

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

#### *Bribery Act*

The Bribery Act 2010 came fully into force on 1 July 2011. It enhances previous laws on bribery and is supported by some detailed guidance issued by the Ministry of Justice on the steps a business needs to take to embed ‘adequate procedures’ to prevent bribery. A company convicted of failing to have ‘adequate procedures’ to prevent bribery could receive an unlimited fine.

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

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

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

On 21 July 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), which provides a broad framework for significant regulatory changes that will extend to almost every area of U.S. financial regulation. The Dodd-Frank Act imposes specific requirements for systemic risk oversight, asset securitisation activities, securities market conduct and oversight, bank capital standards, arrangements for the liquidation of failing systemically significant financial institutions and restrictions to the ability of banking entities to engage in proprietary trading activities and make investments in certain private equity and hedge funds (known as the 'Volcker Rule'). Furthermore, under the so-called swap 'push-out' provisions of the Dodd-Frank Act, the derivatives activities of U.S. banks and U.S. branch offices of foreign banks will be restricted, which may necessitate a restructuring of how the Group conducts its derivatives activities. Entities that are swap dealers, security-based swap dealers, major swap participants or major security-based swap participants will be required to register with the U.S. Securities and Exchange Commission (the "**SEC**") or the U.S. Commodity Futures Trading Commission, or both, and will become subject to the requirements as to capital, margin, business conduct, recordkeeping and other requirements applicable to such entities. The Dodd-Frank Act also grants the SEC discretionary rule-making authority to impose a new fiduciary standard on brokers, dealers and investment advisers, and expands the extraterritorial jurisdiction of U.S. courts over actions brought by the SEC or the United States with respect to violations of the antifraud provisions of the Securities Act 1933, as amended, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940. The details of these regulations will depend on the final regulations ultimately adopted by various regulatory authorities and many of the provisions of the Dodd-Frank Act require further detailed rulemaking by various U.S. regulators, including the Department of the Treasury, the Federal Reserve Board, the SEC, the Commodity Futures Trading Commission and the newly created Financial Stability Oversight Council, a substantial portion of which remains to be completed. The impact of the Dodd-Frank Act and its implementing regulations on the Group's U.S. operations will depend on the final regulations ultimately adopted by various U.S. regulatory authorities.

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

At 31 December 2011, the Group does not believe the Group's business activities relating to countries designated as state sponsors of terrorism were material to its overall business.

The Group estimates that the value of the Group's business in respect of such states represented less than 0.01 per cent. of the Group's total assets and, for the year ended 31 December 2011, the Group believes that the Group's revenues from all activities relating to such states were less than 0.004 per cent. of its total income net of insurance claims. This information has been compiled from various sources within the Group, including information manually collected from relevant business units, and this has necessarily involved some degree of estimate and judgement.

For more information, see "Risk Factors – Regulatory risks (including risks arising from failing to comply with the applicable laws, regulations and codes)".

### **Legal Actions and Regulatory Matters**

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

#### *Interchange Fees*

The European Commission has adopted a formal decision finding that an infringement of European Commission competition laws has arisen from arrangements whereby MasterCard set a uniform Multilateral Interchange Fee (the "**MIF**") 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 MIF be reduced to zero for relevant cross-border transactions within the European Economic Area. This decision has been appealed to the General Court of the European Union (the "**General Court**"). Lloyds TSB Bank plc and Bank of Scotland plc (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of the MIF are compatible with European Union competition laws. The UK Government has also intervened in the General Court appeal supporting the European Commission position. An oral hearing took place on 8 July 2011 and the judgment is expected on 24 May 2012. MasterCard has reached an understanding with the European Commission on a new methodology for calculating intra European Economic Area MIF on an interim basis pending the outcome of the appeal.

Meanwhile, the European Commission is pursuing an investigation with a view to deciding whether arrangements adopted by Visa for the levying of the MIF in respect of cross-border payment transactions also infringe European Union competition laws. In this regard, Visa reached an agreement with the European Commission to reduce the level of interchange for cross-border debit card transactions to the interim levels agreed by MasterCard. The OFT has also commenced similar investigations relating to the MIF in respect of domestic transactions in relation to both the MasterCard and Visa payment schemes. The ultimate impact of the investigations on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

#### *Payment Protection Insurance*

There has been extensive scrutiny of the Payment Protection Insurance ("**PPI**") market in recent years.

In October 2010, the UK Competition Commission (the "**Competition Commission**") confirmed its decision to prohibit the active sale of PPI by a distributor to a customer within seven days of a sale of credit. This followed the completion of its formal investigation into the supply of PPI services (other than store card PPI) to non-business customers in the UK in January 2009 and a referral of the proposed prohibition to the Competition Appeal Tribunal. The Competition Commission consulted on the wording of a draft order to implement its findings from October 2010, and published the final Order on 24 March 2011, which became



effective on 6 April 2011. Following an earlier decision to stop selling single premium PPI products, the Group ceased to offer PPI products to its customers in July 2010.

On 29 September 2009 the FSA announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. Lloyds Banking Group agreed in principle that it would undertake a review in relation to sales of single premium loan protection insurance made through its branch network since 1 July 2007. That review now forms part of the ongoing PPI work referred to below.

On 1 July 2008, the FOS referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling. The FSA published its Policy Statement on 10 August 2010, setting out evidential provisions and guidance on the fair assessment of a complaint and the calculation of redress, as well as a requirement for firms to reassess historically rejected complaints which had to be implemented by 1 December 2010.

On 8 October 2010, the British Bankers' Association (the "BBA"), the principal trade association for the UK banking and financial services sector, filed an application for permission to seek judicial review against the FSA and the FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008.

The Judicial Review hearing was held in late January 2011 and on 20 April 2011 judgment was handed down by the High Court dismissing the BBA's application. On 9 May 2011, the BBA confirmed that the banks and the BBA did not intend to appeal the judgment.

After publication of the judgment, the Group entered into discussions with the FSA with a view to seeking clarity around the detailed implementation of the Policy Statement. As a result, and given the initial analysis that the Group has conducted of compliance with applicable sales standards which is continuing, the Group concluded that there are certain circumstances where customer contact and/or redress will be appropriate. Accordingly the Group made a provision in the Company's 2011 Annual Report of £3,200 million in respect of the anticipated costs of such contact and/or redress, including administration expenses. During 2011, the Group made redress payments of £1,045 million to customers. However, there are still a number of uncertainties as to the eventual costs from any such contact and/or redress given the inherent difficulties of assessing the impact of the detailed implementation of the Policy Statement for all PPI complaints, uncertainties around the ultimate emergence period for complaints, the availability of supporting evidence and the activities of claims management companies, all of which will significantly affect complaints volumes, uphold rates and redress costs.

#### *Interbank Offered Rate Setting Investigations*

Several government agencies in the UK, U.S. and overseas, including the U.S. Commodity Futures Trading Commission, the SEC, the U.S. Department of Justice and the FSA, as well as the European Commission, are conducting investigations into submissions made by panel members to the bodies that set various interbank offered rates. The Company and certain of its subsidiaries, were (at the relevant time) and remain members of various panels that submit data to these bodies in a number of jurisdictions. The Group has received requests from some government agencies for information and is co-operating with their investigations. In addition, the Group has been named in private purported class action suits in the U.S. with regard to the setting of London interbank offered rates ("LIBOR"). It is currently not possible to predict the scope and ultimate outcome of the various regulatory investigations or private lawsuits, including the timing and scale of the potential impact of any investigations and lawsuits on the Group.

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

Clerical Medical Investment Group Limited (“**CMIG**”) has received a number of claims in the German courts, relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. CMIG has won the majority of decisions to date, although a number of regional district and appeal courts have found against CMIG on specific grounds. CMIG’s strategy includes defending claims robustly and appealing against adverse judgments. The ultimate financial effect, which could be significant, will only be known once all relevant claims have been resolved. However, consistent with this strategy, and having regard to the costs involved in managing these claims, and the inherent risks of litigation, the Group has recognised a provision of £175 million in the Company’s 2011 Annual Report. Management believes this represents the most appropriate estimate of the financial impact, based upon a series of assumptions, including the number of claims received, the proportion upheld, and resulting legal and administration costs.

#### *Shareholder complaints*

The Group and two former members of the Group’s Board of Directors have been named as defendants in a purported securities class action pending in the United States District Court for the Southern District of New York. The complaint, dated 23 November 2011, asserts claims under the Securities Exchange Act of 1934 in connection with alleged material omissions from statements made in 2008 in connection with the Acquisition. No quantum is specified.

In addition, a UK-based shareholder action group has threatened multi-claimant claims on a similar basis against the Group and two former directors in the UK. No claim has yet been issued.

The Group considers that the claims are without merit and will defend them vigorously. The claims have not been quantified and it is not possible to estimate the ultimate financial impact on the Group at this early stage.

#### *Employee disputes*

The Group is aware that a union representing a number of the Group’s employees is seeking to challenge the cap on pensionable pay introduced by the Group in 2011 on the grounds that it is unlawful. This challenge is at a very early stage. The Group will resist the challenge should it be pursued.

The Group also faces a number of other threats of legal action from employees in relation to terms of employment including pay and bonuses. The Group considers that the complaints are without merit and, should proceedings be issued, they will be vigorously defended. It is not possible to estimate the ultimate financial impact on the Group at this stage.

#### *FSA investigation into Bank of Scotland*

In 2009 the FSA commenced a supervisory review into HBOS. The supervisory review was superseded when the FSA commenced an enforcement investigation into Bank of Scotland plc in relation to its Corporate Division between 2006 and 2008. These proceedings have now concluded. The FSA published its Final Notice on 9 March 2012. No financial penalty has been imposed on the Group or Bank of Scotland plc.

