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**This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security, in any jurisdiction in which such an offer, invitation or solicitation is unlawful.**

A copy of this document, which comprises a prospectus relating to the Preference Shares prepared in accordance with the Prospectus Rules made under section 73A of FSMA, has been filed with the FSA and has been made available to the public as required by section 3.2 of the Prospectus Rules.

Certain information in relation to the Lloyds TSB Group and the HBOS Group has been incorporated by reference into this document, as set out in the section entitled "Documents Incorporated by Reference" on pages 5-10 of this document.

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



**Lloyds TSB**

**Lloyds TSB Group plc**

*(incorporated under the Companies Act 1985 and registered in Scotland with registered number 95000)*

**£300,000,000 9.25% Non-Cumulative Irredeemable Preference Shares**  
**£100,000,000 9.75% Non-Cumulative Irredeemable Preference Shares**  
**£198,065,600 6.475% Non-Cumulative Preference Shares**  
**£750,000,000 6.0884% Non-Cumulative Fixed to Floating Rate Preference Shares**  
**£350,002,000 6.3673% Non-Cumulative Fixed to Floating Rate Preference Shares**  
**U.S.\$750,000,000 6.413% Non-Cumulative Fixed to Floating Rate Preference Shares**  
**U.S.\$750,000,000 5.92% Non-Cumulative Fixed to Floating Rate Preference Shares**  
**U.S.\$750,000,000 6.657% Non-Cumulative Fixed to Floating Rate Preference Shares**  
**£3,000,000,000 12% Non-Cumulative Fixed to Floating Rate Preference Shares**  
**£1,000,000,000 12% Non-Cumulative Fixed to Floating Rate Preference Shares**  
**(together, the "Preference Shares")**

On 18 September 2008, the Board of HBOS plc ("HBOS") announced that it had reached agreement with Lloyds TSB Group plc ("Lloyds TSB" or the "Company") on the terms of a recommended acquisition by Lloyds TSB of HBOS (the "Acquisition"). The terms of the Acquisition were subsequently amended as announced on 13 October 2008. In addition to the Acquisition, the Lloyds TSB Board has requested that each class of preference share issued by HBOS be cancelled in exchange for preference shares to be issued by Lloyds TSB. It is proposed that this exchange be implemented by way of a scheme of arrangement under sections 895 to 899 of the Companies Act (the "Preference Scheme"). Conditional upon approval of the Preference Scheme by the HBOS Preference Shareholders and satisfaction or, where permitted, waiver of the Conditions, Lloyds TSB will issue the Lloyds TSB 9.25% Preference Shares, Lloyds TSB 9.75% Preference Shares, Lloyds TSB 6.475% Preference Shares, Lloyds TSB 6.0884% Preference Shares, Lloyds TSB 6.3673% Preference Shares, Lloyds TSB 6.413% Preference Shares, Lloyds TSB 5.92% Preference Shares, Lloyds TSB 6.657% Preference Shares and Lloyds TSB 12% Preference Shares (together, the "New Lloyds TSB Preference Shares").

In addition, pursuant to a Preference Share Subscription Agreement effective as of 13 October 2008, Lloyds TSB has agreed to issue, and HM Treasury has agreed to subscribe for, 12% Non-Cumulative Fixed to Floating Rate Preference Shares with an aggregate liquidation preference of £1,000,000,000 (the "New HM Treasury Preference Shares", and together with the New Lloyds TSB Preference Shares, the "Preference Shares"). The New HM Treasury Preference Shares will be placed directly with HM Treasury or with one or more persons nominated by HM Treasury and will not otherwise be offered or sold. Upon the Preference Scheme becoming effective and the New HM Treasury Preference Shares having been issued by Lloyds TSB, the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares shall become fungible and treated as a single class of preference shares, having the same rights, obligations and privileges attached thereto. The terms and conditions of the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares shall be identical in all respects and are further set out in Part IV – ("Description of the Preference Shares – Description of the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares") below.

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 the Preference Shares and the ADRs evidencing New Lloyds TSB Preference ADSs 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 Preference Shares and ADRs evidencing New Lloyds TSB Preference ADSs to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Prospectus to Preference Shares and ADRs evidencing New Lloyds TSB Preference ADSs being "listed" (and all related references) shall mean that such Preference Shares and ADRs evidencing New Lloyds TSB Preference ADSs 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.

The New Lloyds TSB Preference Shares and the New Lloyds TSB Preference ADSs will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") in reliance upon the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof. The New HM Treasury Preference Shares will not be registered under the Securities Act and are offered and sold outside the United States persons in accordance with Regulation S under the Securities Act. Neither the U.S. Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved the Preference Shares or the New Lloyds TSB Preference ADSs or passed upon the adequacy of this document, the Scheme Circular or any of the accompanying documents. Any representation to the contrary is a criminal offence in the United States.

Lloyds TSB accepts responsibility for the information contained in this document (the “Responsible Person”). To the best of the knowledge of the Company (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

No person is, or has been, authorised to give any information or to make any representation other than as contained in this Prospectus in its entirety in connection with the Issues and, if given or made, such information or representation must not be relied upon as having been authorised by the Company. The delivery of this Prospectus shall not, under any circumstances, create any implication that there has been no change in the affairs of Lloyds TSB Group since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Issues 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 Issues (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 Company that any recipient of this Prospectus or any other information supplied in connection with the Issues should purchase any Preference Shares. Each investor contemplating participating in the Issues should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Company. Neither this Prospectus nor any other information supplied in connection with the Issues constitutes an offer of, or an invitation by or on behalf of the Company to any person to subscribe for or purchase, any Preference Shares.

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

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “pounds”, “sterling” and “pence” are to pounds sterling. References in this Prospectus to “U.S. dollars”, “dollars” or the signs “U.S.\$” or “\$” shall be construed as references to the lawful currency for the time being of the United States of America.

## **PRESENTATION OF INFORMATION AND GENERAL INFORMATION**

### **FINANCIAL INFORMATION**

Unless otherwise indicated, financial information for Lloyds TSB and the Lloyds TSB Group in this document has been extracted without material adjustment from the Lloyds TSB Interim Results for the six months ended 30 June 2008 published on 30 July 2008 prepared in accordance with the Disclosure and Transparency Rules and with IAS 34, "Interim Financial Reporting", as adopted by the European Union, is presented in pounds sterling, and is unaudited. For further information, see "Accounting policies, presentation and estimates" on page 36 of the Lloyds TSB Interim Results (such page being incorporated into this document by reference). See also note 2 "Segmental analysis" on pages 37-38 of the Lloyds TSB Interim Results (such pages being incorporated by reference into this document) and section 5 ("Summary of Total Income, Net of Insurance Claims, by Division") of Part VII ("Information on the Lloyds TSB Group") of the Share Circular (such section being incorporated by reference into this document). Unless otherwise indicated, financial information for HBOS and the HBOS Group in this document has been extracted without material adjustment from the condensed consolidated half year financial statements of HBOS prepared in accordance with the Disclosure and Transparency Rules and with IAS 34 "Interim Financial Reporting" as adopted by the European Union, and is unaudited. For further information, see "Condensed Financial Statements" on pages 74 and 75 of the HBOS Interim Results (such section being incorporated by reference into this document).

### **ENLARGED GROUP**

Unless the context otherwise requires, references in this document to the "Enlarged Group" are to Lloyds TSB and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings as constituted immediately following completion of the Acquisition and therefore such references include the Lloyds TSB Group as enlarged by the HBOS Group.

### **NO PROFIT FORECAST**

No statement in this document or incorporated by reference into this document is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for either Lloyds TSB or HBOS, as appropriate.

### **ROUNDING**

Certain figures included in this document and in the information incorporated by reference into this document have been subject to rounding adjustments. Accordingly, discrepancies in tables between the totals and the sums of the relevant amounts are due to such rounding.

### **WEBSITES**

Neither the content of the Lloyds TSB Group's nor HBOS's website (or any other website) nor the content of any website accessible from hyperlinks on the Lloyds TSB Group's nor HBOS's website (or any other website) is incorporated into, or forms part of, this document.

### **TIME**

All references in this document to times are to UK time unless otherwise stated.

### **DEFINITIONS**

Capitalised terms used in this document have the meanings ascribed to them in Part XX ("Definitions") of this document.

### **FORWARD-LOOKING STATEMENTS**

This document and the information incorporated by reference to this document includes certain "forward-looking statements". Statements that are not historical facts, including statements about the Lloyds TSB Group's or the HBOS Group's or their respective directors' and or management's beliefs and expectations are forward-looking statements. Words such as "believes", "anticipates", "estimates", "expects", "intends", "aims", "potential", "will", "would", "could", "considered", "likely", "estimate" and variations of these words and similar future or conditional expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such

statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond the Company's control and all of which are based on the Lloyds TSB Directors' current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Lloyds TSB, HBOS or the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Lloyds TSB's, HBOS' and the Enlarged Group's present and future business strategies and the environment in which the Enlarged Group will operate in the future. These forward-looking statements speak only as at the date of this document.

HBOS Preference Shareholders should specifically consider all of the information set out in, and incorporated by reference into, this document before making any investment decision. In particular, HBOS Preference Shareholders should consider the risks, uncertainties and other factors as set out in Part III ("Risk Factors") of this document, which include general risks relating to the Lloyds TSB Group and, if the Acquisition becomes effective, the Enlarged Group, risks relating to the Acquisition, risks relating to the Placing and Open Offer and to investment in Lloyds TSB Shares and risks relating to the Preference Shares.

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

#### **General Notice**

Nothing contained in this document nor the information incorporated by reference herein is intended to constitute or should be construed as business, investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

## DOCUMENTS INCORPORATED BY REFERENCE

The Annual Report and Accounts for each of the financial years ended 31 December 2007, 2006 and 2005, the 2008 Interim Results for the half year ended 30 June 2008 as well as the Annual Report on Form 20-F for the year ending 31 December 2007 and the reports on Form 6-K dated 11 July 2008, 19 September 2008, 3 November 2008, 4 November 2008 of the Lloyds TSB Group are available for inspection in accordance with section 16 (“Documents Available for Inspection”) of Part XVIII (“Additional Information”) of this document and contain information which is relevant to the Acquisition and/or the Issues. These documents are also available on Lloyds TSB’s website at [www.investorrelations.lloydstsb.com](http://www.investorrelations.lloydstsb.com).

The Annual Report and Accounts for each of the financial years ended 31 December 2007, 2006, and 2005 and the 2008 Interim Results for the half year ended 30 June 2008 of the HBOS Group are available for inspection in accordance with section 16 (“Documents Available for Inspection”) of Part XVIII (“Additional Information”) of this document and contain information which is relevant to the Acquisition and/or the Issues. These documents are also available on HBOS’ website at [www.hbosplc.com/investors](http://www.hbosplc.com/investors).

The Share Circular dated 3 November 2008 and the Lloyds TSB Placing and Open Offer Prospectus dated 18 November 2008 prepared by Lloyds TSB in connection with the Acquisition, the Issues and the Placing and Open Offer are available for inspection in accordance with section 16 (“Documents Available for Inspection”) of Part XVIII (“Additional Information”) of this document. It contains information which is relevant to the Acquisition and/or the Issues. This document is also available at [www.investorrelations.lloydstsb.com](http://www.investorrelations.lloydstsb.com).

In addition, the HBOS Rights Issue Prospectus, the HBOS Placing and Open Offer Prospectus, the HBOS 6.657% Preference Share Prospectus, Lloyds TSB’s Memorandum and Articles of Association and the Regulatory News Service Announcement of Lloyds TSB dated 18 September 2008 (as subsequently amended) are available for inspection in accordance with section 16 (“Documents Available for Inspection”) of Part XVIII (“Additional Information”) of this document.

The table below sets out the various sections of such documents which are incorporated by reference into this document so as to provide the information required under the Prospectus Rules and to ensure the Preference Scheme Shareholders and others are aware of all information which is necessary to enable Preference Scheme Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of Lloyds TSB and the Enlarged Group.

### 1 Lloyds TSB Information Incorporated by Reference

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Annual Report and Accounts 2005	Notes to the Accounts	64-120 <sup>(1)</sup>
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Annual Report on Form 20-F, for the year ending 31 December 2007	Consolidated Statement of Changes in Equity	F-6
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Report on Form 6-K dated 3 November 2008	Notice of availability of Shareholder Circular	whole document
Report on Form 6-K dated 19 September 2008	Announcement of Placing	whole document
Report on Form 6-K dated 11 July 2008	Segmental Analysis Restatement	whole document
Lloyds TSB’s Memorandum and Articles of Association	Whole Documents	
Regulatory News Service Announcement (also furnished on Form 6-K, report dated 14 October 2008)	Announcement made by Lloyds TSB on 18 September 2008 of the Acquisition, as supplemented by the announcement made on 13 October 2008 announcing the revised terms of the Acquisition.	whole document
Lloyds TSB Placing and Open Offer Prospectus	Part III, Part B (“Expected Timetable of Principal Events”)	37-38
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## 2 HBOS Information Incorporated by Reference

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(1) Including such other information in the relevant Annual Report and Accounts as is cross-referenced therein.

Information that is itself incorporated by reference in the above documents is not incorporated by reference into this Prospectus. It should be noted that, except as set forth above, no other portion of the above documents are incorporated by reference into this Prospectus.

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## PART I

### EXPLANATORY STATEMENT

#### 1 Summary of the terms of the Issues

##### (a) *The Preference Scheme*

On 18 September 2008, with the support of the UK Government, the Boards of HBOS and Lloyds TSB announced they had reached agreement on the terms of a recommended acquisition of HBOS by Lloyds TSB. The terms of the Acquisition were subsequently amended as announced on 13 October 2008. The Acquisition will, subject to the satisfaction or, if permitted, waiver of certain conditions, be implemented by way of a separate scheme of arrangement under section 895 to 899 of the Companies Act (the “**Scheme**”).

Following the announcement of the Acquisition, the Lloyds TSB Board has considered the position of the HBOS Preference Shareholders in the Enlarged Group. It is proposed, as announced on 14 November 2008, that each class of preference shares issued by HBOS be cancelled in consideration for the issue of a substantially similar class of preference shares by Lloyds TSB. It is proposed that this will be implemented by way of a separate scheme of arrangement under sections 895 to 899 of the Companies Act (the “**Preference Scheme**”). The Preference Scheme will not be completed unless all of the Conditions set out in paragraph 6 of this Part I below have been satisfied or, if permitted, waived by the close of business (London time) on 28 February 2009, or such later date as HBOS, Lloyds TSB and, if required, the Court may agree. The Preference Scheme is conditional on, amongst other things, the Scheme becoming effective. Lloyds TSB has agreed to undertake to the Court to be bound by the terms of the Preference Scheme.