#### *Regulatory Matters*

In the course of its business, the Group is engaged in discussions with the FSA in relation to a range of conduct of business matters including complaints handling, packaged bank accounts, savings accounts, product terms and conditions, interest only mortgages, sales processes and remuneration schemes. The Group is keen to ensure that any regulatory concerns are understood and addressed. The ultimate impact on the Group of these discussions can only be known at the conclusion of such discussions.

### *Other Legal Actions and Regulatory Matters*

In addition, during the ordinary course of business the Group is subject to other threatened and actual legal proceedings (which may include class action lawsuits brought on behalf of customers, shareholders or other third parties), regulatory investigations, regulatory challenges and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to assess properly the merits of the case and no provisions are held against such matters. However, the Group does not currently expect the final outcome of any such matter to have a material adverse effect on its financial position.

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

#### ***Major Shareholders***

As at 23 March 2012, the Solicitor for the Affairs of Her Majesty's Treasury had a direct interest of approximately 39.8 per cent. (27,608,563,642 ordinary shares) in the Company's issued share capital with rights to vote in all circumstances at general meetings. No other notification has been received that anyone has an interest of 3 per cent. or more in the Company's issued ordinary share capital. Further information on The Solicitor for the Affairs of Her Majesty's Treasury's shareholding in the Company is provided above under "– History and development of Lloyds Banking Group" and below under "– Information about Lloyds Banking Group's relationship with the UK Government".

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

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

The Group, as at 31 December 2011, had related party transactions with 24 key management personnel and certain of its pension funds, OEICs and joint ventures and associates. See note 53 to the consolidated financial statements of the Company for the financial year ended 31 December 2011. In addition, material contracts with HM Treasury are described below under "– Information about Lloyds Banking Group's relationship with the UK Government".

From 1 January 2011, in accordance with IAS 24 (Revised), UK Government-controlled entities became related parties of the Group. The Group regards the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc, Northern Rock (Asset Management) plc and Bradford & Bingley plc, as related parties.

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

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

The Group also engages in numerous transactions on arm's length commercial terms in the ordinary course of its business with the Government and its various departments and agencies, as well as with other companies in which the Government has invested. This includes financings, lending, banking, asset management and other transactions with UK financial institutions in which the Government has invested. During 2010 and 2011 the Group made use of these measures in order to maintain and improve a stable funding position.

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

#### *HM Treasury Shareholding*

As at 23 March 2012, the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) had a direct interest of approximately 39.8 per cent. in the Company's issued share capital with rights to vote in all circumstances at general meetings.

HM Treasury's shareholding in the Company is currently managed by UKFI on behalf of HM Treasury. This relationship falls within the scope of the revised framework document between HM Treasury and UKFI published on 1 October 2010 – for more information see "Risk Factors – Government related risks – The Commissioners of Her Majesty's Treasury ("**HM Treasury**") is the largest shareholder of the Company. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business."

The goals of the framework document are consistent with the stated public policy aims of HM Treasury, as articulated in a variety of public announcements (as at 6 May 2011). In the publication "An Introduction: Who We Are, What We Do and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury", it is stated that UKFI is to "develop and execute an investment strategy for disposing of the investments in the banks in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition". It further states that UKFI will manage the shareholdings of UK financial institutions in which HM Treasury holds an interest 'on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined therein) (including with respect to individual lending or remuneration decisions)'.

HM Treasury's shareholding in the Company is a consequence of its subscription for equity securities of the Company and of HBOS (prior to the Acquisition) in the 2008 placing and open offer and preference share subscription, the concomitant placing and open offer by HBOS, the 2009 placing and open offer and the Company's 2009 Rights Issue.

The Company and HM Treasury in January 2009 entered into a registration rights agreement granting customary demand and 'piggyback' registration rights in the United States under the United States Securities Act 1933, as amended to HM Treasury with respect to any ordinary shares of the Group held by HM Treasury. The agreement was amended in June 2009 to include as registrable securities the new shares subscribed for by HM Treasury in the 2009 placing and open offer, any other securities in the Company called by HM Treasury to be issued by any person and any securities issued by HM Treasury which are exchangeable for, convertible into, give rights over or are referable to any such securities. The Company also in June 2009 entered into a resale rights agreement with HM Treasury in which it agreed to provide its assistance to HM Treasury in connection with any proposed sale by HM Treasury of ordinary shares, other securities held by HM Treasury in the Company or any securities of any description caused by HM Treasury to be issued by any person which are exchangeable for, convertible into, give rights over or are referable to such ordinary shares or other securities issued by the Group, to be sold in such jurisdictions (other than the United States) and in such manner as HM Treasury may determine.

## *Other Related Party Transactions with the UK Government*

### **Government and central bank facilities**

During the year ended 31 December 2011, the Group participated in a number of schemes operated by the UK Government and central banks made available to eligible banks and building societies.

### **Special Liquidity Scheme and Credit Guarantee Scheme**

The Bank of England's UK Special Liquidity Scheme was launched in April 2008 to allow financial institutions to swap temporarily illiquid assets for treasury bills, with fees charged based on the spread between 3-month LIBOR and the 3-month gilt repo rate. The scheme will operate for up to three years after the end of the drawdown period (30 January 2009) at the Bank of England's discretion. As at 31 December 2011, the Group did not utilise the Special Liquidity Scheme.

HM Treasury launched the Credit Guarantee Scheme in October 2008 as part of a range of measures announced by the UK Government intended to ease the turbulence in the UK banking system. It charged a commercial fee for the guarantee of new short and medium term debt issuance. The fee payable to HM Treasury on guaranteed issues was based on a per annum rate of 50 basis points plus the median five-year credit default swap spread. The drawdown window for the Credit Guarantee Scheme closed for new issuance at the end of February 2010. At 31 December 2011, the Group had £23.5 billion of debt in issue under the Credit Guarantee Scheme (31 December 2010: £45.4 billion). During the year, fees of £28 million paid to HM Treasury in respect of guaranteed funding were included in the Group's income statement.

### **Lending Commitments**

In February 2011, the Company (together with Barclays, RBS, HSBC and Santander) announced, as a part of the 'Project Merlin' agreement with HM Treasury, its capacity and willingness to increase gross business lending (including to small and medium-sized enterprises) during 2011. The Company fully delivered its share of this agreed lending. The Company has made a unilateral lending pledge for 2012 as part of its publicly announced SME Charter. For more information on 'Project Merlin' see "Risk Factors – Government related risks".

### **Big Society Capital**

In January 2012 the Group agreed to commit up to £50 million of equity investment into the Big Society Capital Fund. The Fund, which was created as part of the Project Merlin arrangements, will be a UK social investment fund.

### **Business Growth Fund**

In May 2011 the Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to subscribe for shares in the Business Growth Fund plc, the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association's Business Taskforce Report of October 2010. During 2011, the Group incurred sunk costs of £4 million which have been written off. As at 31 December 2011, the Group's investment in the Business Growth Fund was £20 million.

### **GAPS Withdrawal Deed**

In November 2009, following its withdrawal from its proposed participation in GAPS, the Company entered into the GAPS Withdrawal Deed with HM Treasury pursuant to which, among other matters, the Company paid HM Treasury £2,500 million in recognition of the benefits to the Group's trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group and, in addition, reimbursed HM Treasury various costs.

The GAPS Withdrawal Deed contained certain undertakings given by the Group to HM Treasury in connection with the state aid approval obtained from the European Commission (on which see the sub-section

entitled “State Aid” below) and its withdrawal from its proposed participation in GAPS. In particular, the Group is required to do all acts and things necessary to ensure the UK Government’s compliance with its obligations under the European Commission decision approving state aid to the Group. This undertaking includes an obligation to: (i) comply with the restructuring measures that the Group agreed to undertake; (ii) comply with the terms of the Restructuring Plan; and (iii) provide certain information to HM Treasury and do such acts as are necessary to enable compliance with the state aid approval to be monitored. The GAPS Withdrawal Deed also provides for the Group’s restructuring obligations to be modified in certain limited circumstances (without prejudice to any challenge to such state modifications). However, HM Treasury has undertaken that it will not, without the consent of the Company, agree modifications to the Group’s undertakings with respect to state aid which are significantly more onerous to the Company than those granted in order to obtain the state aid approval.

It was also agreed that if the European Commission adopted a decision that the United Kingdom must recover any state aid, the Group would repay all such state aid (subject to the Group’s right to challenge any such decision in the European courts).

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

- (i) acknowledged its commitment to the principle that it should be at the leading edge of implementing the G20 principles, the FSA Code on remuneration and any remuneration provisions accepted by the Government from the Walker Review, provided that this principle shall always be applied in such a way as to allow the Company to operate on a level playing field with its competitors;
- (ii) reaffirmed its lending commitments;
- (iii) agreed to implement a (now published) customer charter for lending to businesses;
- (iv) committed:
  - (a) to ensure that its public financial statements comply with best industry practice; and
  - (b) to enter into discussions with HM Treasury with a view to ensuring that such public financial statements: (A) enable investors to assess the quality of the assets and liabilities of banking institutions, the financial position and performance of banking institutions and the nature and extent of risks arising from financial instruments to which banking institutions are exposed; and (B) are comparable as between similar banking institutions;
- (v) agreed to develop with the FSA, and implement, a medium term funding plan aimed at reducing dependence on short term funding to be regularly reviewed by the FSA and other members of the Tripartite Authorities; and
- (vi) agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry: (i) as detailed in the OFT’s report “Personal current accounts in the UK – a follow up report, October 2009” and (ii) relating to fees and charges, and the terms and conditions of personal current accounts where any such measures are within the scope of current negotiations with respect thereto.