Under the terms of the Preference Scheme, and subject to the satisfaction or, if permitted, waiver of the Conditions, it is proposed that the HBOS Preference Shares are cancelled and that HBOS Preference Shareholders (other than the Restricted Entities) will be entitled to receive New Lloyds TSB Preference Shares on the following basis:

<b>For every HBOS 9.25% Preference Share</b>	<b>One new Lloyds TSB 9.25% Preference Share</b>
<b>For every HBOS 9.75% Preference Share</b>	<b>One new Lloyds TSB 9.75% Preference Share</b>
<b>For every HBOS 6.475% Preference Share</b>	<b>One new Lloyds TSB 6.475% Preference Share</b>
<b>For every HBOS 6.0884% Preference Share</b>	<b>One new Lloyds TSB 6.0884% Preference Share</b>
<b>For every HBOS 6.3673% Preference Share</b>	<b>One new Lloyds TSB 6.3673% Preference Share</b>
<b>For every HBOS 6.413% Preference Share</b>	<b>One new Lloyds TSB 6.413% Preference Share</b>
<b>For every HBOS 5.92% Preference Share</b>	<b>One new Lloyds TSB 5.92% Preference Share</b>
<b>For every HBOS 6.657% Preference Share</b>	<b>One new Lloyds TSB 6.657% Preference Share</b>
<b>For every HBOS 12% Preference Share</b>	<b>One new Lloyds TSB 12% Preference Share</b>

The rights attaching to each class of New Lloyds TSB Preference Shares are in substance similar to those of the equivalent class of HBOS Preference Shares, however, certain provisions will be amended to conform the New Lloyds TSB Preference Shares to the terms of existing preference shares issued by Lloyds TSB and to the Articles. The terms of the New Lloyds TSB Preference Shares reflect current FSA requirements to ensure they are eligible to qualify as perpetual non-cumulative preference share capital for regulatory purposes. The terms of each class of New Lloyds TSB Preference Shares are set out in Part IV (“Description of the Preference Shares”) of this document.

Any dividends which are accrued on a class of HBOS Preference Shares as at the date the Preference Scheme becomes effective with respect to such class will be paid, subject to the terms of the corresponding class of New Lloyds TSB Preference Shares, on the first scheduled dividend payment date thereafter under such New Lloyds TSB Preference Shares. It is anticipated that each class of New Lloyds TSB Preference Shares will be in the same form and will be settled and tradable through the same clearing systems (as applicable) as the corresponding HBOS Preference Shares.

##### *Information for HBOS Preference ADS Holders*

The U.S. dollar denominated classes of HBOS Preference Shares are the deposited securities that underlie the HBOS Preference ADSs. Following the Preference Scheme becoming effective in

respect of a class of U.S. dollar denominated HBOS Preference Shares, the HBOS Preference Share Depository will receive one New Lloyds TSB Preference Share for each HBOS Preference Share of that class cancelled pursuant to the terms of the Preference Scheme. The New Lloyds TSB Preference Shares received by the HBOS Preference Share Depository will remain in the respective HBOS ADS facilities and will be deposited securities under the relevant HBOS Preference Share Deposit Agreement.

The ADSs representing Preference Scheme Shares will remain outstanding but will then represent New Lloyds TSB Preference Shares. The HBOS Preference Share Deposit Agreements relating to the Preference Scheme Shares will not be terminated. Following the cancellation and issue described above, Lloyds TSB will assume the obligations of HBOS under the respective HBOS Preference Share Deposit Agreement with respect to the series of HBOS Preference ADSs that then represent New Lloyds TSB Preference Shares.

The HBOS Preference Share Depository will notify holders of those ADSs of the change in the deposited securities and will call for surrender of the ADRs evidencing those ADSs to be replaced with new ADRs evidencing the New Lloyds TSB Preference ADSs.

*(b) The New Preference Share Issue*

Under the Preference Share Subscription Agreement, Lloyds TSB intends to issue to HM Treasury, or to one or more persons nominated by HM Treasury, the New HM Treasury Preference Shares at the issue price of £1,000 per New HM Treasury Preference Share, raising approximately £1 billion (before costs and expenses). The New Preference Share Issue is conditional upon the Placing and Open Offer Agreement becoming unconditional in accordance with its terms. The New HM Treasury Preference Shares will be issued directly by Lloyds TSB and will not form part of the Preference Share Scheme.

Immediately upon the Preference Scheme becoming effective, the New HM Treasury Preference Shares and the Lloyds TSB 12% Preference Shares shall be consolidated and form a single class. The terms and conditions of both the New HM Treasury Preference Shares and the Lloyds TSB 12% Preference Shares will be identical in all respects, and are set out in Part IV – (“Description of the Preference Shares – Description of the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares”).

## **2 Structure of the Preference Scheme**

*(a) Introduction*

The cancellation of each class of Preference Scheme Shares and corresponding issue of New Lloyds TSB Preference Shares is to be effected by means of a scheme of arrangement under sections 895 to 899 of the Companies Act between HBOS and the Preference Scheme Shareholders. The procedure involves an application by HBOS to the Court to sanction the Preference Scheme and to confirm the cancellation of the Preference Scheme Shares. In consideration of the cancellation of each class of HBOS Preference Share, on terms that the reserve arising on such cancellation is applied in paying up the New HBOS Preference Shares to be issued to Lloyds TSB, Preference Scheme Shareholders (except Restricted Entities) who are (i) on the Register of Members at the Preference Scheme Record Time; or (ii) the holder of a Share Warrant which has been deposited at 33 Old Street, London EC2N 1HZ on or before the Preference Share Record Time, will receive New Lloyds TSB Preference Shares from Lloyds TSB credited as fully paid, on the basis described in paragraph 1(a) of this Part I.

The Restricted Entities are prohibited from receiving New Lloyds TSB Preference Shares. To the extent that any Restricted Entity continues to hold an interest in HBOS Preference Shares at the Preference Scheme Record Time, the Preference Scheme will include a reorganisation of the share capital of HBOS whereby, in accordance with the terms of the Preference Scheme, in relation to each class of Preference Scheme Shares in respect of which a Restricted Entity holds an interest in Preference Scheme Shares in such a manner as would prevent such Restricted Entity from holding a similar interest in New Lloyds TSB Preference Shares by virtue of Section 23 of the Companies Act 1985, any Preference Scheme Share of that class in respect of which an interest is held by a Restricted Entity, shall be reclassified as a B Preference Share and any other Preference Scheme Shares of that class shall be reclassified as an A Preference Share. The share capital reorganisation will only take place at the time at which the Preference Scheme Court Order is delivered to the Registrar of Companies, at which point the A Preference Shares will carry the right to receive New Lloyds TSB Preference Shares on the basis set out in paragraph 1(a) of this

Part I and the B Preference Shares will carry the right to receive cash equal to the market value of the New Lloyds TSB Preference Shares to which they would have received had their shares been reclassified as A Preference Shares, where the market value of one New Lloyds TSB Preference Share is equal to the average Closing Price for a New Lloyds TSB Preference Share of that class in the first three trading days following the Effective Date, provided that if Lloyds TSB, having received the advice of its financial advisers, considers that in respect of any one or more classes of B Preference Share, such amount does not fairly reflect the market value of one New Lloyds TSB Preference Share of the corresponding class, the market value of any such New Lloyds TSB Preference Share shall be determined by an independent third party valuer (of international repute and standing) to be appointed by Lloyds TSB. On the subsequent registration of the Preference Reduction Court Order by the Registrar of Companies, any A Preference Shares and any B Preference Shares will be cancelled and holders of A Preference Shares will receive New Lloyds TSB Preference Shares and holders of B Preference Shares will receive cash. No temporary documents of title will be issued to HBOS Preference Shareholders in respect of the A Preference Shares or the B Preference Shares.

If for any reason the Preference Scheme does not become effective, the share capital reorganisation described above will be reversed and HBOS Preference Shareholders will retain their current holdings of HBOS Preference Shares.

The Preference Scheme will only be completed if all of the Conditions, including the Scheme becoming effective, as further described in paragraph 6 of this Part I have been satisfied or, if permitted, waived.

*(b) The Meetings*

To become effective, the Preference Scheme requires the passing of the Preference Scheme Special Resolution and the Preference Reduction Special Resolutions at the HBOS General Meeting and approval by HBOS Preference Shareholders at the Preference Court Meetings, all of which will be held on 12 December 2008 at The NEC, Birmingham B40 1NT. If the Preference Scheme is not approved by all classes of HBOS Preference Shareholders, the Preference Scheme shall be ineffective in respect of each class of HBOS Preference Share which has not approved the Preference Scheme. However, it will be effective in respect of all other classes of HBOS Preference Shares.

Each Preference Court Meeting is being held at the direction of the Court to seek the approval of the holders of the different classes of HBOS Preference Shares in relation to the Preference Scheme. The Preference Scheme is also conditional upon the approval of the Acquisition by the Lloyds TSB Shareholders at the Lloyds TSB General Meeting.

*(c) The Court Hearings*

Under the Companies Act, the Preference Scheme also requires the sanction of the Court. There will be two Court Hearings following the HBOS General Meeting and the Preference Court Meetings. The Preference Scheme Court Hearing will be held to sanction the Preference Scheme and is expected to be held on 12 January 2009. The Preference Reduction Court Hearing will be held to confirm the reductions of capital which form part of the Preference Scheme and is expected to be held on 16 January 2009. Lloyds TSB has confirmed that it will be represented by counsel at the Preference Scheme Court Hearing so as to consent to the Preference Scheme and to undertake to the Court to be bound thereby.

Sanction by the Court at the Preference Scheme Court Hearing will only be effective in respect of a class of HBOS Preference Shares in respect of which the relevant Preference Reduction Special Resolution and the Preference Scheme Special Resolution were passed at the HBOS General Meeting and the resolution proposed at the relevant Preference Court Meeting was passed by the holders of that class of HBOS Preference Shares.

The existence of the petition to sanction the Preference Scheme will be advertised in the Scotsman, the Edinburgh Gazette and the Financial Times (UK and International editions) at least 21 days before the date of the Preference Scheme Court Hearing. Before sanctioning the Preference Scheme, the Court will remit to a reporter to enquire into the facts and circumstances of the petition and the Preference Scheme and to provide a report to the Court for its consideration.



*(d) Preference Scheme becoming effective*

Once the necessary approvals from the HBOS Preference Shareholders and the Lloyds TSB Shareholders have been obtained, the Preference Scheme Special Resolution and the Preference Reduction Special Resolutions have been passed and the other Conditions have been satisfied or, where permitted, waived, the Preference Scheme and the related reductions in HBOS's share capital will become effective upon sanction of the Preference Scheme and confirmation of the reduction of capital by the Court, delivery of the Preference Court Orders and registration of the Preference Reduction Court Order by the Registrar of Companies.

If the Preference Scheme is not approved by all classes of HBOS Preference Shareholders, the Preference Scheme shall be ineffective in respect of each class of HBOS Preference Shares which has not approved the Preference Scheme. There is no need for all classes of HBOS Preference Shareholders to approve the Preference Scheme in order for it to become effective. If a Preference Court Meeting in respect of a class of HBOS Preference Shares is adjourned, the Preference Scheme may become effective in respect of that class of HBOS Preference Shares at a later time or date to the time and date on which the Preference Scheme becomes effective in respect of other classes of Preference Scheme Shares.

### **3 The HBOS General Meeting and the Preference Court Meetings**

*(a) The HBOS General Meeting*

The HBOS General Meeting has been convened for 10.10 a.m. (London time) on 12 December 2008, and will be held at The NEC, Birmingham B40 1NT, to enable HBOS Preference Shareholders (as appropriate) and HBOS Shareholders to, amongst other things, consider and, if thought fit, approve special resolutions to implement the Preference Scheme by, among other things:

- (i) reducing the capital of HBOS by cancelling and extinguishing each class of HBOS Preference Shares;
- (ii) increasing the share capital of HBOS to its former amount by the creation of such number of New HBOS Preference Shares as is equal to the number of HBOS Preference Shares which are cancelled, such New HBOS Preference Shares to have substantially the same rights as the HBOS Preference Shares;
- (iii) capitalising the reserve arising in the books of HBOS as a result of the reduction of capital and applying such reserve to pay up at par each New HBOS Preference Share, which shall be issued, credited as fully paid up, and treated as having the same share premium as that of the corresponding Preference Scheme Shares to Lloyds TSB (or its nominee(s));
- (iv) giving the directors of HBOS the power to allot the New HBOS Preference Shares; and
- (v) amending the HBOS Articles.

At the HBOS General Meeting, the HBOS Preference Shareholders are entitled to vote only on the Preference Scheme Special Resolution and the Preference Reduction Special Resolution which relates to the class of HBOS Preference Shares of which he/she is a member. HBOS Shareholders are entitled to vote on all resolutions to be proposed at the HBOS General Meeting.

The approval required at the HBOS General Meeting for the Preference Scheme Special Resolution is not less than 75 per cent. of the votes cast by the holders of all classes of HBOS Preference Shares and the HBOS Shareholders. The approval required for each Preference Reduction Special Resolution is not less than 75 per cent. of the votes cast by the holders of the relevant class of HBOS Preference Share and the HBOS Shareholders. Voting will be on a poll instead of by a show of hands. In respect of the Preference Scheme Special Resolution and each Preference Reduction Special Resolution, holders of the HBOS Preference Shares, present in person or by proxy, will be entitled to one vote for each HBOS Preference Share held by them.

*(b) The Preference Court Meetings*

The Preference Court Meetings have been convened at the direction of the Court to enable the holders of the different classes of HBOS Preference Shares to consider and, if thought fit, approve the Preference Scheme (with or without modification). The Preference Court Meetings will all be held at The NEC, Birmingham B40 1NT on 12 December 2008.

In lieu of a Preference Court Meeting in respect of the HBOS 12% Preference Shares, HM Treasury has agreed to submit a letter to the Court pursuant to which it will undertake to be bound

by the terms of the Preference Scheme or procure that such a letter is submitted by the holder of the HBOS 12% Preference Shares.

The quorum for each of the Preference Court Meetings shall be two persons (other than any Restricted Entities) who hold at least one third of the total nominal value of the existing shares of the relevant class of HBOS Preference Shares in issue and who are entitled to vote on the resolution, present in person or by proxy. If a Preference Court Meeting is adjourned, the quorum for that adjourned Preference Court Meeting shall be two HBOS Preference Shareholders of the relevant class (other than any Restricted Entities) present in person or by proxy.

At the Preference Court Meetings, voting will be by way of a poll and each HBOS Preference Shareholder of the relevant class of HBOS Preference Shares present in person or by proxy will be entitled to one vote for each HBOS Preference Share of that class held. The approval required at each Preference Court Meeting is that those HBOS Preference Shareholders of the relevant class voting in favour of the Preference Scheme must:

- (A) represent a majority in number of those HBOS Preference Shareholders of the relevant class present and voting in person or by proxy; and
- (B) represent not less than 75 per cent. in value of the HBOS Preference Shares held by those HBOS Preference Shareholders of the relevant class present and voting in person or by proxy.

A holder of a Share Warrant shall only be entitled to vote at the relevant Preference Court Meeting if he has deposited his Share Warrant at 33 Old Broad Street, London EC2N 1HZ at least 72 hours before the time fixed for the relevant Preference Court Meeting and has been issued with a certificate stating his name and address and a description of the relevant HBOS Preference Shares to which the Share Warrant relates in accordance with article 17A of the HBOS Articles.

If the Preference Scheme is not approved by all classes of HBOS Preference Shareholders, the Preference Scheme shall be ineffective in respect of each class of HBOS Preference Shares which has not approved the Preference Scheme and the members of such classes will retain their HBOS Preference Shares and no New Lloyds Preference Shares will be issued to the members of such classes. There is no need for all classes of HBOS Preference Shareholders to approve the Preference Scheme in order for it to become effective. If a Preference Court Meeting in respect of a class of HBOS Preference Shares is adjourned, the Preference Scheme may become effective in respect of that class of Preference Scheme Shares at a later time or date to the time and date on which the Preference Scheme becomes effective in respect of other classes of Preference Scheme Shares.

#### **4 Listings and dealings**

Subject to the conditions described in paragraph 6 below, the New Lloyds TSB Preference Shares will be issued on the Effective Date. Application will be made to the UK Listing Authority for the New Lloyds TSB Preference Shares and ADRs evidencing the New Lloyds TSB Preference ADSs to be admitted to the Official List and to the London Stock Exchange for the New Lloyds TSB Preference Shares and ADRs evidencing the New Lloyds TSB Preference ADSs to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings, for normal settlement, will commence at 8.00 a.m. on the Business Day after the Effective Date which, subject to the sanction of the Preference Scheme and the associated reductions of capital by the Court, the delivery of the Preference Court Orders and registration of the Preference Reduction Court Order by the Registrar of Companies and the satisfaction (or waiver) of the Conditions, is expected to be on 19 January 2009.

It is expected that dealings in Preference Scheme Shares on the London Stock Exchange will be suspended with effect from 6.00 p.m. (London time) on 14 January 2009, the Business Day before the Reorganisation Record Time. Prior to the Preference Scheme becoming effective, applications will be made to the UK Listing Authority for the listing of the Preference Scheme Shares on the Official List to be cancelled and to the London Stock Exchange for the Preference Scheme Shares to cease to be admitted to trading on the London Stock Exchange's market for listed securities with effect from 8.00 a.m. (London time) on the Business Day following the Effective Date.

Application will also be made to the UK Listing Authority for the New HM Treasury Preference Shares to be admitted to the Official List and to the London Stock Exchange for the HM Treasury Preference Shares to be admitted to trading on the London Stock Exchange's main market for listed securities, in each case, to commence on or around 8.00 a.m. (London time) on the

Business Day following the Effective Date. Admission of the New HM Treasury Preference Shares to the Official List and to the London Stock Exchange's main market is not conditional upon the Preference Scheme becoming effective.

## **5 Lloyds TSB General Meeting**

The Lloyds TSB General Meeting was held on 19 November 2008 at which resolutions were passed authorising and permitting the creation and allotment of the New Lloyds TSB Preference Shares.

## **6 Conditions to the Preference Scheme**

The Preference Scheme will only be implemented (in respect of each class of HBOS Preference Shares) if all the Conditions have been satisfied or, if permitted, waived. In summary, the implementation of the Preference Scheme in respect of each class of HBOS Preference Shares is conditional upon:

- (i) approval of the Preference Scheme by a majority in number representing 75 per cent. or more in value of the class of the HBOS Preference Shareholders present and voting, either in person or by proxy, at the relevant Preference Court Meeting in respect of that class of HBOS Preference Shares, or at any adjournment thereof or a written undertaking having been given to the Court by the sole shareholder of that class;
- (ii) the Preference Scheme Special Resolution being duly passed by the requisite majority at the HBOS General Meeting or at any adjournment thereof;
- (iii) the Preference Reduction Special Resolution in respect of that class of HBOS Preference Share being duly passed by the requisite majority at the HBOS General Meeting, or at any adjournment thereof;
- (iv) the sanction (with or without modification, any such modification as agreed by HBOS and Lloyds TSB) of the Preference Scheme and the confirmation of the associated reduction of the share capital of HBOS by the Court and the delivery of certified copies of the Preference Scheme Court Order and the Preference Reduction Court Order together with the associated minute of the reductions of the share capital of HBOS attached thereto in the form approved by the Court having been delivered to the Registrar of Companies for registration, and, in the case of the Preference Reduction Court Order and the associated minute of the reduction of capital, registered by him;
- (v) the Scheme becoming effective (with or without modification, any such modification as agreed by HBOS and Lloyds TSB); and
- (vi) the other Conditions (set out in Part 3 ("Conditions to the Implementation of the Preference Scheme") of the Preference Scheme Circular) which are not otherwise summarised in paragraphs (i) to (v) above being satisfied or, if permitted, waived.

The Conditions are set out in full in Part 3 ("Conditions to the Implementation of the Preference Scheme") of the Preference Scheme Circular.

## **7 Overseas shareholders**

The implications of the Preference Scheme for persons resident in, or citizens of, jurisdictions outside the UK ("**Overseas Shareholders**") may be affected by the laws of the relevant jurisdiction. Such Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the payment of any issue, transfer or other taxes due in such jurisdiction.

In any case where Lloyds TSB is advised that the delivery of New Lloyds TSB Preference Shares or New Lloyds TSB Preference ADSs would or may infringe the laws of any jurisdiction outside the UK or the United States or would or may require Lloyds TSB to obtain any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of Lloyds TSB, it would be unable to comply with or which it regards as unduly onerous or disproportionate given the number of HBOS Preference Shareholders or HBOS Preference ADS Holders resident in that jurisdiction, the Preference Scheme provides that such New Lloyds TSB Preference Shares may, at the discretion of Lloyds TSB, either (i) be issued to a nominee on behalf of the relevant

Overseas Shareholder and then sold or (ii) issued to the relevant Overseas Shareholder and sold on his or her behalf, in each case with the net proceeds of sale being remitted to the Overseas Shareholder, except that individual amounts of less than £5.00 per holding will not be distributed and will be donated to charity. Any such proceeds shall be remitted by way of cheque to the relevant Overseas Shareholder within 14 days of the Effective Date.

*United States of America*

The New Lloyds TSB Preference Shares and the New Lloyds TSB Preference ADSs have not been and will not be registered under the Securities Act in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof. For the purpose of establishing this exemption from the registration requirements of the Securities Act, HBOS will advise the Court at the Preference Scheme Court Hearing that its sanctioning of the Preference Scheme will be relied upon by HBOS and Lloyds TSB for such purpose as an approval of the Preference Scheme following a hearing on the fairness of the terms and conditions of the Preference Scheme for HBOS Preference Shareholders, at which hearing all such holders (subject to compliance with applicable procedures) are entitled to attend in person or through counsel to support or oppose the sanctioning of the Preference Scheme.

The New HM Treasury Preference Shares will not be registered under the Securities Act and are offered and sold to non-US persons in accordance with Regulation S under the Securities Act.

The Preference Shares and New Lloyds TSB Preference ADSs may not be sold without registration under the Securities Act, except pursuant to an available exemption from the registration requirements or in a transaction not subject to such requirements (including a transaction that satisfies the applicable requirements for resales outside of the U.S. pursuant to Regulation S under the Securities Act). An HBOS Preference Shareholder or HBOS Preference ADS Holder should consult his or her own legal advisers prior to any sales of New Lloyds TSB Preference Shares or New Lloyds TSB Preference ADSs.

In addition, until 40 days after the commencement of the offer of the Preference Shares and the New Lloyds TSB Preference ADSs, an offer, sale or transfer of the Preference Shares or the New Lloyds TSB ADSs within the United States by a dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act.

## 8 Expected Timetable of Principal Events

<i>Event</i>	<i>Time and/or date</i>
Preference ADS Voting Record Time	5.00 p.m. (New York time) on 10 November 2008
Lloyds TSB General Meeting	19 November 2008
Preference Voting Record Time	6.00 p.m. on 10 December 2008 <sup>(1)</sup>
HBOS General Meeting	10.10 a.m. on 12 December 2008 <sup>(2)</sup>
Preference Court Meetings	From 12.00 p.m. on 12 December 2008 <sup>(2)</sup>
Preference Scheme Court Hearing (to sanction the Preference Scheme)	12 January 2009 <sup>(3)</sup>
Last day for dealings in, and, where applicable, for registration of transfers and disablement in CREST of, HBOS Preference Shares	14 January 2009 <sup>(3)</sup>
Suspension of listing and dealings in, and last time for registration of transfers of relevant HBOS Preference Shares and ADRs evidencing HBOS Preference ADSs <sup>(4)</sup>	6.00 p.m. on 14 January 2009 <sup>(3)(4)</sup>
Reorganisation Record Time	2.00 p.m. on 15 January 2009 <sup>(3)</sup>
Preference Scheme Record Time	6.00 p.m. on 15 January 2009 <sup>(3)</sup>
Reduction Court Hearing (to confirm the reductions of capital)	16 January 2009 <sup>(3)</sup>
<b>Effective Date</b>	<b>16 January 2009<sup>(3)</sup></b>
New Lloyds TSB Preference Shares and New HM Treasury Preference Shares to be issued	on or after 5.00 p.m. on 16 January 2009 <sup>(3)</sup>
Cancellation of listing of HBOS Preference Shares and ADRs evidencing HBOS Preference ADSs	8.00 a.m. on 19 January 2009 <sup>(3)</sup>
Expected time and date of Admission and commencement of dealings on the London Stock Exchange of New Lloyds TSB Preference Shares, New HM Treasury Preference Shares and ADRs evidencing New Lloyds TSB Preference ADSs	8.00 a.m. on 19 January 2009 <sup>(3)</sup>

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### Notes:

- (1) If any of the Preference Court Meetings or the HBOS General Meeting is adjourned, the Preference Voting Record Time in respect of such adjourned meeting(s) will be 6.00 p.m. (London time) on the date two days before the adjourned meeting.
- (2) The Meetings will commence at the times specified above or, if later, as soon thereafter as the HBOS General Meeting or the previous Preference Court Meeting shall have been concluded or adjourned.
- (3) These date are indicative only and will depend, amongst other things, on the dates upon which the Court actually sanctions the Preference Scheme and confirms the associated reductions of capital, as applicable.
- (4) Suspension of listing and dealings shall not apply to the HBOS 5.92% Preference Shares and the HBOS 6.413% Preference Shares which are not listed on the Official List or admitted to trading on the market.



## PART II

### PART A – SUMMARY

*The following summary must be read as an introduction to this Prospectus. Any decision to participate in the Issues should be based on a consideration by an investor 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 (each an “EEA State”), the Responsible Person may have civil liability in respect of this summary if it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated. Capitalised terms used herein but not otherwise defined shall have the meanings as set out in Part IV (“Description of the Preference Shares”) of this document and in Part XX (“Definitions”).*

#### **Lloyds TSB Group**

The Group is a diversified UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

#### **Risk Factors**

There are certain factors which affect the Company’s ability to fulfil its obligations under the Preference Shares. These are set out in full in Part III (“Risk Factors”) of this document and are listed below relate to the Lloyds TSB Group, the Enlarged Group, the Acquisition and the Preference Shares. The risks include certain market risks associated with the Company’s and the Enlarged Group’s business, risks that the Acquisition may not become effective and certain risks associated with the terms of the Preference Shares.

#### **Key risks relating to the Group and, if the Acquisition becomes Effective, the Enlarged Group:**

- general and sector-specific economic conditions;
- market fluctuations;
- market conditions resulting in material negative adjustments to the estimated fair values of financial assets;
- borrower and counterparty credit quality;
- liquidity;
- having insufficient capital resources to meet the minimum regulatory requirements;
- systemic risks;
- continuing deterioration of credit-worthiness of monoline insurers and other market counterparties;
- insurance claim rates and pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour;
- the ability to maintain credit ratings;
- operational risks including weaknesses in internal processes and procedures;
- loss of consumer confidence and reduced retail deposits;
- terrorist acts and other acts of war, and geopolitical, pandemic or other such events;
- undertakings in the Placing and Open Offer Agreement;
- risk of adverse regulatory developments or changes in government policy including potential costs relating to the FSCS;
- changes in taxation rates or law; and

- failure to attract or retain senior management or other key employees.

#### **Key risks relating to the Acquisition:**

- the Acquisition does not become Effective, resulting in the need to raise additional capital in an alternative manner;
- the required HBOS Shareholder and Lloyds TSB Shareholder approvals will not be obtained;
- conditions to the Acquisition will not be satisfied or waived;
- not obtaining timely regulatory approvals for the Scheme and the Acquisition;
- the Acquisition may not yield the anticipated benefits, or that it may result in unanticipated costs;
- adverse tax consequences resulting from a change of ownership of HBOS;
- change of control provisions or termination rights in HBOS Group's agreements may be triggered upon the completion of the Acquisition; and
- the Acquisition results in reduced ownership and voting interests for existing Lloyds TSB Shareholders.

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

- risks associated with HM Treasury potentially becoming the largest shareholder of the Enlarged Group;
- Lloyds TSB will not be able to pay dividends until it has repurchased or redeemed the Enlarged Group HMT Preference Shares; and
- HM Treasury's actions under the BSP Act could impact on the rights of Lloyds TSB Shareholders and/or HBOS Shareholders.

#### **Risks relating to the Preference Shares:**

- deferral or waiver by the Company of coupon payments on certain of its other securities may prevent the payment of dividends on, and the redemption or purchase by the Company of, the Preference Shares;
- dividends on the Preference Shares are discretionary and will not be declared or paid in full, or at all, if the Board of Directors so resolves;
- dividends on the Preference Shares are non-cumulative;
- if the Company is wound up, distributions to holders of the Preference Shares will be subordinated to the claims of creditors;
- no limitation on issuing senior debt securities or *pari passu* shares;
- absence of voting rights;
- certain of the Preference Shares may be redeemed at the option of the Company;
- the terms of the New Lloyds TSB Preference Shares will differ from the terms of the corresponding HBOS Preference Shares;
- liquidity; and
- taxation risks.

#### **Description of the Preference Shares**

The descriptions set out below in relation to the Preference Shares generally and in relation to each class of Preference Shares are not exhaustive, and contain only a summary of certain key features of each class.

The provisions of each relevant class of New Lloyds TSB Preference Shares will provide, among other things:

- (i) that dividends will be mandatorily payable, subject to the existence of sufficient distributable profits, in the event that the relevant class of New Lloyds TSB Preference Shares cease to qualify as regulatory capital pursuant to applicable capital regulations;
- (ii) for a discretion for the board of directors to resolve that no dividend be declared on a relevant class of New Lloyds TSB Preference Shares or that a dividend be paid in part only;

- (iii) that, subject to the Articles and applicable laws and regulations and to prior confirmation from the FSA, Lloyds TSB may (save in the case of the Enlarged Group HMT Preference Shares) substitute a relevant class of New Lloyds TSB Preference Shares, with certain qualifying Tier 1 securities ranking *pari passu* with such class on terms materially as favourable as the preference shares or (in all cases) purchase any such relevant class of New Lloyds TSB Preference Shares in issue; and
- (iv) that, save as otherwise described below in respect of the Enlarged Group HMT Preference Shares, in the event that the board resolves that the Company should not pay in full a dividend stated to be payable, the Company will not, for a period of (subject as more fully described therein) one calendar year from the date on which such full dividend is not paid, redeem or otherwise acquire any shares, or pay on, any shares, expressed to rank junior to the relevant class of New Lloyds TSB Preference Shares.

In addition to the general description of certain of the provisions applying to each class of New Lloyds TSB Preference Share above:

#### **Lloyds TSB 9.25% Preference Shares**

The provisions of the Lloyds TSB 9.25% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 9.25 per cent. per annum, and will be payable in arrear on 31 May and 30 November in each year, save that the first dividend payment will be made on 31 May 2009 and will be 4.625 pence per Preference Share; and
- (ii) that the Preference Shares will be irredeemable instruments.

#### **Lloyds TSB 9.75% Preference Shares**

The provisions of the Lloyds TSB 9.75% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 9.75 per cent. per annum and will be payable in arrear on 31 May and 30 November in each year, save that the first dividend payment will be made on 31 May 2009, and will be 4.875 pence per Preference Share; and
- (ii) that the Preference Shares will be irredeemable instruments.

#### **Lloyds TSB 6.475% Preference Shares**

The provisions of the Lloyds TSB 6.475% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 6.475 per cent. per annum from (and including) their issue date and will be payable in arrear on 15 March and 15 September in each year, save that the first dividend payable will be made on 15 March 2009, and will be 3.2375 pence per Preference Share; and
- (ii) that all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 15 September 2024 or any Dividend Payment Date falling on each fifth anniversary of such date thereafter at the liquidation preference amount per Preference Share.