### **State Aid**

As part of the European Commission’s decision approving state aid to the Group, the Group was required to submit the Restructuring Plan to the European Commission in the context of a state aid review. The plan was required to support the long-term viability of the Group and remedy any distortion of

competition and trade in the European Union arising from the state aid received by the Group. The College of Commissioners announced its formal approval of the state aid on 18 November 2009 and concluded that the Restructuring Plan was appropriate to achieve the aforementioned aims.

The Restructuring Plan consists of the following principal elements: (i) the disposal of a retail banking business with at least 600 branches, a 4.6 per cent. share of the personal current accounts market in the UK and up to 19.2 per cent. of Lloyds Banking Group's mortgage assets; (ii) an asset reduction programme to achieve £181 billion reduction in certain parts of its balance sheet by the end of 2014; and (iii) behavioural commitments, including commitments which restrict the Group's ability to make certain acquisitions for approximately three to four years and not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31 January 2010 until 31 January 2012, which prevented Lloyds Banking Group from paying dividends on its ordinary shares for the same duration. Since 31 January 2012, the Group has made payments of coupons (including cumulative coupons deferred during this two year period) on certain hybrid securities. Future coupons and dividends on its hybrid securities will be paid subject to, and in accordance with, the terms of those securities.

The retail banking business referred to in (i) above is to be disposed of before the end of November 2013 and consists of the TSB brand, the branches, savings accounts and branch-based mortgages of Cheltenham & Gloucester, the branches and branch-based customers of Lloyds TSB Scotland and a related banking licence, additional Lloyds TSB branches in England and Wales, with branch-based customers and Intelligent Finance.

The Group continues to work closely with the European Commission, HM Treasury and the Monitoring Trustee appointed by the European Commission to ensure the implementation of the Restructuring Plan. In June 2011 the Group issued an information memorandum to potential bidders for the retail banking business, which the European Commission confirmed met the requirements to commence the formal sale process for the sale no later than 30 November 2011. In December 2011 the Group announced that, having reviewed the formal offers made, its preferred option was for a direct sale and that it was entering exclusive discussions with the Co-operative Group. The Group expects to be in a position to update shareholders on progress during the second quarter of 2012, at which time, if appropriate, it will provide further details on the proposed transaction. The Group is also continuing to progress an alternative disposal option of an Initial Public Offering (IPO) in parallel.

#### **Other Relationships with the UK Government**

The Group, in common with other financial institutions, is also working closely with a number of Government departments and agencies on various industry-wide initiatives that are intended to support the Government's objective of economic recovery and greater stability in the wider financial system.

For more detail on industry-wide initiatives see “- Business Growth Fund” and “- Big Society Capital” above.

#### ***Liquidity Management***

##### *Long-Term Refinancing Operation*

On 29 February 2012, the European Central Bank (the “ECB”) made available to the European banking sector its second Long-Term Refinancing Operation (the “LTRO”). The Group has drawn £11.4 billion under the LTRO for an initial term of three years. Any further use of the LTRO and/or other open market operations of central banks will be based on prudent liquidity management.

## Directors

The directors of the Bank, the business address of each of whom is 25 Gresham Street, London EC2V 7HN, England, and their respective principal outside activities, where significant to the Bank, are as follows:

### Name

### Principal outside activities

**Sir Winfried Bischoff**  
Chairman

A non-executive director of Eli Lilly and Company, and The McGraw-Hill Companies Inc. in the United States. A member of the Akbank International Advisory Board and Chairman of the Advisory Council of TheCityUK.

### Executive directors

**António Horta-Osório**  
Group Chief Executive

A non-executive director of Fundação Champalimaud in Portugal.

### Non-executive directors

**Anita Frew**

Chairman of Victrex Plc. Senior non-executive director of Aberdeen Asset Management Plc and Non-Executive director of IMI Plc.

**Sir Julian Horn-Smith**  
(until 17 May 2012)

A non-executive director of Acer Incorporated (Taiwan), De La Rue, Digicel Group and Emobile (Japan), a director of Sky Malta, a member of the Altimo International advisory board and a senior adviser to UBS and CVC Capital Partners in relation to the global telecommunications sector. Deputy chairman of BUMI plc. Pro Chancellor of the University of Bath.

**Glen R. Moreno**  
Senior Independent Director (until 17 May 2012)  
(Deputy Chairman from 1 March 2012 to 17 May 2012)

Chairman of Pearson and a non-executive director of Fidelity International. Deputy chairman of the Financial Reporting Council.

**David Roberts**  
(Deputy Chairman from 17 May 2012)

Non-executive chairman of The Mind Gym and a non-executive director of Champion Willcocks.

**T. Timothy Ryan Jr**

President and chief executive of the Securities Industry and Financial Markets Association. A director of the U.S.-Japan Foundation, Great-West Life Insurance Co., Power Corporation of Canada, Power Financial Corporation and a member of the Global Markets Advisory Committee for the National Intelligence Council.

**Martin A. Scicluna**

Chairman of Great Portland Estates. A governor of Berkhamsted School.

**Anthony Watson CBE**  
(Senior Independent Director from 17 May 2012)

A non-executive director of Hammerson, Vodafone and Witan Investment Trust. A member of the Norges Bank Investment Advisory Board. Chairman of Lincoln's Inn



investment committee.

**Sara Weller**

Non-executive director of United Utilities Group plc.

\* George Culmer will join the Board as Group Finance Director on 16 May 2012.

None of the directors of the Bank have any actual or potential conflict between their duties to the Bank and their private interests or other duties as listed above.

## TAXATION

### United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom law and H.M. Revenue & Customs practice (which may not be binding on H.M. Revenue & Customs) and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes, Receipts and Coupons and may not apply to certain classes of persons (such as dealers) to whom special rules may apply. Any Noteholders who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

### Taxation of Interest

While the Notes are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007 (the “Act”), payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for the purposes of section 1005 of the Act. Securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List (within the meaning of and in accordance with the provisions of Part VI of the Financial Services and Markets Act 2000) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange.

The Bank, provided that it continues to be a bank within the meaning of section 991 of the Act, and provided that the interest on the Notes is paid in the ordinary course of its business within the meaning of section 878 of the Act, will be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax. Interest will not be regarded as being paid in the ordinary course of business where the borrowing relates to the capital structure of the Bank. The borrowing will be regarded as relating to the capital structure of the Bank if it conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the FSA, whether or not the borrowing actually counts towards tier 1, 2 or 3 capital for regulatory purposes.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom tax where at the time interest on the Notes is paid, the Bank reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) either:

- (a) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or
- (b) that the payment is made to one of the bodies or persons set out in section 935 to 937 of the Act,

provided that H.M. Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on Notes with a maturity date of less than a year after the issue date may be paid without withholding or deduction on account of United Kingdom tax provided that interest is not payable in respect of a debt which is intended to be outstanding for a year or more.

Interest on Notes issued by the Bank acting through its Australia branch may be paid without withholding or deduction for or on account of United Kingdom income tax where such interest is regarded as not having a United Kingdom source for United Kingdom tax purposes, which will depend on the circumstances relevant to the particular issue of Notes.

In all other cases, an amount must generally be withheld from payments of yearly interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary by H.M. Revenue & Customs under an applicable double taxation treaty.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or person entitled to the interest. H.M. Revenue & Customs also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and other Income) Act 2005 to or receives such amounts for the benefit of an individual. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by H.M. Revenue & Customs with the tax authorities of the jurisdictions in which the payee or beneficial owner of the interest or amount payable on redemption is resident for tax purposes. However, in relation to amounts payable on the redemption of such Notes, H.M. Revenue & Customs published practice indicates that H.M. Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2013.

Interest with a United Kingdom source may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction for or on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where (in the case of individuals) such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable or (in the case of companies) such persons carry on a trade in the United Kingdom through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable, in which case United Kingdom tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent.

Where interest has been paid under deduction of United Kingdom income tax (for example, if the Notes ceased to be listed and the interest is not paid in the ordinary course of the Bank's business), Noteholders who are not resident in the United Kingdom for tax purposes may be able to recover all or part of the tax deducted under an applicable double taxation treaty.

Noteholders should recognise that the provisions relating to additional amounts referred to in "Terms and Conditions of the Notes — Taxation" would not apply if H.M. Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

## **EU Savings Directive**

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

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

## **Australian Taxation**

The following is a general summary of certain Australian tax consequences under the Income Tax Assessment Acts of 1936 and 1997 of Australia (together, the “**Australian Tax Act**”) and any relevant regulations, rulings or judicial or administrative pronouncements, at the date of this Prospectus, of payments of interest and certain other amounts on the Notes to be issued by the Bank acting through its Australian branch under the Programme and certain other matters.

This summary is not exhaustive and should be treated with appropriate caution. In particular, the summary does not deal with the position of certain classes of Noteholders (including, without limitation, dealers in securities, custodians or other third parties who hold Notes on behalf of other persons). Prospective holders of Notes should also be aware that particular terms of issue of any Series of Notes may affect the tax treatment of that and other Series of Notes.

This summary is not intended to be, nor should it be construed as legal or tax advice to any particular investor. Prospective holders of Notes should consult their professional advisers on the tax implications of an investment in the Notes for their particular circumstances.

In this “Australian Taxation” section, a reference to the Bank is a reference to the Bank acting through its Australian branch.

### **1 Introduction**

The Australian Tax Act characterises securities as either “debt interests” (for all entities) or “equity interests” (for companies) including for the purposes of interest withholding tax (“**IWT**”) and dividend withholding tax. IWT is payable at a rate of 10 per cent. of the gross amount of interest paid by the Bank to a non-resident of Australia (other than a non-resident acting at or through a permanent establishment in Australia) or a resident acting at or through a permanent establishment outside Australia unless an exemption is available. For these purposes, interest is defined in section 128A(1AB) of the Australian Tax Act to include amounts in the nature of, or in substitution for, interest and certain other amounts.

The Bank intends to issue Notes which will be characterised as both “debt interests” and “debentures” for these purposes. If Notes are issued which are not so characterised, further information on the material Australian tax consequences of payments of interest and certain other amounts on those Notes will be specified in the relevant Final Terms (or another relevant supplement to this Prospectus).

### **2 Interest Withholding Tax**

The requirements for an exemption from Australian IWT under section 128F of the Australian Tax Act in respect of the Notes issued by the Bank are as follows:

- (a) the Bank is a company as defined in section 128F(9) of the Australian Tax Act and is a non-resident of Australia carrying on business at or through a permanent establishment in Australia when it issues those Notes and when interest is paid; and
- (b) those Notes are issued in a manner which satisfies the public offer test. There are five principal methods of satisfying the public offer test, the purpose of which is to ensure that lenders in capital markets are aware that the Bank is offering those Notes for issue. In summary, the five methods are:
  - (i) offers to 10 or more unrelated financiers or securities dealers;

- (ii) offers to 100 or more investors;
- (iii) offers of listed Notes;
- (iv) offers via publicly available information sources; and
- (v) offers to a dealer, manager or underwriter who offers to sell those Notes within 30 days by one of the preceding methods.

In addition, the issue of any of those Notes (whether in global form or otherwise) and the offering of interests in any of those Notes by one of these methods should satisfy the public offer test, provided that:

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

The fundamental difference in consequence between paragraphs (c) and (d) above is the time at which the Bank has the knowledge or suspicion that a Note may be acquired (or held) by an “associate” of the Bank. In very broad terms, if the Bank has the requisite knowledge or suspicion at the time at which the Bank issues the relevant Notes, then the “public offer” test will not be satisfied in respect of *any* Note issued by the Bank in respect of that particular issuance (paragraph (c)). If, however, the Bank did not have the requisite knowledge or suspicion at the time in which it issued the relevant Notes, but such knowledge or suspicion exists at the time it pays interest in respect of those Notes, then the “public offer” test should only be failed in respect of those particular Notes held by “associates” of the Bank at that time (paragraph (d)).

#### ***Associates***

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

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

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

- (b) in the case of section 128F(6) of the Australian Tax Act, a clearing house, paying agent, custodian, funds manager or responsible entity of a registered managed investment scheme.

***Compliance with section 128F of the Australian Tax Act***

Unless otherwise specified in any relevant Final Terms (or another supplement to this Prospectus), the Bank intends to issue the Notes in a manner which will satisfy the requirements of section 128F of the Australian Tax Act.

***Exemptions under recent tax treaties***

The Australian government has signed or announced new or amended double tax conventions (“**New Treaties**”) with a number of countries (each a “**Specified Country**”). In broad terms, once implemented, the New Treaties effectively prevent IWT applying (by reducing IWT to zero) to interest derived by:

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

The Australian Federal Treasury maintains a listing of Australia’s double tax conventions which provides details of country, status, withholding tax rate limits and Australian domestic implementation which is available to the public at the Federal Treasury’s Department’s website.

***Bearer Notes - section 126 of the Australian Tax Act***

Section 126 of the Australian Tax Act imposes a type of withholding tax at the rate of 45 per cent. on the payment of interest on Bearer Notes if the Bank fails to disclose the names and addresses of the holders of Bearer Notes to the Australian Taxation Office. However, section 126 of the Australian Tax Act is limited in its application to persons in possession of Bearer Notes who are residents of Australia or non-residents who are engaged in carrying on business in Australia at or through a permanent establishment in Australia. Where interests in the relevant Bearer Notes are held through Euroclear or Clearstream, Luxembourg, the Bank intends to treat the operators of those clearing systems as the holder for the purposes of section 126 of the Australian Tax Act.

***Payment of additional amounts***

As set out in more detail in the Terms and Conditions of the Notes and unless expressly provided to the contrary in the relevant Final Terms (or a relevant supplement to this Prospectus), if the Bank is at any time compelled or authorised by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by Australia or any political subdivision or taxing authority in Australia in respect of the Notes, the Bank must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of the Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required. If the Bank is compelled by law in relation to any Note to deduct or withhold an amount in respect of any withholding taxes, the Bank will have the option to redeem those Notes in accordance with the Terms and Conditions of the Notes.

### 3 Other Australian tax matters

Under Australian laws as presently in effect:

- (a) *death duties* - no Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having the power to tax if held at the time of death;
- (b) *stamp duty and other taxes* - no *ad valorem* stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Notes (except where the Notes are physically located in, received in, issued in or registered in South Australia);
- (c) *other withholding taxes on payments in respect of Notes* - section 12-140 of Schedule 1 to the Taxation Administration Act 1953 of Australia ("**Taxation Administration Act**") imposes a type of withholding tax at the rate of (currently) 46.5 per cent. on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number ("**TFN**"), (in certain circumstances) an Australian Business Number ("**ABN**") or proof of some other exception (as appropriate).

Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to the Notes, then the requirements of section 12-140 of Schedule 1 to the Taxation Administration Act do not apply to payments to a holder of Notes in registered form who is not a resident of Australia and not holding those Notes in the course of carrying on business at or through a permanent establishment in Australia. Payments to other classes of holders of Notes in registered form may be subject to a withholding where the holder of those Notes does not quote a TFN, ABN or provide proof of an appropriate exemption (as appropriate);

- (d) *goods and services tax ("GST")* - neither the issue or receipt of the Notes, the payment of principal or interest by the Bank, nor the disposal or redemption of the Notes, would give rise to any GST liability in Australia;
- (e) *supply withholding tax* - payments in respect of the Notes can be made free and clear of the "supply withholding tax" imposed under section 12-190 of Schedule 1 to the Taxation Administration Act; and
- (f) *taxation of financial arrangements* - Division 230 of the Australian Tax Act contains tax-timing rules for certain taxpayers to bring to account gains and losses from "financial arrangements".

The rules do not apply to certain taxpayers or in respect of certain short term "financial arrangements". They should not, for example, generally apply to Noteholders which are individuals and certain other entities (e.g. certain superannuation entities and managed investment schemes) which do not meet various turnover or asset thresholds, unless they make an election that the new rules apply to their "financial arrangements". Potential holders of Notes should seek their own tax advice regarding their own personal circumstances as to whether such an election should be made.

The rules in Division 230 do not affect the provisions relating to the imposition of IWT. In particular, the new rules do not apply in a manner which overrides the exemption available under section 128F of the Australian Tax Act.

## SUBSCRIPTION AND SALE

### Summary of Programme Agreement

Subject to the terms and on the conditions contained in a Programme Agreement originally dated 4 October 1996 and amended and restated on 20 April 2012 (as modified and/or supplemented and/or restated as at the date of the issue of the Notes, the “**Programme Agreement**”) between the Bank, the Dealers (the “**Permanent Dealers**”) and such additional persons that are appointed as dealers in respect of the Programme (and whose appointment has not been terminated), as the case may be, and the Arranger, the Notes will be offered on a continuous basis by the Bank to the Permanent Dealers and any such additional dealers. However, the Bank has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Bank through the Dealers, acting as agents of the Bank. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Bank may pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Bank has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment and update of the Programme.

The Bank has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Bank.

### Other Relationships

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Bank or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank’s affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Bank’s securities, including potentially any Notes which may be offered under the Programme. Any such short positions could adversely affect future trading prices of any Notes offered under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.



## SELLING RESTRICTIONS

### United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Bank for use in connection with the offer and sale of the Notes outside the United States. The Bank and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

### Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) if the Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a

“**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable and the Bank has consented in writing to its use for the purpose of a Non-exempt Offer;

- (ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (iii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or
- (iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State, and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA would not, if the Bank was not an authorised person, apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Australia**

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the “**Australian Corporations Act**”)) in relation to the Programme or any Notes has been, or will be, lodged with ASIC. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will

be required to represent and agree that, unless the relevant Final Terms (or a relevant supplement to this Prospectus) otherwise provides, it:

- (a) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this Prospectus or any other offering material or advertisement relating to the Notes in Australia,

unless:

- (i) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;
- (ii) the offer or invitation does not constitute an offer to a “retail client” for the purposes of section 761G of the Australian Corporations Act;
- (iii) such action complies with any other applicable laws, regulations and directives in Australia; and
- (iv) such action does not require any document to be lodged with ASIC.

In addition and unless the relevant Final Terms otherwise provides, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, in connection with any issue of Notes issued by the Bank acting through its Australia branch, it will not offer or sell any Notes (or any interest in any Notes) to any person who is known or suspected, by the relevant officer(s) or employee(s) of the Dealer involved in the offer, invitation or sale to be an Offshore Associate of the Bank or to any person who is notified in writing by the Bank to it as being an Offshore Associate of the Bank.

“**Offshore Associate**” means an associate (as defined in section 128F(9) of the Australian Tax Act) that is either:

- (a) a non-resident of Australia which does not acquire the Note in the course of carrying on a business at or through a permanent establishment in Australia; or
- (b) a resident of Australia that acquires the Note in the course of carrying on a business at or through a permanent establishment outside Australia,

which is not acquiring the Note, or receiving payment under the Note, in the capacity of a dealer, manager or underwriter in relation to the placement of the Notes or in the capacity of a clearing house, custodian, funds manager or responsible entity of a registered managed investment scheme.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA.

## Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**Securities and Futures Ordinance**”) other than (a) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

## **Republic of Korea**

The Notes have not been and will not be registered with the Financial Services Commission of Korea for public offering in Korea under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively the “FSCMA”). The Notes may not be offered, sold or delivered, directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law and its subordinate decrees and regulations (collectively, the “FETL”). Without prejudice to the foregoing, the number of the Notes offered in Korea or to a resident in Korea shall be less than fifty, and for a period of one year from the Issue Date of the Notes, none of the Notes may be divided resulting in an increased number of the Notes. Furthermore, the Notes may not be resold to Korean residents unless the purchaser of the Notes complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the FETL) in connection with the purchase of the Notes.