#### **Lloyds TSB 6.0884% Preference Shares**

The provisions of the Lloyds TSB 6.0884% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 6.0884 per cent. per annum from (and including) their issue date to (but excluding) 12 May 2015, and will be payable in arrear on 12 May and 12 November in each year, save that the first dividend payment will be made on 12 May 2009, and will be £30.442 per Preference Share;
- (ii) that from (and including) 12 May 2015, dividends will accrue at a rate, reset quarterly, of 1.31 per cent. per annum above three-month sterling LIBOR, and will be payable quarterly in arrear on, subject (where applicable) to adjustment, 12 February, 12 May, 12 August and 12 November in each year; and
- (iii) that all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 12 May 2015 or any Dividend Payment Date thereafter at the liquidation preference amount per Preference Share.

### **Lloyds TSB 6.413% Preference Shares**

The provisions of the Lloyds TSB 6.413% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 6.413 per cent. per annum from (and including) their issue date to (but excluding) 1 October 2035, and will be payable in arrear on 1 April and 1 October in each year, save that the first dividend payment will be made on 1 April 2009, and will be U.S.\$32.065 per Preference Share;
- (ii) that from (and including) 1 October 2035, dividends will accrue at a rate, reset quarterly, of 1.495 per cent. per annum above three-month U.S. dollar LIBOR, and will be payable quarterly in arrear on, subject (where applicable) to adjustment, 1 January, 1 April, 1 July and 1 October in each year; and
- (iii) that all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 1 October 2035 or any Dividend Payment Date thereafter at the liquidation preference amount Preference Share.

### **Lloyds TSB 5.92% Preference Shares**

The provisions of the Lloyds TSB 5.92% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 5.92 per cent. per annum from (and including) their issue date to (but excluding) 1 October 2015, and will be payable in arrear on 1 April and 1 October in each year, save that the first dividend payment will be made on 1 April 2009, and will be U.S.\$29.60 per Preference Share;
- (ii) that from (and including) 1 October 2015, dividends will accrue at a rate, reset quarterly, of 1.295 per cent. per annum above three-month U.S. dollar LIBOR, and will be payable quarterly in arrear on, subject (where applicable) to adjustment, 1 January, 1 April, 1 July and 1 October in each year; and
- (iii) that all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 1 October 2015 or any Dividend Payment Date falling on or about each tenth anniversary of such date thereafter at the liquidation preference amount per Preference Share.

### **Lloyds TSB 6.3673% Preference Shares**

The provisions of the Lloyds TSB 6.3673% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 6.3673 per cent. per annum from (and including) their issue date to (but excluding) 17 June 2019, and will be payable in arrear on 17 June in each year, save that the first dividend payment will be made on 17 June 2009, and will be £63.673 per Preference Share;
- (ii) that from (and including) 17 June 2019, dividends will accrue at a rate, reset quarterly, of 1.36 per cent. per annum above three-month sterling LIBOR, and will be payable quarterly in arrear on, subject (where applicable) to adjustment, 17 March, 17 June, 17 September and 17 December in each year; and
- (iii) that all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 17 June 2019 or any Dividend Payment Date thereafter at the liquidation preference amount per Preference Share.

### **Lloyds TSB 6.657% Preference Shares**

The provisions of the Lloyds TSB 6.657% Preference Shares will provide, among other things:

- (i) that dividends will accrue at 6.657 per cent. per annum from (and including) their issue date to (but excluding) 21 May 2037, and will be payable in arrear on 21 May and 21 November in each year, save that the first dividend payment will be made on 21 May 2009, and will be U.S.\$33.285 per Preference Share;

- (ii) that from (and including) 21 May 2037, dividends will accrue at a rate, reset quarterly, of 1.27 per cent. per annum above three-month U.S. dollar LIBOR, and will be payable quarterly in arrear on, subject (where applicable) to adjustment, 21 February, 21 May, 21 August and 21 November in each year; and
- (iii) that all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 21 May 2037 or any Dividend Payment Date thereafter at the liquidation preference amount per Preference Share.

#### **Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares**

The provisions of the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares (together, the “**Enlarged Group HMT Preference Shares**”) will provide, among other things:

- (i) that dividends will accrue at 12 per cent. per annum from (and including) their issue date to (but excluding) the date falling five years and one day after their issue date, and will be payable semi-annually in equal instalments in arrear;
- (ii) that from (and including) the date falling five years and one day after their issue date, dividends will accrue on the Enlarged Group HMT Preference Shares at a rate, reset quarterly, of 7 per cent. per annum above three-month sterling LIBOR, and will be payable quarterly in arrear on;
- (iii) that, in the event that the board does not resolve that the Company should pay in full a dividend stated to be payable, the Company will not, for a period of (as more fully described therein) one calendar year from the date on which such full dividend is not paid, redeem, purchase, cancel, reduce or otherwise acquire in any other way any shares or declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Enlarged Group HMT Preference Shares (subject to certain exceptions) as well as any shares expressed to rank junior to the Enlarged Group HMT Preference Shares; and
- (iv) that, until the date on which the Enlarged Group HMT Preference Shares are redeemed or repurchased in full, the Company shall not declare or pay any dividend or make any distribution (whether in cash or otherwise) on or in respect of the ordinary shares of the Company or set aside any sum to provide for payment of any such dividend or distribution (subject to certain exceptions) or redeem, purchase, cancel or otherwise acquire in any way any ordinary shares of the Company or effect a reduction of the ordinary share capital of the Company which involves a distribution to holders of ordinary shares.



## PART II

### PART B – OVERVIEW OF THE PREFERENCE SHARES

#### Lloyds TSB 9.25% Preference Shares

*Capitalised terms used in this overview of the Lloyds TSB 9.25% Preference Shares have the same meanings as set out in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 9.25% Preference Shares”) below.*

<b>Issuer of the Preference Shares</b>	Lloyds TSB Group plc
<b>The Preference Shares</b>	£300,000,000 Preference Shares of the Company, each with a nominal value of £0.25.
<b>Liquidation Preference</b>	£1 per Preference Share.
<b>Preference Share Dividends</b>	Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 9.25 per cent. per annum on the liquidation preference of £1 per Preference Share from (and including) the Issue Date, and will be payable semi-annually in equal instalments in arrear on 31 May (in respect of the half-yearly period ending on the preceding 28 February (or, in a leap year, 29 February)) and 30 November (in respect of the half-yearly period ending on the preceding 31 August) in each year, save that the first dividend payment will be made on 31 May 2009 in respect of the period from (and including) 1 September 2008 to (and including) 28 February 2009, and will amount to 4.625 pence per Preference Share.

Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.

Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.

If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding dividend period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future dividend period.

Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard *pari passu* with the holders of any

**Dividend Restriction**

class of shares in issue or which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Preference Shares are irredeemable securities and have no maturity date.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

**Voting Rights**

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or

<b>Variation of Rights</b>	<p>abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 9.25% Preference Shares – 9. Voting”).</p> <p>If applicable law permits, the rights, preferences and privileges attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.</p> <p>The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Preference Shares.</p> <p>If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in sterling or any other currency.</p>
<b>Form</b>	<p>The Preference Shares will be issued in either certificated form or uncertificated form in CREST.</p>
<b>Yield</b>	<p>9.25 per cent. per annum, payable semi-annually.</p>
<b>Listing</b>	<p>London Stock Exchange.</p>
<b>Governing Law</b>	<p>Laws of Scotland.</p>
<b>Registrar and Paying Agent</b>	<p>Equiniti Limited will maintain the register and will act as Registrar and Paying Agent, save that the Company reserves the right at any time to appoint an additional or successor registrar or paying agent.</p>

## **Lloyds TSB 9.75% Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 9.75% Preference Shares have the same meanings as set out in Part IV ("Description of the Preference Shares – Description of the Lloyds TSB 9.75% Preference Shares") below.*

<b>Issuer of the Preference Shares</b>	Lloyds TSB Group plc
<b>The Preference Shares</b>	£100,000,000 Preference Shares of the Company, each with a nominal value of £0.25.
<b>Liquidation Preference</b>	£1 per Preference Share.
<b>Preference Share Dividends</b>	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 9.75 per cent. per annum on the liquidation preference of £1 per Preference Share from (and including) the Issue Date and will be payable semi-annually in equal instalments in arrear on 31 May (in respect of the half-yearly period ending on 28 February (or, in a leap year, 29 February)) and 30 November (in respect of the half-yearly period ending 31 August) in each year, save that the first dividend payment will be made on 31 May 2009 in respect of the period from (and including) 1 September 2008 to (and including) 28 February 2009, and will amount to 4.875 pence per Preference Share.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors' discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding dividend period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future dividend period.</p> <p>Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard <i>pari passu</i> with the holders of any class of shares in issue or which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.</p>
<b>Dividend Restriction</b>	If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the

Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Preference Shares are irredeemable securities and have no maturity date.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

**Voting Rights**

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous



**Variation of Rights**

Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 9.75% Preference Shares – 9. Voting”).

If applicable law permits, the rights, preferences and privileges attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in sterling or any other currency.

**Form**

The Preference Shares will be issued in either certificated form or uncertificated form in CREST.

**Yield**

9.75 per cent. per annum, payable semi-annually.

**Listing**

London Stock Exchange.

**Governing Law**

Laws of Scotland.

**Registrar and Paying Agent**

Equiniti Limited will maintain the register and will act as Registrar and Paying Agent, save that the Company reserves the right at any time to appoint an additional or successor registrar or paying agent.

## **Lloyds TSB 6.475% Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 6.475% Preference Shares have the same meanings as set out in Part IV ("Description of the Preference Shares – Description of the Lloyds TSB 6.475% Preference Shares") below.*

<b>Issuer of the Preference Shares</b>	Lloyds TSB Group plc
<b>The Preference Shares</b>	£198,065,600 Preference Shares of the Company, each with a nominal value of £0.25.
<b>Liquidation Preference</b>	£1 per Preference Share.
<b>Preference Share Dividends</b>	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 6.475 per cent. per annum on a liquidation preference of £1 per Preference Share from (and including) the Issue Date and will be payable semi-annually in equal instalments in arrear on 15 March and 15 September in each year, save that the first dividend payable will be made on 15 March 2009 in respect of the period from (and including) 15 September 2008 to (but excluding) 15 March 2009, and will amount to 3.2375 pence per Preference Share.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors' discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future Dividend Period.</p> <p>Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard <i>pari passu</i> with the holders of any class of shares in issue or which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.</p>
<b>Dividend Restriction</b>	<p>If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004</p>

Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Preference Shares are perpetual securities and have no maturity date. However, all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 15 September 2024 or any Dividend Payment Date occurring on the fifth anniversary thereafter at the Redemption Price per Preference Share.

In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

**Voting Rights**

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the

<b>Variation of Rights</b>	<p>Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.475% Preference Shares – 9. Voting”).</p> <p>If applicable law permits, the rights, preferences and privileges attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.</p> <p>The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Preference Shares.</p> <p>If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in sterling or any other currency.</p>
<b>Form</b>	<p>The Preference Shares will be issued in either certificated form or uncertificated form in CREST.</p>
<b>Yield</b>	<p>6.475 per cent. per annum, payable semi-annually.</p>
<b>Listing</b>	<p>London Stock Exchange.</p>
<b>Governing Law</b>	<p>Laws of Scotland.</p>
<b>Registrar and Paying Agent</b>	<p>Equiniti Limited will maintain the register and will act as Registrar and Paying Agent, save that the Company reserves the right at any time to appoint an additional or successor registrar or paying agent.</p>

## **Lloyds TSB 6.0884% Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 6.0884% Preference Shares have the same meanings as set out in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.0884% Preference Shares”) below.*

<b>Issuer of the Preference Shares</b>	Lloyds TSB Group plc
<b>The Preference Shares</b>	£750,000,000 Preference Shares of the Company, each with a nominal value of £0.25.
<b>Liquidation Preference</b>	£1,000 per Preference Share.
<b>Preference Share Dividends</b>	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 6.0884 per cent. per annum on a liquidation preference of £1,000 per Preference Share from (and including) the Issue Date to (but excluding) 12 May 2015 (the “First Call Date”), and will be payable semi-annually in equal instalments in arrear on 12 May and 12 November in each year, save that the first dividend payment will be made on 12 May 2009 in respect of the period from (and including) 12 November 2008 to (but excluding) 12 May 2009, and will amount to £30.442 per Preference Share.</p> <p>From (and including) the First Call Date, non-cumulative preferential dividends will accrue on the Preference Shares at a rate, reset quarterly, of 1.31 per cent. per annum above the London interbank offered rate for three-month sterling deposits, and will be payable quarterly in arrear on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, 12 February, 12 May, 12 August and 12 November in each year.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future Dividend Period.</p> <p>Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard <i>pari passu</i> with the holders of any</p>

class of shares in issue or which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.

**Dividend Restriction**

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Preference Shares are perpetual securities and have no maturity date. However, all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on the First Call Date or any Dividend Payment Date thereafter at the Redemption Price per Preference Share.

In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1,000 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant



Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

**Voting Rights**

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.0884% Preference Shares – 9. Voting”).

**Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in sterling or any other currency.

**Form**

The Preference Shares will be issued in either certificated form or uncertificated form in CREST. Investors who hold accounts in Euroclear and Clearstream, Luxembourg may also hold Preference Shares through such accounts in accordance with the relevant Clearing System’s rules. Preference Shares held through the Clearing Systems will be registered in the name of the relevant Clearing System’s nominee account holder with CREST,

who shall be the holder of record of such Preference Shares, and not the investors holding beneficial interests in the Preference Shares through the Clearing Systems.

TRANSFERS FROM PARTICIPANTS IN EUROCLEAR TO PARTICIPANTS IN CLEARSTREAM, LUXEMBOURG AND VICE VERSA, WILL BE EFFECTED THROUGH THE CLEARING SYSTEMS' ACCOUNTS HELD IN CREST. PARTICIPANTS TRANSFERRING PREFERENCE SHARES BETWEEN EUROCLEAR AND CLEARSTREAM, LUXEMBOURG AND VICE VERSA, SHOULD (PROVIDED THAT, AT THE TIME OF THE TRANSFER, NO RELEVANT ELECTION UNDER SECTION 97A OF THE FINANCE ACT 1986 IS IN FORCE IN RELATION TO THE TRANSFEROR CLEARING SYSTEM) INSTRUCT THE TRANSFEROR CLEARING SYSTEM TO "FLAG" THE TRANSFER AS EXEMPT FROM SDRT IN ACCORDANCE WITH THE RULES OF THAT CLEARING SYSTEM, AS SET OUT IN THE RELEVANT PARTICIPANT USER GUIDE.

**Initial Yield**

6.0884 per cent. per annum, payable semi-annually.

**Listing**

London Stock Exchange.

**Governing Law**

Laws of Scotland.

**Registrar and Paying Agent**

Equiniti Limited will maintain the register and will act as Registrar and Paying Agent, save that the Company reserves the right at any time to appoint an additional or successor registrar or paying agent.