## **Belgium**

The Notes may not be distributed in Belgium by way of an offer of securities to the public, as defined in Article 3 §1 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on regulated markets, as amended from time to time, (the “**Prospectus Law**”), save in those circumstances set out in Article 3 §2 of the Prospectus Law.

The offering is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and this Prospectus or any other offering material relating to the Notes has not been and will not be approved by, the Belgian Financial Services and Markets Authority (*Autorité des Services et Marchés Financiers / Autoriteit voor Financiële Diensten en Markten*).

Accordingly, the offering may not be advertised and each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than:

- (i) qualified investors, as defined in Article 10 of the Prospectus Law;
- (ii) investors required to invest a minimum of €50,000 (per investor and per transaction) (or, once Belgium has implemented the 2010 PD Amending Directive, €100,000);
- (iii) and in any other circumstances set out in Article 3 §2 of the Prospectus Law.

This Prospectus has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the offering of Notes. Accordingly, the information contained herein may not be used for any other purpose nor disclosed to any other person in Belgium.

## **People's Republic of China**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

## **Sweden**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no offer will be made to the public in Sweden unless it is in compliance with the Swedish Financial Instruments Trading Act (*Sw. lag (1991:980) om handel med finansiella instrument*) and any other applicable Swedish law.

## **France**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) Offer to the public in France:

it has only made and will only make an offer of Notes to the public in France in the period beginning on the date of notification to the *Autorité des marchés financiers* (“AMF”) of the approval of the prospectus relating to those Notes by the competent authority of a member state of the European Economic Area, other than the AMF, which has implemented the EU Prospectus Directive 2003/71/EC, all in accordance with Articles L.412-1 and L.621-8 of the French Code *monétaire et financier* and the *Règlement général* of the AMF, and ending at the latest on the date which is 12 months after the date of the approval of such prospectus; or

- (ii) Private placement in France:

it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*) as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

## **United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

## **Dubai International Financial Centre**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

- (i) an “Exempt Offer” in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the “**DFSA**”); and
- (ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

## **Spain**

This Prospectus has not been registered with the Spanish Securities Market Regulator (*Comisión Nacional del Mercado de Valores*). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may only be offered to the public in Spain pursuant to and in compliance with Law 24/1988 and Royal Decree 1310/2005, both as amended, and any regulation issued thereunder.

## **Malta**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: (i) it has not issued or caused to be issued and will not issue or cause to be issued any investment advertisement, as defined in the Investment Services Act (Chapter 370 of the Laws of Malta) (the “**ISA**”), in relation to the Notes or the offer of Notes, in or from within Malta, except that it may issue or cause to be issued such investment advertisement in or from within Malta if it is issued or its contents have been approved by a licence holder in terms of the ISA or if and to the extent that an exemption from the requirements set out in article 11(1)(b) of the ISA applies under Maltese law; and (ii) if any offer of Notes is made to the public in Malta and/or any advertisement or any other document or information in relation to an offer of Notes or the Notes is issued or caused to be issued in or from Malta, such offer will be made and/or such advertisement, document or information will be so issued or caused to be issued in accordance with Maltese law.

Each Dealer has further represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not issue or cause to be issued any investment advertisement, as defined in the ISA, in relation to the Notes or the offer of Notes, in or from within Malta, unless it is authorised to do so by the Bank.

## **Switzerland**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it will not publicly offer, sell or advertise the Notes in or from Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations (“**CO**”); and
- (b) to the extent the Notes qualify as structured products within the meaning of the Swiss Collective Investment Schemes Act (the “**CISA**”), it will not publicly offer, sell or advertise the Notes in or from Switzerland, as such term is defined or interpreted under the CISA.

Neither this Prospectus nor any other documents related to the Notes constitute a prospectus in the sense of article 652a or 1156 CO or a simplified prospectus in the sense of article 5 CISA, and neither this Prospectus nor any other documents related to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. The Bank has not applied for a listing of the Notes on the SIX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this Prospectus does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange. The Notes do not constitute participations in a collective investment scheme within the meaning of the CISA. Therefore, the Notes are not subject to the approval of, or supervision by, the Swiss Financial Market Supervisory Authority FINMA (“**FINMA**”), and investors in the Notes will not benefit from protection under the CISA or supervision by FINMA.

## **Ireland**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (i) it will not offer, underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) including, without limitation, Regulations 7 and 152 thereof or any codes of conduct issued in connection therewith, and the provisions of the Investor Compensation Act 1998;
- (ii) it will not offer, underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Banks Acts 1942 to 2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- (iii) it will not offer, underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland;
- (iv) it will not offer, underwrite the issue of, place, or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland; and
- (v) no Notes will be offered or sold with a maturity of less than 12 months except in full compliance with Notice BSD C 01/02 issued by the Central Bank of Ireland.

## **General**

These selling restrictions may be modified by the agreement of the Bank and the Dealers following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any Dealer(s) will be required to comply will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

Other than in the United Kingdom, no action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.



Neither the Bank nor the Dealers represent that Notes may at any time lawfully be sold in compliance with any appropriate registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it shall, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and, that it will, obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws, regulations and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sale or deliveries, and neither the Bank nor any other Dealer shall have responsibility therefor.

## TRANSFER RESTRICTIONS

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period (as used in “**Selling Restrictions**”), by its acceptance of such Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (as such terms are defined in Regulation S) and (b) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate.
- (ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (iii) It understands that the Bank, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (iv) It understands that the Notes offered in reliance on Regulation S will be represented by a Global Certificate or a Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Global Certificate or the Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Global Certificate or the Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

**APPLICABLE FINAL TERMS FOR ISSUES BY THE BANK  
WITH A DENOMINATION OF LESS THAN €100,000 (OR EQUIVALENT)  
TO BE ADMITTED TO TRADING ON AN EEA REGULATED MARKET AND/OR  
OFFERED TO THE PUBLIC ON A NON-EXEMPT BASIS IN THE EUROPEAN  
ECONOMIC AREA (CGN & NGN)**

Final Terms dated [●]

**Lloyds TSB Bank plc [acting through its Australia branch (ABN 77 142 617 605)]**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the £50,000,000,000  
Euro Medium Term Note Programme

**PART A — CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date. [NON-LONDON LISTED]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [date]] and are attached hereto. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [date] and [date]]. The Prospectuses [and the supplemental Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date. [LONDON LISTED]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC)

(the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus] are available for viewing [address] [and] [website] and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

- |   |  |  |
|---|--|--|
| 1 | Issuer:  | Lloyds TSB Bank plc [acting through its Australia branch] [ <i>Include only where issuance is through the Bank’s Australia branch</i> ]  |
| 2 | (i) [Series Number:]   | [•]  |
|   | (ii) [Tranche Number:]   | [•]  |
|   | (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] |  |
| 3 | Specified Currency or Currencies:  | [•] <sup>^</sup>   |
| 4 | Aggregate Nominal Amount:  | [•]  |
|   | (i) [Series:]  | [•]  |
|   | (ii) [Tranche:]  | [•]  |
| 5 | Issue Price:   | [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]<br><i>(In the case of fungible issue only, if applicable)</i>   |
| 6 | (i) Specified Denominations:   | [•]  |
|   | (ii) Calculation Amount:   | [•]  |
|   | [(iii) Minimum Consideration Payable]  | [The Notes will not be issued to a subscriber of the Notes unless the aggregate consideration payable by the subscriber is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates)]<br><i>[Include only where issuance is through the Bank’s Australia branch]</i> |
| 7 | (i) [Issue Date:]  | [•]  |
|   | (ii) [Interest Commencement Date:]   | [•]  |

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<sup>^</sup> In respect of Notes denominated in Renminbi, investors should note that the Renminbi is not freely convertible at present. All payments in respect of such Notes shall be made solely by transfer to a registered account maintained by or on behalf of the Noteholder with a bank in Hong Kong in accordance with applicable laws and regulations. The Bank cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or by transfer to a bank account in the PRC).

- 8 Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*  
*(N.B. it will be necessary to use the second option for Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification)*
- 9 Interest Basis:  per cent. Fixed Rate]  
*[specify reference rate] +/-  per cent. Floating Rate]*  
[Zero Coupon]  
[Other *(specify)*]  
(further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]  
[Dual Currency]  
[Instalment]  
[Partly Paid]  
[Other *(specify)*]
- 11 Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
- 12 Alternative Currency Equivalent: [Not Applicable/Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph. Where Notes are denominated in Renminbi, it is expected that this paragraph will be marked "Applicable". If so, the sub-paragraphs below should normally be completed.)*
- (i) Alternative Currency:
- (ii) Alternative Currency Adjudication Agent:
- (iii) Alternative Currency Calculation Agent:
- (iv) Rate Calculation Jurisdiction:
- (v) Rate Calculation Business Days:
- (vi) Specified Time:
- (vii) Scheduled Payment Currency Disruption Events: As specified in the Conditions [and] *[specify additional currency disruption events]*
- (viii) Settlement Rate Option:
- (ix) USD Settlement Rate Option: *[Only applicable where the Alternative Currency is a currency other than U.S. dollars]*

- (x) Maximum Days of Postponement: [●]
- 13 Put/Call Options: [Put Option]  
[Call Option]  
[(further particulars specified below)]
- 14 Status of the Notes: [Senior/[Dated [(Upper/Lower Tier  
2)]/Undated]/Subordinated]
- 15 Method of distribution: [Syndicated/Non-syndicated]
- PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**
- 16 **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi  
annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [[●] in each year]  
*(N.B. Condition 6(h) will apply if an Interest Payment Date falls on a non-business day)*  
  
[Provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month, in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day.  
  
For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payment and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong.]  
*(N.B. The second option should only be used in the case of Fixed Rate Notes denominated in Renminbi where the Interest Payment Dates are subject to modification)*
- (iii) Fixed Coupon Amount[(s)]: [[●] per Calculation Amount]  
[Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, with CNY0.005 being rounded upwards.]  
*(N.B. The second option should only be used in the case of Fixed Rate Notes denominated in Renminbi where the Interest Payment Dates are subject to modification)*

(iv) Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(v) Day Count Fraction:	[●]/[Actual/365 (fixed)] ( <i>Day Count Fraction should be Actual/Actual ICMA for all fixed rate issues other than those denominated in U.S. dollars or Renminbi, unless otherwise agreed</i> )
(vi) Determination Dates:	[●] in each year ( <i>insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual-ICMA</i> )
(vii) [Business Day Convention:	[Applicable - Modified Following Business Day Convention/other (give details)/Not Applicable] <i>[Only applicable where Notes are denominated in Renminbi]</i>
(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/ <i>give details</i> ]
<b>17 Floating Rate Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate for Notes denominated in euro)</i>
(i) Interest Period(s):	[●]
(ii) Specified Interest Payment Dates:	[●]
(iii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(iv) Business Centre(s):	[●]
(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other ( <i>give details</i> )]
(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
(vii) Screen Rate Determination:	
– Reference Rate:	[●]
– Interest Determination Date(s):	[●] [ <i>TARGET/City</i> ] Business Days in [ <i>specify City</i> ] prior to [ <i>the first day</i> ] in each Interest Accrual Period/each Interest Payment Date
– Relevant Screen Page:	[●]
– Relevant Time:	[●]

(viii) ISDA Determination:	
– Floating Rate Option:	[●]
– Designated Maturity:	[●]
– Reset Date:	[●]
(ix) Margin(s):	[+/-][●] per cent. per annum
(x) Minimum Rate of Interest:	[●] per cent. per annum
(xi) Maximum Rate of Interest:	[●] per cent. per annum
(xii) Day Count Fraction:	[●]
(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
<b>18 Zero Coupon Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Amortisation Yield:	[●] per cent. per annum
(ii) Amortisation Yield compounding basis	[Compounded/Non-compounded] [annually/semi-annually/other]
(iii) Reference Price:	[●]
(iv) Any other formula/basis of determining amount payable:	[●]
<b>19 Dual Currency Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Rate of Exchange/method of calculating Rate of Exchange:	[give details]
(ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Issuing and Paying Agent):	[●]
(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]
<b>PROVISIONS RELATING TO REDEMPTION</b>	
<b>20 Call Option</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>



(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii)	If redeemable in part:	
(a)	Minimum Redemption Amount:	[●]
(b)	Maximum Redemption Amount:	[●]
(iv)	Notice period:	[●]/[Not less than five nor more than [●] days]
<b>21</b>	<b>Put Option</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii)	Notice period:	[●]
<b>22</b>	<b>Final Redemption Amount</b>	[[●] per Calculation Amount/other/see Appendix]
<b>23</b>	<b>Early Redemption Amount:</b>	
	Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption.	[[●] per Calculation Amount / [other] / [see Appendix]]
	Unwind Costs:	[Applicable <i>(please specify)</i> ]/Not Applicable]
<b>GENERAL PROVISIONS APPLICABLE TO THE NOTES</b>		
<b>24</b>	Form of Notes:	<b>Bearer Notes:</b> [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] <i>(In relation to any issue of Notes which are expressed to be Temporary Global Notes exchangeable for Definitive Notes in accordance with this option, such Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.)</i> [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global

- Note]
- [Registered Notes – Global Certificate -  
[Euroclear/Clearstream Luxembourg]/[CMU  
Service]]
- [CREST Depository Interests (“CDIs”) representing  
the Notes may also be issued in accordance with the  
usual procedures of Euroclear UK & Ireland Limited  
 (“CREST”).]
- 25 New Global Note: [Yes] [No]
- 26 Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/*give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraph 17(iv) relates*]
- 27 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 28 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Bank to forfeit the Notes and interest due on late payment]: [Not Applicable/*give details*]
- 29 Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
- 30 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to these Final Terms apply]
- 31 Consolidation provisions: [Not Applicable/The provisions in [Condition 14] annexed to these Final Terms] apply]
- 32 Other final terms: [Not Applicable/*give details*]  
*(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

- 33 (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names, addresses and underwriting commitments*]  
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the*

- Managers.)*
- (ii) Date of [Subscription] Agreement: [●]
- (iii) Stabilising Manager(s) (if any): [Not Applicable/give name]
- 34** If non-syndicated, name and address of Dealer: [Not Applicable/give name and address]
- 35** Total commission and concession: [●] per cent. of the Aggregate Nominal Amount
- 36** U.S. Selling Restrictions: [Reg S Category 2; TEFRA C/TEFRA D/TEFRA not applicable]
- 37** Non-exempt Offer: [An offer of the Notes may be made by the Managers [and [specify, if applicable]] other than pursuant to Article 3(2) of the Prospectus Directive in [specify relevant Member States(s) – which must be jurisdictions where the Prospectus and any supplements have been passported] during the period from [specify date] until [specify date].]  
[Not Applicable]
- 38** Additional selling restrictions: [Not Applicable/give details]

**[LISTING AND ADMISSION TO TRADING APPLICATION]**

These Final Terms comprise the final terms required for issue [and] [public offer in the countries specified in paragraph 37] [and] admission to trading of the Notes described herein pursuant to the £50,000,000,000 Euro Medium Term Note Programme of Lloyds TSB Bank plc.]

**RESPONSIBILITY**

The Bank accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Bank [acting through its Australia branch] [*Include only where issuance is through Lloyds Australia branch*]:

By: [●] .....

Duly authorised

## PART B — OTHER INFORMATION

### 1 LISTING

- (i) Listing: [London/Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].] [Not Applicable.]  
*(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2 RATINGS

- Ratings: [The Notes to be issued have not been rated.]  
[The Notes to be issued have been rated:  
[S & P: [●]]  
[Moody's: [●]]  
[[Other]: [●]]
- [Include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*
- (The above disclosure should only normally be included where the issue has been specifically rated.)*
- Insert one (or more) of the following options, as applicable:*
- Option 1: CRA is (i) established in the EU and (ii) registered under the CRA Regulation:**
- [Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No 1060/2009 (the “CRA Regulation”).*
- Option 2: CRA is not established in the EU but the relevant rating is endorsed by a CRA which is established and registered under the CRA Regulations:**
- [Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the Notes is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No 1060/2009 (the “CRA Regulation”).*

**Option 3: CRA is *not* established in the EU and the relevant rating is not endorsed under the CRA Regulation, but the CRA is certified under the CRA Regulation:**

*[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the “CRA Regulation”).*

**Option 4: CRA is *neither* established in the EU nor certified under the CRA Regulation and the relevant rating is not endorsed under the CRA Regulation:**

*[Insert legal name of particular credit rating agency providing rating] is not established in the EU and is not certified under Regulation (EC) No 1060/2009 (the “CRA Regulation”) and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EU and registered under the CRA Regulation.*

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

*[Include the following only where issuance is through the Bank’s Australia branch:]*

[Credit ratings are for distribution only to a person (a) who is not a “retail client” within the meaning of section 761G of the Corporations Act 2001 of Australia (the “**Australian Corporations Act**”) and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Australian Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive these Final Terms and anyone who receives these Final Terms must not distribute it to any person who is not entitled to receive them.]

**3 [NOTIFICATION**

The *[include name of competent authority in EEA home Member State]* [has been requested to provide/has provided — *[include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues]* the

[include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

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

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement: “Save as discussed in [“Subscription and Sale”], so far as the Bank is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

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

(i) [Reasons for the offer: [●]  
*(See “Use of Proceeds” wording in Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*

(ii) [Estimated net proceeds: [●]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

(iii) [Estimated total expenses: [●]  
*[Include breakdown of expenses.]*

**6 [Fixed Rate Notes only — YIELD**

Indication of yield [●]  
Calculated as [include details of method of calculation in summary form] on the Issue Date. As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

**7 [Floating Rate Notes only — HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

**8 [Dual Currency Notes only — PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

**9 OPERATIONAL INFORMATION**

ISIN Code: [●]/[Not Applicable]

Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/give name(s) and number(s) [and addresses]]

[The Notes will also be made eligible for CREST via the issue of CDIs representing the Notes.]

[The Notes will be cleared through the CMU Service. CMU Instrument Number: [●].