## **Lloyds TSB 6.413% Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 6.413% Preference Shares have the same meanings as set out in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.413% Preference Shares and the Lloyds TSB 5.92% Preference Shares”) below.*

<b>Issuer of the Preference Shares</b>	Lloyds TSB Group plc.
<b>The Preference Shares</b>	U.S.\$750,000,000 Preference Shares of the Company, each with a nominal value of U.S.\$0.25.
<b>Liquidation Preference</b>	U.S.\$1,000 per Series A Preference Share.
<b>Preference Share Dividends</b>	<p>Non-cumulative preferential dividends will accrue on the Series A Preference Shares at a rate of 6.413 per cent. per annum on a liquidation preference of U.S.\$1,000 per Series A Preference Share from (and including) the Issue Date to (but excluding) 1 October 2035 (the “Series A First Call Date”), and will be payable semi-annually in equal instalments in arrear on 1 April and 1 October in each year, save that the first dividend payment will be made on 1 April 2009 in respect of the period from (and including) 1 October 2008 to (but excluding) 1 April 2009, and will amount to U.S.\$32.065 per Series A Preference Share.</p> <p>From (and including) the Series A First Call Date, non-cumulative preferential dividends will accrue on the Preference Shares at a rate, reset quarterly, of 1.495 per cent. per annum above the London interbank offered rate for three-month U.S. dollar deposits, and will be payable quarterly in arrear on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, 1 January, 1 April, 1 July and 1 October in each year.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Series A Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Series A Preference Shares will be mandatorily payable on each Series A Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Series A Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Series A Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Series A Preference Shares are declared for any future Dividend Period.</p> <p>Holders of the Series A Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Series A</p>

Preference Shares and in such regard *pari passu* with the holders of any class of shares in issue or which may be issued which are expressed to rank equally with the Series A Preference Shares in the capital of the Company and other Parity Securities.

**Dividend Restriction**

If the Company has not declared or paid in full a dividend stated to be payable on the Series A Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Series A Preference Shares are perpetual securities and have no maturity date. However, all or some only of the Series A Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on the Series A First Call Date or any Series A Dividend Payment Date thereafter at the Redemption Price per Series A Preference Share.

In the event that fewer than all the outstanding Series A Preference Shares are to be redeemed, the Series A Preference Shares to be redeemed will be selected by the Company by means of a draw.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Series A Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Series A Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Series A Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) U.S.\$1,000 per Series A Preference Share, (2) the amount of any dividend which is due for payment on the Series A Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Series A Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any

time without any requirement for consent or approval of the holders of the Series A Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Series A Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

#### **Voting Rights**

Holders of Series A Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Series A Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.413% Preference Shares and the Lloyds TSB 5.92% Preference Shares – 9. Voting”).

#### **Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to the Series A Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Series A Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Series A Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Series A Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Series A Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Series A Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Series A Preference Shares.

If the Company has paid the most recent dividend payable on the Series A Preference Shares in full, the rights attached to the Series A Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Series A Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in U.S. dollars or any other currency.

<b>Form</b>	The Series A Preference Shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer which will be deposited with the Depositary under the Deposit Agreements.
<b>Initial Yield</b>	6.413 per cent. per annum, payable semi-annually.
<b>Listing</b>	London Stock Exchange.
<b>Governing Law</b>	Laws of Scotland.
<b>Registrar and Paying Agent</b>	The Company's company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.
<b>Depositary</b>	The Bank of New York Mellon.



## **Lloyds TSB 5.92% Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 5.92% Preference Shares have the same meanings as set out in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.413% Preference Shares and the Lloyds TSB 5.92% Preference Shares”) below.*

**Issuer of the Preference Shares** Lloyds TSB Group plc.

**The Preference Shares** U.S.\$750,000,000 Preference Shares of the Company, each with a nominal value of U.S.\$0.25.

**Liquidation Preference** U.S.\$1,000 per Series B Preference Share.

**Preference Share Dividends** Non-cumulative preferential dividends will accrue on the Series B Preference Shares at a rate of 5.92 per cent. per annum on a liquidation preference of U.S.\$1,000 per Series B Preference Share from (and including) the Issue Date to (but excluding) 1 October 2015 (the “Series B First Call Date”), and will be payable semi-annually in equal instalments in arrear on 1 April and 1 October in each year, save that the first dividend payment will be made on 1 April 2009 in respect of the period from (and including) 1 October 2008 to (but excluding) 1 April 2009, and will amount to U.S.\$29.60 per Series B Preference Share.

From (and including) the Series B First Call Date, non-cumulative preferential dividends will accrue on the Series B Preference Shares at a rate, reset quarterly, of 1.295 per cent. per annum above the London interbank offered rate for three-month U.S. dollar deposits, and will be payable quarterly in arrear on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, 1 January, 1 April, 1 July and 1 October in each year.

Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Series B Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.

Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Series B Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.

If the Board of Directors or the Committee decides not to declare a dividend payable on a Series B Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Series B Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Series B Preference Shares are declared for any future Dividend Period.

Holders of the Series B Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Series B

Preference Shares and in such regard *pari passu* with the holders of any class of shares in issue or which may be issued which are expressed to rank equally with the Series B Preference Shares in the capital of the Company and other Parity Securities.

**Dividend Restriction**

If the Company has not declared or paid in full a dividend stated to be payable on the Series B Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Series B Preference Shares are perpetual securities and have no maturity date. However, all or some only of the Series B Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on the Series B First Call Date or any Series B Dividend Payment Date falling on or about the tenth anniversary thereafter at the Redemption Price per Series B Preference Share.

In the event that fewer than all the outstanding Series B Preference Shares are to be redeemed, the Series B Preference Shares to be redeemed will be selected by the Company by means of a draw.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Series B Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Series B Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Series B Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) U.S.\$1,000 per Series B Preference Share, (2) the amount of any dividend which is due for payment on the Series B Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Series B Preference Shares in whole, but not

in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Series B Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Series B Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

#### **Voting Rights**

Holders of Series B Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Series B Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.413% Preference Shares and the Lloyds TSB 5.92% Preference Shares – 9. Voting”).

#### **Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to the Series B Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Series B Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Series B Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Series B Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Series B Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Series B Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Series B Preference Shares.

If the Company has paid the most recent dividend payable on the Series B Preference Shares in full, the rights attached to the Series B Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Series B Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in U.S. dollars or any other currency.

<b>Form</b>	The Preference Shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer which will be deposited with the Depositary under the Deposit Agreements.
<b>Initial Yield</b>	5.92 per cent. per annum, payable semi-annually.
<b>Listing</b>	London Stock Exchange.
<b>Governing Law</b>	Laws of Scotland.
<b>Registrar and Paying Agent</b>	The Company's company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.
<b>Depositary</b>	The Bank of New York Mellon.

## **Lloyds TSB 6.3673% Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 6.3673% Preference Shares have the same meanings as set out in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.3673% Preference Shares”) below.*

<b>Issuer of the Preference Shares</b>	Lloyds TSB Group plc
<b>The Preference Shares</b>	£350,002,000 Preference Shares of the Company, each with a nominal value of £0.25.
<b>Liquidation Preference</b>	£1,000 per Preference Share.
<b>Preference Share Dividends</b>	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 6.3673 per cent. per annum on a liquidation preference of £1,000 per Preference Share from (and including) the Issue Date to (but excluding) 17 June 2019 (the “First Call Date”), and will be payable annually in arrear on 17 June in each year, save that the first dividend payment will be made on 17 June 2009 in respect of the period from (and including) 17 June 2008 to (but excluding) 17 June 2009, and will amount to £63.673 per Preference Share.</p> <p>From (and including) the First Call Date, non-cumulative preferential dividends will accrue on the Preference Shares at a rate, reset quarterly, of 1.36 per cent. per annum above the London interbank offered rate for three-month sterling deposits, and will be payable quarterly in arrear on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, 17 March, 17 June, 17 September and 17 December in each year.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future Dividend Period.</p> <p>Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard <i>pari passu</i> with the holders of any</p>

class of shares in issue or which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.

**Dividend Restriction**

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Preference Shares are perpetual securities and have no maturity date. However, all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on the First Call Date or any Dividend Payment Date thereafter at the Redemption Price per Preference Share.

In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1,000 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant



<b>Voting Rights</b>	<p>Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.</p> <p>Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.3673% Preference Shares – 9. Voting”).</p>
<b>Variation of Rights</b>	<p>If applicable law permits, the rights, preferences and privileges attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.</p> <p>The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Preference Shares.</p> <p>If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in sterling or any other currency.</p>
<b>Form</b>	<p>The Preference Shares will be issued in and will be initially represented by interests in a global certificate held in the name of a nominee of, and deposited with a common depository for, Euroclear and Clearstream Luxembourg.</p>
<b>Yield</b>	<p>6.3673 per cent. per annum.</p>
<b>Listing</b>	<p>London Stock Exchange.</p>
<b>Governing Law</b>	<p>Laws of Scotland.</p>

**Registrar and Paying Agent**

Equiniti Limited will maintain the register and will act as Registrar and Paying Agent, save that the Company reserves the right at any time to appoint an additional or successor registrar or paying agent.

## **Lloyds TSB 6.657% Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 6.657% Preference Shares have the same meanings as set out in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.657% Preference Shares”) below.*

<b>Issuer of the Preference Shares</b>	Lloyds TSB Group plc.
<b>The Preference Shares</b>	U.S.\$750,000,000 Preference Shares of the Company, each with a nominal value of U.S.\$0.25.
<b>Liquidation Preference</b>	U.S.\$1,000 per Preference Share.
<b>Preference Share Dividends</b>	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 6.657 per cent. per annum on a liquidation preference of U.S.\$1,000 per Preference Share from (and including) the Issue Date to (but excluding) 21 May 2037 (the “First Call Date”), and will be payable semi-annually in equal instalments in arrear on 21 May and 21 November in each year, save that the first dividend payment will be made on 21 May 2009 in respect of the period from (and including) 21 November 2008 to (but excluding) 21 May 2009, and will amount to U.S.\$33.285 per Preference Share.</p> <p>From (and including) the First Call Date, non-cumulative preferential dividends will accrue on the Preference Shares at a rate, reset quarterly, of 1.27 per cent. per annum above the London interbank offered rate for three-month U.S. dollar deposits, and will be payable quarterly in arrear on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, 21 February, 21 May, 21 August and 21 November in each year.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future Dividend Period.</p> <p>Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard <i>pari passu</i> with the holders of any</p>

class of shares in issue or which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.

**Dividend Restriction**

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

**Redemption**

The Preference Shares are perpetual securities and have no maturity date. However, all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on the First Call Date or any Dividend Payment Date thereafter at the Redemption Price per Preference Share.

In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw.

**Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders; (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) U.S.\$1,000 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

**Substitution**

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant

<b>Voting Rights</b>	<p>Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.</p> <p>Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 6.657% Preference Shares – 9. Voting”).</p>
<b>Variation of Rights</b>	<p>If applicable law permits, the rights, preferences and privileges attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.</p> <p>The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Preference Shares.</p> <p>If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in U.S. dollars or any other currency.</p>
<b>Form</b>	<p>The Preference Shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer which will be deposited with the Depositary under the Deposit Agreements.</p>
<b>Initial Yield</b>	<p>6.657 per cent. per annum, payable semi-annually.</p>
<b>Listing</b>	<p>London Stock Exchange.</p>
<b>Governing Law</b>	<p>Laws of Scotland.</p>

**Registrar and Paying Agent**

The Company's company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.

**Depositary**

The Bank of New York Mellon.



## **Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares**

*Capitalised terms used in this overview of the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares have the same meanings as set out in Part IV (“Description of the Preference Shares – Description of the Lloyds TSB 12% Preference Shares and New HM Treasury Preference Shares”) below.*

**Issuer of the Preference Shares** Lloyds TSB Group plc.

**The Preference Shares** In respect of the Lloyds TSB 12% Preference Shares: £3,000,000,000 Preference Shares of the Company, each with a nominal value of £0.25.

In respect of the New HM Treasury Preference Shares: £1,000,000,000 Preference Shares of the Company, each with a nominal value of £0.25.

**Liquidation Preference** £1,000 per Preference Share.

**Preference Share Dividends** Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 12 per cent. per annum on a liquidation preference of £1,000 per Preference Share from (and including) the Issue Date to (but excluding) [●] 2013 [*the day falling five years and one day after the Issue Date*] (the “First Call Date”), and will be payable semi-annually in equal instalments in arrear on [●] and [●] [*the corresponding dates falling in the sixth and twelfth month in each year following the Issue Date*] in each year (save that the tenth Dividend Payment Date shall fall on the First Call Date).

From (and including) the First Call Date, non-cumulative preferential dividends will accrue on the Preference Shares at a rate, reset quarterly, of 7 per cent. per annum above the London interbank offered rate for three-month sterling deposits, and will be payable quarterly in arrear on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, [●], [●], [●] and [●] [*the corresponding dates falling in the third, sixth, ninth and twelfth month in each year following the First Call Date*] in each year.

Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.

Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.

If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either

to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future Dividend Period.

Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard *pari passu* with the holders of any class of shares in issue or which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.

#### **Dividend Restriction**

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Parity Securities, Junior Share Capital or the 2004 Preference Shares, or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Parity Securities (subject to certain exceptions), Junior Share Capital or the 2004 Preference Shares.

Until the date on which the Preference Shares are redeemed or repurchased in full, the Company shall not: (a) declare or pay any dividend or make any distribution (whether cash or otherwise) on or in respect of the ordinary shares of the Company or set aside any sum to provide for payment of any such dividend or distribution (save that the foregoing restriction shall not apply to a capitalisation issue pursuant to which newly issued bonus shares are paid up out of undistributable reserves); or (b) redeem, purchase, cancel or otherwise acquire in any way any ordinary shares of the Company or effect a reduction of the ordinary share capital of the Company which involves a distribution to holders of ordinary shares.

#### **Redemption**

The Preference Shares are perpetual securities and have no maturity date. However, all or some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required) and upon the Company giving not less than 30 nor more than 60 days notice to the holders of the Preference Shares to be redeemed, on the First Call Date or any Dividend Payment Date thereafter at the Redemption Price per Preference Share.

In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw.

#### **Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the

Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1,000 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

### **Voting Rights**

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in Part IV ("Description of the Preference Shares – Description of the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares – 9. Voting").

### **Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors proposes to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the

Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion whether denominated in sterling or any other currency.

**Form**

The Preference Shares will be issued in either certificated form or uncertificated form in CREST.

**Initial Yield**

12 per cent. per annum, payable semi-annually.

**Listing**

London Stock Exchange.

**Governing Law**

Laws of Scotland.

**Registrar and Paying Agent**

The Company's company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.

## PART III

### RISK FACTORS

*The Lloyds TSB Group's and/or, following the Acquisition, the Enlarged Group's operating results, financial condition and prospects could be materially and adversely affected by any of the risks described below. In that event, the value of the Preference Shares could decline, and investors could lose all or part of their investment in the Preference Shares.*

*This section describes the risk factors which are considered by the Lloyds TSB Directors to be material in relation to the Lloyds TSB Group and/or which will, following the Acquisition, apply to the Enlarged Group. Where risks are described in terms of a risk to an investment in Lloyds TSB Shares these apply and are equally relevant to the Open Offer Shares, the Consideration Shares and to the Preference Shares as well as to the Consideration ADSs.*

*These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Lloyds TSB Directors, or which they currently deem immaterial, may also have an adverse effect on the Lloyds TSB Group's and/or, if the Acquisition becomes Effective, the Enlarged Group's operating results, financial condition and prospects. The information given is as of the date of this document and, except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, will not be updated. Any forward-looking statements are made subject to the reservations specified under "Forward-Looking Statements" on pages 3-4 of this document.*

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

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

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

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

Despite this intervention, the volatility and market disruption in the banking sector have continued to a degree unprecedented in recent history. This market dislocation has also been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. There is increasing concern of a deep and prolonged global recession. These conditions have already adversely affected the Lloyds TSB Group's and the HBOS Group's earnings and profits. Continued general deterioration in the UK or other major economies throughout the world, including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate

sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, would reduce the level of demand for, and supply of, the Lloyds TSB Group's and the Enlarged Group's products and services, lead to lower realisations and write downs and impairments of investments and negative fair value adjustments of assets and materially and adversely impact their operating results, financial condition and prospects.