Persons holding a beneficial interest in the Notes through Euroclear or Clearstream, Luxembourg will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg (as applicable) with the CMU Operator. *[include this text for CMU Notes only]*

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]/[Not Applicable]

Name and address of Calculation Agent: [●]/[Not Applicable]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No].  
 [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee for the common safekeeper,] *[include this text for Registered Notes]* and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[include this text if “yes” selected in which case bearer Notes must be issued in NGN form]*

**10 TERMS AND CONDITIONS OF THE OFFER**

Offer Period: [[●] to [●]]

Offer Price: [●]

Conditions to which the offer is subject: [Not Applicable/give details]

Description of the application process: [Not Applicable/give details]

Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants: [Not Applicable/give details]

Details of the minimum and/or maximum amount of application: [Not Applicable/give details]

Details of the method and time limits for paying up and delivering the Notes: [Not Applicable/give details]

Manner and date in which results of the offer are to be made public: [Not Applicable/give details]

Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: [Not Applicable/give details]

Categories of potential investors to which the Notes are offered and whether tranche(s): [Not Applicable/give details]

have been reserved for certain countries:

Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made: [Not Applicable/*give details*]

Amount of any expenses and taxes specifically charged to the subscriber or purchaser: [Not Applicable/*give details*]

Name(s) and address(es), to the extent known to the Bank, of the placers in the various countries where the offer takes place: [None/*give details*]



**APPLICABLE FINAL TERMS FOR ISSUES BY THE BANK  
WITH A DENOMINATION OF AT LEAST €100,000 (OR EQUIVALENT)  
TO BE ADMITTED TO TRADING ON AN EEA REGULATED MARKET (CGN & NGN)**

Final Terms dated [●]

**Lloyds TSB Bank plc [acting through its Australia branch (ABN 77 142 617 605)]**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the £50,000,000,000

Euro Medium Term Note Programme

**PART A — CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date. [NON-LONDON LISTED]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [date]] and are attached hereto. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [date] and [date]]. The Prospectuses [and the supplemental Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date. [LONDON LISTED]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and

the supplemental Prospectus dated [date], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus] are available for viewing [address] [and] [website] and copies may be obtained from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

- |   |  |  |
|---|--|--|
| 1 | Issuer:  | Lloyds TSB Bank plc [acting through its Australia branch] <i>[Include only where issuance is through the Bank’s Australia branch]</i>  |
| 2 | (i) [Series Number:]   | [●]  |
|   | (ii) [Tranche Number:]   | [●]  |
|   | (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] |  |
| 3 | Specified Currency or Currencies:  | [●]^   |
| 4 | Aggregate Nominal Amount:  | [●]  |
|   | (i) [Series:]  | [●]  |
|   | (ii) [Tranche:]  | [●]  |
| 5 | Issue Price:   | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]<br><i>(In the case of a fungible issue only, if applicable)</i>   |
| 6 | (i) Specified Denominations:   | [●]  |
|   | (ii) Calculation Amount:   | [●]  |
|   | [(iii) Minimum Consideration Payable]  | [The Notes will not be issued to a subscriber of the Notes unless the aggregate consideration payable by the subscriber is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates)]<br><br><i>[Include only where issuance is through the Bank’s Australia branch]</i> |
| 7 | (i) [Issue Date:]  | [●]  |
|   | (ii) [Interest Commencement Date:]   | [●]  |
| 8 | Maturity Date:   | <i>[specify date or (for Floating Rate Notes) Interest</i>   |

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<sup>^</sup> In respect of Notes denominated in Renminbi, investors should note that the Renminbi is not freely convertible at present. All payments in respect of such Notes shall be made solely by transfer to a registered account maintained by or on behalf of the Noteholder with a bank in Hong Kong in accordance with applicable laws and regulations. The Bank cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or by transfer to a bank account in the PRC).

*Payment Date falling in or nearest to the relevant month and year]*

*(N.B. it will be necessary to use the second option for Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification.)*

- 9 Interest Basis: [● per cent. Fixed Rate]  
[[specify reference rate] +/- ● per cent. Floating Rate]  
[Zero Coupon]  
[Other (specify)]  
(further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]  
  
[Dual Currency]  
[Instalment]  
[Partly Paid]  
[Other (specify)]
- 11 Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
- 12 Alternative Currency Equivalent: [Not Applicable/Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph. Where Notes are denominated in Renminbi, it is expected that this paragraph will be marked "Applicable". If so, the sub-paragraphs below should normally be*
- (i) Alternative Currency: [●]
- (ii) Alternative Currency Adjudication Agent: [●]
- (iii) Alternative Currency Calculation Agent: [●]
- (iv) Rate Calculation Jurisdiction: [●]
- (v) Rate Calculation Business Days: [●]
- (vi) Specified Time: [●]
- (vii) Scheduled Payment Currency Disruption Events: As specified in the Conditions [and] *[specify additional currency disruption events]*
- (viii) Settlement Rate Option: [●]

(ix) USD Settlement Rate Option: *[Only applicable where the Alternative Currency is a currency other than U.S. dollars]*

(x) Maximum Days of Postponement: [●]

13 Put/Call Options: [Put Option]  
[Call Option]  
[(further particulars specified below)]

14 Status of the Notes: [Senior/[Dated [(Upper/Lower Tier 2)]/Undated]/Subordinated]

15 Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16 **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(i) Rate(s) of Interest: [●] per cent. per annum [payable [annually/semi annually/ quarterly/ monthly] in arrear]

(ii) Interest Payment Date(s): [●] in each year  
*(N.B. Condition 6(h) will apply if an Interest Payment Date falls on a non-business day)*

[Provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day.

For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payment and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong.]

*(N.B. The second option should only be used in the case of Fixed Rate Notes denominated in Renminbi where the Interest Payment Dates are subject to modification)*

(iii) Fixed Coupon Amount(s): [[●] per Calculation Amount]  
[Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, with CNY0.005 being rounded upwards.]

*(N.B. The second option should only be used in the case of Fixed Rate Notes denominated in Renminbi where the Interest Payment Dates are subject to modification)*

- (iv) Broken Amount(s):  per Calculation Amount, payable on the Interest Payment Date falling [in/on]
- (v) Day Count Fraction: /[Actual/365 (fixed)] (*Day Count Fraction should be Actual/Actual ICMA for all fixed rate issues other than those denominated in U.S. dollars or Renminbi, unless otherwise agreed*)
- (vi) Determination Dates:  in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual-ICMA*)
- (vii) [Business Day Convention:  Applicable - Modified Following Business Day Convention/other (*give details*)/Not Applicable]  
*[Only applicable where Notes are denominated in Renminbi]*
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:  Not Applicable/*give details*

**17 Floating Rate Note Provisions**

Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate for Notes denominated in euro)*

- (i) Interest Period(s):
- (ii) Specified Interest Payment Dates:
- (iii) Business Day Convention:  Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)
- (iv) Business Centre(s):
- (v) Manner in which the Rate(s) of Interest is/are to be determined:  Screen Rate Determination/ISDA Determination/other (*give details*)
- (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):
- (vii) Screen Rate Determination:
  - Reference Rate:
  - Interest Determination Date(s):  *[TARGET/City] Business Days in [specify City] prior to [the first day] in each Interest Accrual*

		Period/each Interest Payment Date
	– Relevant Screen Page:	[●]
	– Relevant Time:	[●]
	(viii) ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	(ix) Margin(s):	[+/-] [●] per cent. per annum
	(x) Minimum Rate of Interest:	[●] per cent. per annum
	(xi) Maximum Rate of Interest:	[●] per cent. per annum
	(xii) Day Count Fraction:	[●]
	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
<b>18</b>	<b>Zero Coupon Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Amortisation Yield compounding basis:	[Compounded/Non-compounded] [annually/semi-annually/other]
	(iii) Reference Price:	[●]
	(iv) Any other formula/basis of determining amount payable:	[●]
<b>19</b>	<b>Dual Currency Note Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[give details]
	(ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Issuing and Paying Agent):	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

## PROVISIONS RELATING TO REDEMPTION

- 20 Call Option** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
  - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [●] per Calculation Amount
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [●]
    - (b) Maximum Redemption Amount: [●]
  - (iv) Notice period: [●]/[Not less than five nor more than [●] days]
- 21 Put Option** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
  - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [●] per Calculation Amount
  - (iii) Notice period: [●]
- 22 Final Redemption Amount** [[●] per Calculation Amount/other/see Appendix]
- 23 Early Redemption Amount:**
- Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption [[●] per Calculation Amount / [other] / [see Appendix]]
- Unwind Costs: [Applicable (*please specify*)/Not Applicable]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 24 Form of Notes:** **Bearer Notes:**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]
- (In relation to any issue of Notes which are expressed to be Temporary Global Notes exchangeable for Definitive Notes in accordance with this option, such Notes shall be tradeable only in amounts of at least*

*the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.*

[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Registered Notes – Global Certificate —  
[Euroclear/Clearstream Luxembourg]/[CMU Service]]

[CREST Depository Interests (“CDIs”) representing the Notes may also be issued in accordance with the usual procedures of Euroclear UK & Ireland Limited (“CREST”).]

- |           |   |   |
|-----------|---|---|
| <b>25</b> | New Global Note:  | [Yes] [No]  |
| <b>26</b> | Additional Financial Centre(s) or other special provisions relating to payment dates:   | [Not Applicable/give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which subparagraph 17(iv) relates] |
| <b>27</b> | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):   | [Yes/No. If yes, give details]  |
| <b>28</b> | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Bank to forfeit the Notes and interest due on late payment]: | [Not Applicable/give details]   |
| <b>29</b> | Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:  | [Not Applicable/give details]   |
| <b>30</b> | Redenomination, renominatisation and reconventioning provisions:  | [Not Applicable/The provisions annexed to these Final Terms apply]  |
| <b>31</b> | Consolidation provisions:   | [Not Applicable/The provisions in [Condition 14] annexed to these Final Terms] apply]   |
| <b>32</b> | Other final terms:  | [Not Applicable/give details]   |

*(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*



**DISTRIBUTION**

- 33 If syndicated, names of Managers: [Not Applicable/*give names*]  
Stabilising Manager(s) (if any): [Not Applicable/*give names*]
- 34 If non-syndicated, name of Dealer: [Not Applicable/*give names*]
- 35 U.S. Selling Restrictions: [Reg S Category 2; TEFRA C/TEFRA D/TEFRA not applicable]
- 36 Additional selling restrictions: [Not Applicable/*give names*]

**[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required for issue and admission to trading of the Notes described herein pursuant to the £50,000,000,000 Euro Medium Term Note Programme of Lloyds TSB Bank plc.]

**RESPONSIBILITY**

The Bank accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Bank [acting through its Australia branch] [*Include only where issuance is through Lloyds Australia branch*]:

By: [●] .....  
Duly authorised

## PART B — OTHER INFORMATION

### 1 LISTING

- (i) Listing: [London/Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].] [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2 RATINGS

- Ratings: [The Notes to be issued have not been rated.]  
[The Notes to be issued have been rated:  
[S & P: [●]]  
[Moody's: [●]]  
[[Other]: [●]]]
- (The above disclosure should only normally be included where the issue has been specifically rated.)*
- Insert one (or more) of the following options, as applicable:*

**Option 1: CRA is (i) established in the EU and (ii) registered under the CRA Regulation:**

*[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No 1060/2009 (the "CRA Regulation").*

**Option 2: CRA is not established in the EU but the relevant rating is endorsed by a CRA which is established and registered under the CRA Regulations:**

*[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the Notes is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No 1060/2009 (the "CRA Regulation").*

**Option 3: CRA is not established in the EU and the relevant rating is not endorsed under the CRA Regulation, but the CRA is certified under the CRA Regulation:**

*[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU*

but is certified under Regulation (EC) No 1060/2009 (the “CRA Regulation”).

**Option 4: CRA is neither established in the EU nor certified under the CRA Regulation and the relevant rating is not endorsed under the CRA Regulation:**

*[Insert legal name of particular credit rating agency providing rating] is not established in the EU and is not certified under Regulation (EC) No 1060/2009 (the “CRA Regulation”) and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EU and registered under the CRA Regulation.*

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

*[Include the following only where issuance is through the Bank’s Australia branch:]*

[Credit ratings are for distribution only to a person (a) who is not a “retail client” within the meaning of section 761G of the Corporations Act 2001 of Australia (the “**Australian Corporations Act**”) and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Australian Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive these Final Terms and anyone who receives these Final Terms must not distribute it to any person who is not entitled to receive them.]

**3 [NOTIFICATION]**

The *[include name of competent authority in EEA home Member State]* [has been requested to provide/has provided — *[include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues]* the *[include names of competent authorities of host Member States]* with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

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

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

inclusion of the following statement: “Save as discussed in [“Subscription and Sale”], so far as the Bank is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

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

(i) [Reasons for the offer: [●]  
*(See “Use of Proceeds” wording in Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*

(ii) [Estimated net proceeds: [●]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]*

(iii) [Estimated total expenses: [●]  
*[Include breakdown of expenses.]*  
*(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]*

**6 [Fixed Rate Notes only — YIELD**

Indication of yield: [●]  
*The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]*

**7 [Floating Rate Notes only — HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

**8 [Dual Currency Notes only — PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

**9 OPERATIONAL INFORMATION**

ISIN Code: [●]/[Not Applicable]

Common Code: [●]  
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/give name(s) and number(s) [and address(es)]].  
[The Notes will also be made eligible for CREST via the issue of CDIs representing the Notes.]  
[The Notes will be cleared through the CMU Service. CMU Instrument Number: [●].  
Persons holding a beneficial interest in the Notes

	through Euroclear or Clearstream, Luxembourg will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg (as applicable) with the CMU Operator.][ <i>include this text for CMU Notes only</i> ]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]/[Not Applicable]
Name and address of Calculation Agent:	[●]/[Not Applicable]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No]. [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee for the common safekeeper,][ <i>include this text for Registered Notes</i> ]] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [ <i>include this text if “yes” selected in which case bearer Notes must be issued in NGN form</i> ]

## GENERAL INFORMATION

1. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 26 April 2012. 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. However, unlisted Notes may be issued pursuant to the Programme.
2. The Bank has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment and update of the Programme and the issue and performance of the Notes. The establishment of the Programme was authorised by resolutions of the Chairman's Committee of the Board of Directors of the Bank passed on 26 September 1996 and the update of the Programme and the issue of Notes under it was authorised by resolutions of the Board of Directors of the Bank passed on 23 February 2012.
3. There has been no significant change in the financial or trading position of Lloyds TSB Bank Group since 31 December 2011, the date to which Lloyds TSB Bank Group's last published audited financial information (as set out in the Bank's 2011 Annual Report) was prepared. There has been no material adverse change in the prospects of the Bank since 31 December 2011, the date to which Lloyds TSB Bank Group's last published audited financial information (as set out in the Bank's 2011 Annual Report) was prepared.
4. Save as disclosed in the sub-sections entitled "Interchange Fees", "Payment Protection Insurance", "Interbank Offered Rate Setting Investigations", "Litigation in relation to insurance branch business in Germany", "Shareholder complaints" and "Employee disputes" of the section "Lloyds Banking Group – Legal Actions and Regulatory Matters" on pages 112 to 115 of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of the Bank or Lloyds TSB Bank Group.
5. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
6. Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). Interests in the Notes may also be held through CREST through the issuance of CDIs representing Underlying Notes. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L- 1855 Luxembourg and the address of CREST is Euroclear UK & Ireland, 33 Cannon Street, London, EC4M 5SB. The address of any

alternative clearing system will be specified in the applicable Final Terms. The address of CMU Service is 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

CMU Notes have been accepted for clearance through the CMU Service. For persons seeking to hold a beneficial interest in CMU Notes through Euroclear or Clearstream, Luxembourg, such person will hold their interests in an account opened and held by Euroclear or Clearstream, Luxembourg with the CMU Operator.

7. For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN:
  - 7.1 the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
  - 7.2 the Memorandum and Articles of Association of the Bank;
  - 7.3 the Annual Report and Accounts of the Bank for the two financial years ended 31 December 2010 and 31 December 2011;
  - 7.4 each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Bank and the Issuing and Paying Agent as to its holding of Notes and identity); and
  - 7.5 a copy of this Prospectus together with any Supplemental Prospectus or drawdown prospectus.

Unless otherwise stated in the applicable Final Terms, the Bank does not intend to provide post-issuance information in connection with any issue of Notes.

This Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

8. Copies of the latest audited consolidated Report and Accounts of the Bank and copies of the Trust Deed will be available for inspection at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.

PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, (members of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the annual consolidated published accounts of the Bank for the two financial years ended 31 December 2010 and 31 December 2011.

9. No redemption of the Notes for taxation reasons, no redemption of the Notes, no optional redemption of the Notes pursuant to Condition 5(d) or Condition 5(e) and no purchase and cancellation of the Notes in accordance with the Conditions of the Notes will be made by the Bank without such prior consent of, or notification to (and no objection being raised by), the FSA as may for the time being be required therefor.
10. The Bank is registered as a foreign company in Australia and carries on banking business in Australia as a foreign authorised deposit-taking institution pursuant to an authority issued by APRA. As a

consequence, the Australia branch of the Bank is also subject to prudential oversight and regulation by APRA in accordance with APRA's published prudential standards and guidelines.

In addition, the Australian branch of the Bank also holds an Australian financial services licence issued by the Australian Securities and Investment Commission, which enables the branch to conduct its treasury activities within the Australian jurisdiction.

The registered office of the Australian branch of the Bank is located at Level 25, 45 Clarence Street, Sydney NSW 2000, Australia.

The Australian branch of the Bank provides wholesale funding, management of liquidity and arranges debt capital issuance and asset securitisation programmes for Lloyds International Pty Limited and its subsidiaries in Australia. It also provides a range of treasury products and risk management solutions to Lloyds International Pty Limited and its subsidiaries in Australia and their clients.



**REGISTERED OFFICE OF THE BANK**

25 Gresham Street  
London EC2V 7HN  
Tel: +44 20 7626 1500

**PRINCIPAL OFFICE OF THE BANK'S AUSTRALIA BRANCH**

Level 25  
45 Clarence Street  
Sydney NSW 2000  
Australia  
Tel: +61 2 8235 0500

**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**

Fifth Floor  
100 Wood Street  
London EC2V 7EX

**ISSUING AND PAYING AGENT, CALCULATION AGENT, REGISTRAR AND TRANSFER AGENT**

**Citibank, N.A., London Branch**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**CMU LODGING AGENT AND CMU ISSUING AND PAYING AGENT**

**Citicorp International Limited**

9th Floor, Two Harbourfront  
22 Tak Fung Street  
Hungohm  
Kowloon  
Hong Kong

**PAYING AGENT AND TRANSFER AGENT**

**Citigroup Global Markets Deutschland AG**

Reuterweg 16 60323  
Frankfurt AM Main  
Germany

## DEALERS

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**Crédit Agricole Corporate and Investment Bank**  
9 Quai du Président Paul Doumer  
92920 Paris La Défense Cedex  
France

**Daiwa Capital Markets Europe Limited**  
5 King William Street  
London EC4N 7AX

**DZ BANK AG Deutsche Zentral-Genossenschaftsbank,  
Frankfurt am Main**  
Platz der Republik  
60265 Frankfurt am Main  
Federal Republic of Germany

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ

**Lloyds TSB Bank plc**  
10 Gresham Street  
London EC2V 7AE

**Mizuho International plc**  
Bracken House  
One Friday Street  
London EC4M 9JA

**Nomura International plc**  
1 Angel Lane  
London EC4R 3AB

**SMBC Nikko Capital Markets Limited**  
One New Change  
London EC4H 9AF

**The Royal Bank of Scotland plc**  
135 Bishopsgate  
London EC2M 3UR

**UniCredit Bank AG**  
Arabellastrasse 12  
81925 Munich  
Federal Republic of Germany

**BNP PARIBAS**  
10 Harewood Avenue  
London NW1 6AA

**Commerzbank Aktiengesellschaft**  
Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Federal Republic of Germany

**Credit Suisse Securities (Europe) Limited**  
One Cabot Square  
London E14 4QJ

**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

**J.P. Morgan Securities Ltd.**  
125 London Wall  
London EC2Y 5AJ

**Merrill Lynch International**  
2 King Edward Street  
London EC1A 1HQ

**Morgan Stanley & Co. International plc**  
25 Cabot Square  
Canary Wharf  
London E14 4QA

**RBC Europe Limited**  
Riverbank House  
2 Swan Lane  
London EC4R 3BF

**Standard Chartered Bank**  
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