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

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

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

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

The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, inherently subject to the risk of financial market fluctuations, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices and the risk that their customers act in a manner which is inconsistent with business, pricing and hedging assumptions.

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

The insurance and investments businesses of the Lloyds TSB Group, and of the Enlarged Group, will face market risk arising, for example, from equity, bond and property markets in a number of ways depending upon the product and associated contract. Some of these risks are borne directly by the customer and some are borne by the insurance and investments businesses. Some insurance contracts involve guarantees and options that increase in value



in adverse investment markets. There is a risk that the insurance and investments businesses will bear some of the cost of such guarantees and options. The insurance and investments businesses also have capital invested in the markets that are exposed to market risk. The performance of the investment markets will thus have a direct impact upon the embedded value of insurance and investments contracts and the Lloyds TSB Group's and Enlarged Group's operating results, financial condition and prospects. Adverse investment market conditions can affect investor confidence, which in turn can result in lower sales and/or reduced persistency.

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

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

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

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

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

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

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

Furthermore, fair value adjustments will be required in connection with the Acquisition. The *pro forma* net assets of the HBOS Group do not take account of any fair value adjustments that will be required as a result of the Acquisition. The Lloyds TSB Group has not yet been

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

**1.4 *The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks concerning borrower and counterparty credit quality which could affect the recoverability and value of assets on the balance sheet. As a result of the Acquisition, the Enlarged Group will have greater exposure to certain sectors and asset classes than the Lloyds TSB Group currently has***

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

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

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

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

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

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

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

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

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

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

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

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

**1.7 *The Lloyds TSB Group and the Enlarged Group could be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties***

Against the backdrop of the lack of liquidity and high cost of funds in the interbank lending market, which is unprecedented in recent history, the Lloyds TSB Group is, and the Enlarged Group will be, subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the United



Kingdom. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Lloyds TSB Group interacts and the Enlarged Group will interact on a daily basis, all of which could have an adverse effect on the Lloyds TSB Group’s and the Enlarged Group’s ability to raise new funding.

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

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

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

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

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

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

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

UK banks recognise an asset in their balance sheets representing the value of in-force business ("VIF") in respect of long-term life assurance contracts, being insurance contracts and investment contracts with discretionary participation features. This asset represents the present value of future profits expected to arise from the portfolio of in-force life assurance contracts. Adoption of this accounting treatment results in the earlier recognition of profit on new business, but subsequently a lower contribution from existing business, when compared to the recognition of profits on investment contracts under IAS 39 (Financial Instruments: Recognition and Measurement). Differences between actual and expected experience may have a significant impact on the value of the VIF asset, as changes in experience can result in significant changes to modelled future cash flows. The VIF asset is calculated based on best-estimate assumptions made by management, including the value of investments under management, mortality experience and persistency. If these assumptions prove incorrect, the VIF asset could be materially reduced, which in turn could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's financial condition and results of operations.

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

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

As at the date of this document, the long-term credit ratings for the Lloyds TSB Group are Aaa from Moody's Investors Service, AA from Standard & Poor's rating service, AA+ from Fitch Ratings and AA(H) from DBRS. As at the date of this document, the long-term credit ratings for the HBOS Group are Aa2 from Moody's Investors Service, A+ from Standard & Poor's rating service, AA from Fitch Ratings and AA(H) from DBRS. Recently, each of these ratings services placed the long-term credit ratings of both the Lloyds TSB Group and the HBOS Group on watch with negative implications. Reduction in the long-term credit ratings of the Lloyds TSB Group, the HBOS Group and/or the Enlarged Group could significantly increase their respective borrowing costs, limit their access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Therefore, a reduction in credit ratings could materially adversely affect the Enlarged Group's access to liquidity and competitive position and, hence, have a material adverse effect on the Enlarged Group's business, financial position and results of operations.

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

Operational risks, through inadequate or failed internal processes (including financial reporting and risk monitoring processes) or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Lloyds TSB Group, are present in the Lloyds TSB Group's businesses and will be present in the business of the Enlarged Group. The Lloyds TSB Group's businesses and the HBOS Group's businesses are, and the



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

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

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

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

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

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

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

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

Under the terms of the Placing and Open Offer Agreement, the Lloyds TSB Group has provided certain undertakings aimed at ensuring that the potential acquisition by HM Treasury of Lloyds TSB Shares and the Lloyds TSB Group's participation in the guarantee scheme promoted by HM Treasury as part of its support for the banking industry is consistent with the State Aid Approval. The state aid rules aim to prevent companies from being given an artificial or unfair competitive advantage as a result of governmental assistance. It is Lloyds TSB's understanding that the undertakings are also aimed at supporting certain objectives of HM Treasury in providing assistance to the UK banking industry. These undertakings, which are consistent with the Lloyds TSB Group's existing focus in its relevant lines of business, include (i) supporting UK Government policy in relation to mortgage lending and lending to SMEs through 2011; (ii) regulating management remuneration; (iii) regulating the rate of growth of the Lloyds TSB Group's balance sheet; and (iv) requiring the presentation to HM Treasury of a restructuring plan within six months (as all banks participating in HM Treasury's recapitalisation and guarantee schemes are required to do). There is a risk that these undertakings or any further requirements introduced by HM Treasury could have a materially adverse effect on the operations of the Lloyds TSB Group and the Enlarged Group. For a description of these undertakings, see Part V ("Conditions Relating to the Proposed Government Funding") of the Share Circular, which is incorporated by reference into this document. In addition, pursuant to the conditions attaching to the Proposed Government Funding, the Lloyds TSB Board is required to consult with HM Treasury in relation to the appointment of two new independent directors.

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

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

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

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

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

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

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

In addition, in the United Kingdom and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular, retail banking. In the United Kingdom, the Competition Commission, the Financial Services Authority and the Office of Fair Trading are carrying out several inquiries, which are referred to in Part VII ("Regulation and Supervision in the United Kingdom") and section 11 ("Litigation") of Part XVIII ("Additional Information") of this document. In recent years there have been several issues in the UK financial services industry in which the FSA has intervened directly, including the sale of personal pensions and the sale of mortgage related endowments. There may be further inquiries in the future which could lead to further regulatory intervention.

For example, in clearing the Acquisition without a reference to the Competition Commission the Secretary of State noted that there were some competition concerns identified by the OFT in the markets for personal current accounts and mortgages in Great Britain and the market for SME banking in Scotland. He said that he is asking the OFT to keep relevant markets under review in order to protect the interests of UK consumers and the British economy. It is too soon to tell what form, or implications for the Enlarged Group, those reviews might have.

The UK Government, the FSA or other regulators, in the United Kingdom or overseas, may intervene further in relation to the areas of industry risk already identified, or in new areas, which could adversely affect the Lloyds TSB Group and the Enlarged Group.

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

In the United Kingdom, the FSCS was established under FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including the Lloyds TSB Group and, it is expected, the Enlarged Group. In the event that the FSCS raises funds from the authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated costs to the Lloyds TSB Group and/or the Enlarged Group may have a material impact on its results of operations and financial condition.

**1.17 The Lloyds TSB Group is exposed to various forms of legal and regulatory risk, including the risk of misselling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a negative impact on its results or its relations with its customers. This will also be true of the Enlarged Group**

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

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

- the intellectual property of the Lloyds TSB Group and the Enlarged Group (such as trade names) may not be adequately protected; and
- the Lloyds TSB Group and the Enlarged Group may be liable for damages to third parties harmed by the conduct of its business.

In addition, the Lloyds TSB Group faces and the Enlarged Group will face risk where legal or regulatory proceedings or FOS or other complaints are brought against it in the UK High Court or elsewhere, or in jurisdictions outside the UK, including other European countries and the United States. A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. See section 11.1.3 of Part XII (“Additional Information”) of the Share Circular, which is incorporated by reference into this document. The outcome of any proceeding or complaint is inherently uncertain and could have a material adverse effect on the Lloyds TSB Group’s and the Enlarged Group’s operations and/or financial condition, particularly if extended more broadly.

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

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

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

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

The markets for UK financial services and the other markets within which the Lloyds TSB Group operates, and the Enlarged Group will operate, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. If financial markets remain unstable, financial institution consolidation may accelerate. Moreover, government intervention in the banking sector may impact the competitive position of banks within a country and among international competitors which may be subject to different forms of government intervention, thus potentially putting the Lloyds TSB Group and the Enlarged Group at a competitive disadvantage to local banks in such jurisdictions. Any combination of these factors could result in a reduction in profit. The Lloyds TSB Group’s and the Enlarged Group’s ability to generate an appropriate return for its shareholders depends significantly upon the competitive environment and management’s response to it.

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

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

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

The Lloyds TSB Group’s success depends, and the Enlarged Group’s success will depend, on the ability and experience of its senior management. The loss of the services of certain key employees, particularly to competitors, could have a material adverse effect on the Lloyds



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

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

### **2.1 *If the Acquisition does not become Effective, the Lloyds TSB Group will not be able to proceed with the Placing and Open Offer. In that case, the Lloyds TSB Group will be required to raise additional capital in an alternative manner. There is no certainty that it would be able to do so on acceptable terms or at all***

The Placing and Open Offer is conditional on the passing of various resolutions, including those relating to the Acquisition, at the Lloyds TSB General Meeting. It is also conditional on the satisfaction of certain conditions as set out in the Placing and Open Offer Agreement, including that the Scheme has been sanctioned at the Scheme Court Hearing and that the HBOS Placing and Open Offer Agreement has not been terminated. The Acquisition is also conditional on the passing of Resolutions 1 and 3 at the Lloyds TSB General Meeting; the passing of various resolutions at the HBOS General Meeting and the Court Meeting; and all regulatory conditions and consents having been obtained or, in certain circumstances, waived. Accordingly, the Placing and Open Offer and the Acquisition are interconditional. If the Resolutions on which the Placing and Open Offer or the Acquisition are conditional are not approved or for some other reason the Placing and Open Offer Agreement is terminated or the Acquisition does not become Effective, the Lloyds TSB Group will not be able to proceed with its desired capital raising plan via the Placing and Open Offer. In that event, HM Treasury has stated that it would expect the Lloyds TSB Group to take appropriate action to strengthen its capital position. The FSA has advised the Lloyds TSB Group that if the Acquisition were not to occur, it would require the Lloyds TSB Group to raise £7 billion of additional capital, made up of £5 billion of core Tier 1 equity and £2 billion of Tier 1 instruments. There can be no certainty that the Lloyds TSB Group would be able to successfully raise such capital or as to the terms on which such capital could be raised, including the price and other terms of any participation by HM Treasury in any such capital raising and whether or not such a capital raising would be on a pre-emptive basis. Thus, if the conditions to the Acquisition are not satisfied or waived and the Lloyds TSB Group is not able to proceed with its desired capital raising plan via the Placing and Open Offer, it will be required to renegotiate the terms of either the Acquisition or the Placing and Open Offer or both with HM Treasury and the HBOS Group, and may be required to seek alternate means of raising funding. There can be no assurance as to whether the Lloyds TSB Group would be successful in raising alternative capital or as to the timetable or terms of an alternative capital raising or as to whether any such capital raising would be on a pre-emptive basis. If the Lloyds TSB Group is unable to find alternative sources of capital and sufficiently raise its capital, its business, results of operations and financial condition will suffer, its credit ratings may drop, its cost of funding may increase and it may need to access HM Treasury's recapitalisation fund, if such fund is available. Any of the above may have a material adverse impact on the Lloyds TSB Group share price.

### **2.2 *The Acquisition is being effected by way of the Scheme and will require the separate approval of the Scheme Shareholders, HBOS Shareholders and Lloyds TSB Shareholders. There can be no assurance that the required shareholder approvals will be obtained***

The Acquisition is being effected by means of a scheme of arrangement between HBOS and the Scheme Shareholders under sections 895 to 899 of the Companies Act which will require an application by HBOS to the Court to sanction the Scheme and confirm the reduction and cancellation of HBOS' issued and to be issued ordinary share capital. Before such Court Orders can be sought, the Acquisition will require approval (i) by the Scheme Shareholders at

the Court Meeting, (ii) by the HBOS Shareholders of certain resolutions to be proposed at the HBOS General Meeting and (iii) by Lloyds TSB Shareholders of certain resolutions to be proposed at the Lloyds TSB General Meeting. There can be no assurance that the approval of the Scheme by the Scheme Shareholders at the Court Meeting will be obtained, that the HBOS Shareholders will approve the Resolutions to be proposed at the HBOS General Meeting, or that the Lloyds TSB Shareholders will approve the resolutions to be proposed at the Lloyds TSB General Meeting. In addition, there can be no assurance that if the Scheme and resolutions are approved by shareholders, the Court will grant the Court Orders, or seek to impose modifications thereto.

**2.3 *The implementation of the Scheme and the consummation of the Acquisition are conditional upon the Scheme becoming Effective by a set date and are subject to the satisfaction or, if permitted, waiver of certain conditions. There can be no assurance that the Scheme Conditions will be satisfied or waived and that the Acquisition will be consummated***

The Acquisition is conditional upon the Scheme becoming Effective by not later than 28 February 2009 (subject to extension of such date by agreement between the HBOS Group and the Lloyds TSB Group in accordance with applicable law and regulation) and Admission of the Open Offer Shares becoming effective not later than 19 January 2009 (subject to extension of such date by agreement between Lloyds TSB and HM Treasury in accordance with applicable law and regulation) and is subject to the satisfaction or, if permitted, waiver of certain conditions prior to such date. The conditions in respect of the Scheme are set out in Appendix I to the Announcement and are incorporated by reference into this document. There can be no assurance that these conditions will be satisfied or waived. In addition, there can be no assurance that the Scheme or the Acquisition will become Effective as currently contemplated or at all.

**2.4 *Obtaining required regulatory approvals may delay implementation of the Scheme and consummation of the Acquisition, and compliance with conditions and obligations in connection with regulatory approvals could adversely affect prospects for the Acquisition***

The Acquisition is conditional upon obtaining merger control approvals and regulatory clearances from the FSA as well as certain other regulatory bodies in other jurisdictions.

In addition, the Acquisition is conditional upon (i) Lloyds TSB being satisfied, on terms satisfactory to it, that there is no intention by the Secretary of State to refer the Acquisition, or any matters arising from or relating to the proposal, to the Competition Commission, and (ii) if clause (i) is satisfied, either the deadline for making an application for review related to that decision having expired or that, in the event such application is made, any such application having been dismissed by the Competition Appeal Tribunal.

Following the original announcement of the Acquisition of the HBOS Group by the Lloyds TSB Group on 18 September 2008, the Secretary of State issued an intervention notice in relation to the Acquisition on public interest grounds to ensure appropriate consideration would be given, in the context of decisions under the Enterprise Act 2002 (the "Enterprise Act") on whether to refer the merger to the Competition Commission, to the public interest in the stability of the UK financial system under section 42 of the Enterprise Act, following advice from the UK Tripartite Authorities (HM Treasury, Bank of England and the FSA). As a result of that notice and of a Parliamentary Order, the Secretary of State had the power to consider the public interest issues in the stability of the UK financial system alongside competition issues in making his decision on whether to refer the Acquisition to the Competition Commission for investigation.

On 31 October 2008 the Secretary of State gave his decision that, considering the competition issues identified by the OFT and the evidence before him on the public interest issues in the stability of the UK financial system, the Acquisition is in the public interest and should be cleared unconditionally.



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

The integration of the HBOS Group into the Lloyds TSB Group will be complex, expensive and present a number of challenges for the management of the Lloyds TSB Group, its staff and potentially its customers. On the basis described in section 5 (“Financial Effects of the Acquisition”) of Part A (“Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc”) of Part VI (“Information on the Acquisition”) of the Lloyds TSB Placing and Open Offer Prospectus, which is incorporated by reference into this document, Lloyds TSB believes that the Acquisition will lead to accretion in Lloyds TSB’s cash earnings per share and that through the implementation of cost synergies and other operational efficiencies it will deliver total pretax annual cost savings greater than £1.5 billion. The Lloyds TSB Group believes that these anticipated cost synergies as well as other operating efficiencies and the business growth opportunities, revenue benefits and other benefits it expects to achieve by combining its operations with those of the HBOS Group constitute a large part of the business rationale for the Acquisition. However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and other benefits may not develop, including because the assumptions upon which the Lloyds TSB Group determined the Acquisition consideration may prove to be incorrect. For example, the expected cost synergies have been calculated by the Lloyds TSB Group on the basis of the existing and projected cost and operating structures of the Lloyds TSB Group and the Lloyds TSB Group’s estimate of the existing and projected cost and operating structures of the HBOS Group. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

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

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

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

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

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

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

Members of the HBOS Group are party to joint ventures, licences and other agreements and instruments that may contain change of control provisions or termination rights that will be triggered upon the completion of the Acquisition or upon completion of the reorganisation of HBOS within the Lloyds TSB Group. While the Lloyds TSB Group does not anticipate any material issues, the operation of such change of control provisions or termination rights, if any, could result in the loss of material contractual rights and benefits, the termination of joint venture agreements and licensing agreements or the requirement to repay outstanding indebtedness.

**2.8 *The Acquisition will result in a reduction in ownership and voting interest for existing Lloyds TSB Shareholders***

The Acquisition is such that, when it becomes Effective, existing Lloyds TSB Shareholders will suffer a reduction in their proportionate ownership, and may suffer a reduction in their proportionate voting interest, in the ordinary share capital of the Lloyds TSB Group compared to their current ownership and voting interest.

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

**3.1 *HM Treasury will become the largest shareholder of the Enlarged Group if existing Lloyds TSB and HBOS Shareholders do not acquire a significant number of the new Open Offer Shares and the HBOS Open Offer Shares, respectively***

Under the Placing and the HBOS Placing, HM Treasury will acquire the Open Offer Shares and the HBOS Open Offer Shares, respectively, subject to the right of eligible existing shareholders to claw back their proportionate entitlement to Open Offer Shares and HBOS Open Offer Shares through the Open Offer and the HBOS Open Offer respectively and to apply for new Open Offer Shares in excess of their respective entitlements. If eligible existing Lloyds TSB Shareholders do not acquire new shares in the Open Offer and eligible existing HBOS Shareholders do not acquire new HBOS Ordinary Shares in the HBOS Open Offer, HM Treasury would own up to 43.5 per cent. of the Enlarged Group Ordinary Share Capital. This percentage will be diminished to the extent of the participation by eligible existing shareholders in the Open Offer or the HBOS Open Offer. Details of the conditions to the Proposed Government Funding are set out in Part V ("Conditions Relating to the Proposed Government Funding") of the Share Circular, which is incorporated by reference into this document. Subject to this, HM Treasury has informed the Lloyds TSB Group that it currently has no intentions or strategic plans concerning the Enlarged Group or its business and employees. HM Treasury has also informed the Lloyds TSB Group that it does not currently intend to seek to exert significant influence over financial management or operational matters. It might, however, change its views on whether it will seek to exert influence over the Lloyds TSB Group or the Enlarged Group, and may disagree with the commercial decisions of the Lloyds TSB Group, including over such matters as the implementation of synergies and commercial and consumer lending policies.

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

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

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

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

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

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

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

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

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

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

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

**4 Risk Factors relating to the Preference Shares**

**4.1 *Deferral or waiver by the Company of coupon payments on certain of its other securities may prevent the payment of dividends on, and the redemption or purchase by the Company of, the Preference Shares***

Certain issued securities of the Company ranking in priority to or *pari passu* with Preference Shares may contain provisions to the effect that if a dividend is not declared or paid in full or a coupon not paid on them, then the Company will be restricted from paying dividends on, and/or redeeming or purchasing any of the Preference Shares, as the case may be.

**4.2 *Dividends on the Preference Shares are discretionary and may not be declared or paid in full, or at all, if the Board of Directors so resolves***

Save as provided further herein (following the occurrence of a Capital Disqualification Event), the Board of Directors or the Committee may resolve, in its absolute discretion, on or before any Dividend Payment Date not to pay in full, or at all, the dividend on the Preference Shares for the Dividend Period to which that Dividend Payment Date relates.

The Company in any event may pay dividends on the Preference Shares only if and to the extent that payment can be made out of the profits of the Company available for distribution and permitted to be distributed. The Company will be the holding company of the Enlarged Group and as such the profits which it has available for distribution will be affected by the level of ordinary dividends it receives on the ordinary shares which it holds in other members of the Enlarged Group. The ability of the Company to declare and pay a dividend on the Preference Shares is also subject to compliance with the then existing capital adequacy requirements of the FSA.

**4.3 *Dividends on the Preference Shares are non-cumulative***

The dividends on the Preference Shares are non-cumulative. Accordingly, to the extent that any dividend or part thereof is on any occasion not declared and paid for any reason, holders of Preference Shares will not have a claim in respect of the dividend accrued for the relevant Dividend Period or for interest on the dividend, whether or not dividends on the Preference Shares are declared for any future Dividend Period, though the Company will be subject to certain restrictions on (i) payments of dividends on junior ranking securities as to which, also see paragraph 3.3 above and, subject to certain exceptions, on parity securities and (ii) redemption of junior ranking and parity securities, in each case during the Stopper Period. See, in respect of each series of the Preference Shares, "Description of the Preference Shares – 5. Restrictions on Dividends and Redemption".

**4.4 *If the Company is wound up, distributions to holders of the Preference Shares will be subordinated to the claims of creditors***

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital), holders of Preference Shares will be entitled to distributions in liquidation only after the claims of all creditors of the Company have been satisfied.



#### **4.5 No limitation on issuing senior debt securities or *pari passu* shares**

There is no restriction on the amount of debt which the Company may incur which ranks senior to the Preference Shares or, subject to the Company having paid the most recent dividend payable on the Preference Shares in full, on the amount or terms of securities which the Company may issue which rank *pari passu* with the Preference Shares. The issue of any such debt or securities may reduce the amount recoverable by holders of the Preference Shares on a winding-up or other return of capital of the Company or may increase the likelihood of a suspension of distributions in respect of the Preference Shares.

#### **4.6 Absence of voting rights**

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to certain terms and conditions as more particularly described in the relevant sections of Part IV (“Description of the Preference Shares”) of this document.

#### **4.7 Perpetual securities**

In respect of the Redeemable Preference Shares, the Company is under no obligation to redeem the Preference Shares at any time and the holders of the Preference Shares have no right to call for their redemption.

#### **4.8 The Redeemable Preference Shares may be redeemed at the option of the Company**

Subject to confirmation from the FSA that it has no objection (if required) and to compliance with the FSA’s capital adequacy requirements (to the extent they apply at the time) and United Kingdom company law requirements as to the manner of financing any redemption of redeemable shares, the Redeemable Preference Shares may be redeemed at the option of the Company in whole or in part on any Dividend Payment Date falling on or after the respective First Call Dates of each class at their relevant liquidation preference.

#### **4.9 The terms of the New Lloyds TSB Preference Shares will differ from the terms of the corresponding HBOS Preference Shares**

The terms of any New Lloyds TSB Preference Shares issued pursuant to the Preference Scheme will differ from the terms of the HBOS Preference Shares which they replace. Such differences include changes to align the terms of the New Lloyds TSB Preference Shares (i) more closely with those of the existing preference shares issued by Lloyds TSB and (ii) with the Articles; and other structural changes to comply with current FSA requirements to permit the New Lloyds TSB Preference Shares to be eligible to qualify as perpetual non-cumulative preference share capital for regulatory purposes. Preference Shareholders should consider the terms of the relevant class of New Lloyds TSB Preference Shares prior to voting at the HBOS General Meeting and the relevant Preference Court Meeting.

#### **4.10 Liquidity**

Although application has been made for the Preference Shares to be admitted to trading on the London Stock Exchange, there can be no assurance that an active public market for such Preference Shares will develop. The liquidity and the market prices for the Preference Shares can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Company and other factors that generally influence the market prices of securities.

The market price of the Preference Shares and/or Lloyds TSB Preference ADSs could be volatile and subject to significant fluctuations due to a variety of factors, including changes in sentiment in the market regarding Lloyds TSB, any regulatory changes affecting Lloyds TSB’s or the Enlarged Group’s operations, variations in Lloyds TSB’s or the Enlarged Group’s operating results, business developments of Lloyds TSB or the Enlarged Group or its competitors, the operating and share price performance of other companies in the industries and markets in which Lloyds TSB or the Enlarged Group operate, or speculation about Lloyds TSB’s or the Enlarged Group’s business in the press, media or investment community. Stock markets have from time to time, including recently and particularly with respect to certain financial institution shares, experienced significant price and volume fluctuations which have affected market prices for securities which may be unrelated to Lloyds TSB’s or the Enlarged

Group's operating performance or prospects. Furthermore, the Lloyds TSB's Group's or the Enlarged Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Preference Shares and/or Lloyds TSB Preference ADSs.

In general, prospective investors should be aware that the value of an investment in Lloyds TSB and the Enlarged Group may go down as well as up. The market value of the Preference Shares and Lloyds TSB Preference ADSs can fluctuate and may not always reflect the underlying asset value or prospects of the Lloyds TSB Group.

#### **4.11 *Payments of dividends in respect of, and issues and transfers of, Preference Shares may give rise to certain United Kingdom taxes***

Payments of dividends in respect of, and issues and transfers of Preference Shares may give rise to certain United Kingdom tax obligations. See Part XVI ("United Kingdom Taxation"). While under current United Kingdom tax law the Company may make payment of dividends free of withholding tax, if the laws were to change, the Company would be under no obligation to pay any additional amounts in respect of any withholding taxes. Save as provided in paragraph 4.14 below, a transfer of (or agreement to transfer) Preference Shares is generally subject to United Kingdom stamp duty or SDRT payable by the transferee at 0.5 per cent. of the amount or value of the consideration.

#### **4.12 *Implications of holding New Lloyds TSB Preference ADSs in registered form***

Preference Shares in the form of share warrants to bearer each representing one Preference Share are capable of being surrendered in exchange for Preference Shares in registered form. Prospective investors should note that, generally, a transfer of (or agreement to transfer) Preference Shares in registered form is subject to 0.5 per cent. UK stamp duty, or SDRT, on the amount or value of the consideration, payable by the transferee. It should be noted that UK stamp duty, or SDRT, would, subject to certain exceptions, be payable at the rate of 1.5 per cent. of the value of each Preference Share in registered form on any instrument or agreement pursuant to which such Preference Shares are transferred: (i) to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services; or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts. There should be no such stamp duty or SDRT on a transfer of or agreement to transfer Preference Shares held in a clearance system or represented by a depository receipt. This different tax treatment may mean that Preference Shares in registered form trade separately from Preference Shares which are represented by ADRs, and consequently there may be an increased risk of illiquidity in relation to any Preference Shares held in registered form.

#### **4.13 *Disadvantages associated with withdrawal of underlying ADS Preference Shares***

If a Holder chooses to take delivery of the New Lloyds TSB Preference Shares underlying its ADSs, provided the Lloyds TSB Preference Shares are not transferred: (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services; or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, neither UK stamp duty nor SDRT should be payable at the rate of 1.5 per cent. on the exchange. However, a subsequent transfer of (or agreement to transfer) Lloyds TSB Preference Shares in registered form is subject to 0.5 per cent. UK stamp duty or SDRT as described in the paragraph under the sub-heading "Implications of holding New Lloyds TSB Preference ADSs in registered form" above.

#### **4.14 *Differing levels of UK stamp duty or SDRT***

Differing rates of UK stamp duty and SDRT apply to transfers of the Preference Shares depending on whether they are held (i) directly in CREST; or (ii) through a CREST account held by a nominee for a clearing system and traded within that clearing system. Preference Shares held and traded within Euroclear and Clearstream, Luxembourg will not be subject to UK stamp duty or SDRT. Preference Shares held and traded within Euroclear or Clearstream, Luxembourg which are transferred to CREST to be held directly in CREST will be subject to SDRT at a rate of 0.5 per cent. Preference Shares held directly in CREST will be subject to SDRT at a rate of 0.5 per cent. on transfers within CREST and to UK stamp duty or SDRT at a rate of 1.5 per cent. if transferred into Euroclear or Clearstream, Luxembourg as summarised in the table below. This may have an adverse effect on the liquidity and market



price of those Preference Shares held directly in CREST. The significance of this is likely to depend on the relative number of Preference Shares held in CREST, Euroclear and Clearstream, Luxembourg.

For further information on stamp duty and SDRT in relation to the Preference Shares, see Part XVI (“United Kingdom Taxation”).

*Preference Shares held:*

*SDRT arising upon each trade:*

Directly in CREST

0.5% payable by the purchaser where he also holds directly in CREST (including in relation to transfers made from Euroclear or Clearstream, Luxembourg); or 1.5% where the purchaser holds through Euroclear or Clearstream, Luxembourg or where the shares are held via a nominee for Euroclear or Clearstream, Luxembourg. Liability for payment will depend on arrangements between the seller, Euroclear or Clearstream, Luxembourg and the purchaser.

Through Euroclear or Clearstream,  
Luxembourg

None

## PART IV

### DESCRIPTION OF THE PREFERENCE SHARES

*The following descriptions of the terms and provisions of the Preference Shares do not purport to be complete and are subject to, and qualified in their entirety by reference to, the Articles and the resolutions adopted by a Committee of the Board of Directors of the Company passed on 17 November 2008. The principal rights attaching to the Preference Shares are as summarised below. Unless otherwise defined herein, defined terms used in this section have the meanings given to such terms under "Definitions" below.*

#### Description of the Lloyds TSB 9.25% Preference Shares

##### 1 General

Each Preference Share will have a nominal value of £0.25 and will be issued fully paid together with a premium of £0.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued in registered form and may be held in either certificated form or uncertificated form in CREST. Temporary documents of title in relation to the Preference Shares in certificated form will not be issued in respect of the Preference Shares pending the despatch by post of definitive certificates.

##### 2 Dividends

- 2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the "**Board of Directors**") or a duly authorised committee of the Board of Directors (the "**Committee**"). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the "**Preference Dividend**"), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.
- 2.2 In respect of the period from (and including) the Issue Date, the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 9.25 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in sterling on 31 May (in respect of the half-yearly period ending on the preceding 28 February (or, in a leap year, 29 February)) and 30 November (in respect of the half-yearly period ending on the preceding 31 August) in each year (each such half-yearly period, a "**Dividend Period**") when, as and if declared by the Board of Directors or the Committee (each, a "**Dividend Payment Date**"). In respect of the first Dividend Payment Date on 31 May 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to 4.625 pence per Preference Share. Thereafter, the Preference Dividend during any full semi-annual dividend period will amount to 4.625 pence per Preference Share. For the purposes hereof, "**liquidation preference**" means, in relation to each Preference Share, an amount of £1. Save in respect of complete semi-annual Dividend Periods, dividends will be calculated on the basis of the number of days in the relevant period from (and including) the first day of the relevant Dividend Period to (but excluding) the last day of such relevant period divided by the product of two times the number of days in the relevant Dividend Period and, in the case of the first dividend period, on the assumption that £[●] per Preference Share [to be determined on the basis of the period from, and including, 31 August 2008 to, but excluding, the Issue Date] of dividend had already accrued as at the Issue Date.

##### 3 Declaration of Dividends

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of dividends accrued on the Preference Shares during the dividend period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any

such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid on the Preference Shares or that a Preference Dividend shall be declared and paid only in part.

Notwithstanding the Board of Directors' or the Committee's discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends will be mandatorily payable as described under "Payment of Dividends" on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

#### **4 Payment of Dividends**

The Company will pay Preference Dividends on the Preference Shares out of its distributable profits in sterling, calculated on the liquidation preference of £1 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct.

Any such Preference Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payments in respect of amounts payable by way of Preference Dividend will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date, then holders of Preference Shares will have no claim in respect of the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company's profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.

## **5 Restrictions on Dividends and Redemption**

If the Company has not declared or paid in full a Preference Dividend stated to be payable as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

## **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares, the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

## **7 Redemption**

The Preference Shares are irredeemable securities in respect of which there is no redemption date.

## **8 Substitution**

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the “**Substitution Date**”) without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **9 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).

If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each £0.25 of nominal value of Preference Shares of which he or she is the holder.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **10 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under “Restrictions on Dividends and Redemption” above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares

purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

## **11 Untraced shareholders**

11.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends have become payable and no Preference Dividend on those Preference Shares has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and
- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

11.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

11.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## **12 Form and Denomination**

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of £0.25 will be credited to the Company's issued share capital account and an amount of £0.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

The Preference Shares will be issued in registered form.

Title to Preference Shares in certificated form will pass by transfer and registration on the register of members of the Company in accordance with the Articles. The Articles provide, amongst other matters, that transfers of the Preferences Shares in certificated form must be in writing and are to be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and
- (c) is deposited at the office of the Registrars accompanied by the relevant share certificate(s) and any other evidence which the Directors ask for to provide the entitlement of the person wishing to make the transfer.

Transfers of Preference Shares in uncertificated form must be made using CREST and must comply with the Regulations. See "Registrar and Paying Agent" below. Any registration of transfer will be effected without charge to the person requesting the exchange or registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.



### **13 Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend payable in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

### **14 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder in certificated form by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Acts and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notices to holders of the Preference Shares in uncertificated form, including notices for general meetings of holders of Preference Shares, will be published in accordance with the operating procedures for the time being of CREST and the Regulations. In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

### **15 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay

additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

## **16 Governing Law**

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

## **17 Registrar and Paying Agent**

Equiniti Limited located at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA will maintain the register and will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent having its specified office in the United Kingdom. Notice of any change of registrar or paying agent will be given to holders of the Preference Shares.

## **18 Further Issues**

Subject to the provisions set out in "Variation of Rights", the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

## **19 Definitions**

**"Applicable Regulatory Capital Requirements"** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

**"Articles"** means the articles of association of the Company;

**"Business Day"** means a day on which banks are open for business in London;

**"Capital Disqualification Event"** shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

**"Companies Acts"** means the Companies Act 1985 and the Companies Act 2006 (in each case as amended from time to time);

**"Company"** means Lloyds TSB Group plc;

**"CREST"** means the system for the paperless settlement of trades and holding of uncertificated securities operated by Euroclear UK & Ireland Limited, the operator of CREST (in accordance with the Regulations) (or any successor);

**"Directors"** means the executive and non-executive directors of the Company who make up its board of directors;

**"distributable profits"** has the meaning given to it in the Companies Act as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

**"Dividend Payment Date"** means 31 May and 30 November in each year;

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

“**in certificated form**” means a share or other security which is not in uncertificated form;

“**Issue Date**” means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];

“**Junior Share Capital**” means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

“**Non-Innovative Tier 1 Capital**” means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA’s General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation;

“**Parity Securities**” means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

“**Paying Agent**” means the Registrar or any other entity appointed by it and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

“**Preference Shares**” means the £300,000,000 in aggregate value of Fixed Rate Non-Cumulative Preference Shares of the Company;

“**Qualifying Non-Innovative Tier 1 Securities**” means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by an independent investment bank appointed by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) be issued in an amount at least equal to the total number of Preference Shares multiplied by £1, (4) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (5) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

“**Registrar**” means Equiniti Limited or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

“**Regulations**” means the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in such regulations) (or any successor);

“**Shareholder**” means a holder of the Company’s shares;

“**Stopper Period**” means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid;

“**uncertificated form**” or “**in uncertificated form**” means, when used in relation to shares, means shares recorded on the relevant register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST; and

“**2004 Preference Shares**” means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.

## Description of the Lloyds TSB 9.75% Preference Shares

### 1 General

Each Preference Share will have a nominal value of £0.25 and will be issued fully paid together with a premium of £0.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued in registered form and may be held in either certificated form or uncertificated form in CREST. Temporary documents of title in relation to the Preference Shares in certificated form will not be issued in respect of the Preference Shares pending the despatch by post of definitive certificates.

### 2 Dividends

2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “**Board of Directors**”) or a duly authorised committee of the Board of Directors (the “**Committee**”). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “**Preference Dividend**”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.

2.2 In respect of the period from (and including) the Issue Date, the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 9.75 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in sterling on 31 May (in respect of the half-yearly period ending on the preceding 28 February (or, in a leap year, 29 February)) and 30 November (in respect of the half-yearly period ending on the preceding 31 August) in each year (each such half-yearly period, a “**Dividend Period**”) when, as and if declared by the Board of Directors or the Committee (each, a “**Dividend Payment Date**”). In respect of the first Dividend Payment Date on 31 May 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to 4.875 pence per Preference Share. Thereafter, the Preference Dividend during any full semi-annual dividend period will amount to 4.875 pence per Preference Share. For the purposes hereof, “**liquidation preference**” means, in relation to each Preference Share, an amount of £1. Save in respect of complete semi-annual Dividend Periods, dividends will be calculated on the basis of the number of days in the relevant period from (and including) the first day of the relevant Dividend Period to (but excluding) the last day of such relevant period divided by the product of two times the number of days in the relevant Dividend Period and, in the case of the first dividend period, on the assumption that £[●] per Preference Share *[to be determined on the basis of the period from, and including, 31 August 2008 to, but excluding, the Issue Date]* of dividend had already accrued as at the Issue Date.

### 3 Declaration of Dividends

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of dividends accrued on the Preference Shares during the dividend period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend on the Preference Shares shall be declared and paid only in part.

Notwithstanding the Board of Directors’ or the Committee’s discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends

will be mandatorily payable as described under “Payment of Dividends” on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company’s capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

#### **4 Payment of Dividends**

The Company will pay Preference Dividends out of its distributable profits in sterling, calculated on the liquidation preference of £1 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month’s notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct.

Any such Preference Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payments in respect of amounts payable by way of Preference Dividend will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date, then holders of Preference Shares will have no claim in respect of the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company’s profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.



## **5 Restrictions on Dividends and Redemption**

If the Company has not declared or paid in full a Preference Dividend stated to be payable as a result only of the exercise of the discretion of the Board of Directors or the Committee then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

## **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares, the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

## **7 Redemption**

The Preference Shares are irredeemable securities in respect of which there is no redemption date.

## **8 Substitution**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the "**Substitution Date**") without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **9 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).

If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each £0.25 of nominal value of Preference Share of which he or she is the holder.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **10 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under "Restrictions on Dividends and Redemption" above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

## **11 Untraced shareholders**

11.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends have become payable and no Preference Dividend on those Preference Shares has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and
- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

11.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

11.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## 12 Form and Denomination

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of £0.25 will be credited to the Company's issued share capital account and an amount of £0.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

The Preference Shares will be issued in registered form.

Title to Preference Shares in certificated form will pass by transfer and registration on the register of members of the Company in accordance with the Articles. The Articles provide, amongst other matters, that transfers of the Preference Shares in certificated form must be in writing and are to be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and
- (c) is deposited at the office of the Registrars accompanied by the relevant share certificate(s) and any other evidence which the Directors ask for to provide the entitlement of the person wishing to make the transfer.

Transfers of Preference Shares in uncertificated form must be made using CREST and must comply with the Regulations. See "Registrar and Paying Agent" below. Any registration of transfer will be effected without charge to the person requesting the exchange or registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

## 13 Variation of Rights

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at

least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

#### **14 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder in certificated form by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Acts and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notices to holders of the Preference Shares in uncertificated form, including notices for general meetings of holders of Preference Shares, will be published in accordance with the operating procedures for the time being of CREST and the Regulations. In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

#### **15 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

## 16 Governing Law

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

## 17 Registrar and Paying Agent

Equiniti Limited located at Aspect House, Spencer Wood, Lancing, West Sussex BN99 6DA will maintain the register and will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent having its specified office in the United Kingdom. Notice of any change of registrar or paying agent will be given to holders of the Preference Shares.

## 18 Further Issues

Subject to the provisions set out in "Variation of Rights", the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

## 19 Definitions

**"Applicable Regulatory Capital Requirements"** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

**"Articles"** means the articles of association of the Company;

**"Business Day"** means a day on which banks are open for business in London;

**"Capital Disqualification Event"** shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

**"Companies Acts"** means the Companies Act 1985 and the Companies Act 2006 (in each case as amended from time to time);

**"Company"** means Lloyds TSB Group plc;

**"CREST"** means the system for the paperless settlement of trades and holding of uncertificated securities operated by Euroclear UK & Ireland Limited, the operator of CREST (in accordance with the Regulations) (or any successor);

**"Directors"** means the executive and non-executive directors of the Company who make up its board of directors;

**"distributable profits"** has the meaning given to it in the Companies Acts as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

**"Dividend Payment Date"** means 31 May and 30 November in each year;

**"FSA"** means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Company becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary bank supervisory authority;



“**in certificated form**” means a share or other security which is not in uncertificated form;

“**Issue Date**” means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];

“**Junior Share Capital**” means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

“**Non-Innovative Tier 1 Capital**” means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA’s General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation;

“**Parity Securities**” means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

“**Paying Agent**” means the Registrar or any other entity appointed by the Company it and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

“**Preference Shares**” means the £100,000,000 in aggregate value of Fixed Rate Non-Cumulative Preference Shares of the Company;

“**Qualifying Non-Innovative Tier 1 Securities**” means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by an independent investment bank appointed by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) be issued in an amount at least equal to the total number of Preference Shares multiplied by £1, (4) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (5) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

“**Registrar**” means Equiniti Limited or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

“**Regulations**” means the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in such regulations) (or any successor);

“**Shareholder**” means a holder of the Company’s shares;

“**Stopper Period**” means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid;

“**uncertificated form**” or “**in uncertificated form**” means, when used in relation to shares, means shares recorded on the relevant register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST; and

“**2004 Preference Shares**” means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.

## Description of the Lloyds TSB 6.475% Preference Shares

### 1 General

Each Preference Share will have a nominal value of £0.25 and will be issued fully paid with a premium of £0.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued in registered form and may be held in either certificated form or uncertificated form in CREST. Temporary documents of title in relation to the Preference Shares in certificated form will not be issued in respect of the Preference Shares pending the despatch by post of definitive certificates.

### 2 Dividends

2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “**Board of Directors**”) or a duly authorised committee of the Board of Directors (the “**Committee**”). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “**Preference Dividend**”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.

2.2 In respect of the period from (and including) the Issue Date the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 6.475 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in sterling on 15 March and 15 September in each year when, as and if declared by the Board of Directors or the Committee (each, a “**Dividend Payment Date**”). In respect of the first Dividend Payment Date on 15 March 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to 3.2375 pence per Preference Share. Thereafter, the Preference Dividend during any full semi-annual Dividend Period will amount to 3.2375 pence per Preference Share. For the purposes hereof, “**liquidation preference**” means, in relation to each Preference Share, an amount of £1. Save in respect of complete semi-annual Dividend Periods, Preference Dividends will be calculated on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by 365 and, in the case of the first Dividend Period, on the assumption that £[●] per Preference Share [to be determined on the basis of the period from, and including, 15 September 2008 to, but excluding, the Issue Date] of dividend had already accrued as at the Issue Date.

### 3 Declaration of Dividends

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of dividends accrued on the Preference Shares during the Dividend Period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend shall be declared and paid only in part.

Notwithstanding the Board of Directors’ or the Committee’s discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends will be mandatorily payable as described under “Payment of Dividends” on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

#### **4 Payment of Dividends**

The Company will pay Preference Dividends out of its distributable profits in sterling, calculated on the liquidation preference of £1 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct.

Any such Preference Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date or Redemption Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payment on redemption will be against presentation and surrender of the relative certificate at the place or at one of the places specified in the notice of redemption.

Payments in respect of amounts payable by way of Preference Dividend and on redemption of the Preference Shares will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date, then holders of Preference Shares will have no claim in respect of the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company's profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.

## **5 Restrictions on Dividends and Redemption**

If the Company has not declared or paid in full a Preference Dividend stated to be payable as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

## **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares, the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

## **7 Redemption**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), to the provisions of the Companies Acts and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all or some only of the Preference Shares on 15 September 2024, and thereafter on the Dividend Payment Date falling on each fifth anniversary of such date. The Redemption Price shall be paid on each Preference Share so redeemed. In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw at the registered office of the Company or at any other place which the Board of Directors or the Committee decides on in the presence of its auditors on such basis as the Board of Directors or the Committee considers appropriate at the time.

If some or all of the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a “**Redemption Notice**”) to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date, (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid), (iii) the number of Preference Shares to be redeemed, (iv) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made and (v) in the case of Preference Shares held in uncertificated form, details of the issuer-instruction to be sent to Euroclear UK & Ireland Limited by the Company requesting the deletion of the relevant entries in CREST relating to the holdings of the Preference Shares concerned. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

Payments in respect of the amount due on redemption of a Preference Share will be made by the same methods as described in “Payment of Dividends”. Any such amount which has remained unclaimed for 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

From the Redemption Date, the Preference Dividend will cease to accrue on the Preference Shares being redeemed except on any Preference Share in respect of which payment of the Redemption Price due on the Redemption Date is improperly withheld or refused. In such case, the Preference Dividend will be deemed to have continued and will accordingly continue to accrue at the rate which would have applied but for the redemption, as described under “Payment of Dividends” above, from the Redemption Date to the actual date of payment of the Redemption Price. Such Preference Share will not be treated as having been redeemed until the Redemption Price, including accrued Preference Dividend, has been paid.

A receipt given by the holder for the time being of any Preference Shares (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Shares will constitute an absolute discharge to the Company.

## **8 Substitution**

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the “**Substitution Date**”) without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **9 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).



If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each £0.25 of nominal value of Preference Shares of which he or she is the holder.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **10 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under "Restrictions on Dividends and Redemption" above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

## **11 Untraced shareholders**

11.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends have become payable and no Preference Dividend on those Preference Shares has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and
- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

11.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

11.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## **12 Form and Denomination**

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of £0.25 will be credited to the Company's issued share capital account and an amount of £0.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

The Preference Shares will be issued in registered form.

Title to Preference Shares in certificated form will pass by transfer and registration on the register of members of the Company in accordance with the Articles. The Articles provide, amongst other matters, that transfers of the Preference Shares in certificated form must be in writing and are to be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and
- (c) is deposited at the office of the Registrars accompanied by the relevant share certificate(s) and any other evidence which the Directors ask for to provide the entitlement of the person wishing to make the transfer.

Transfers of Preference Shares in uncertificated form must be made using CREST and must comply with the Regulations. See "Registrar and Paying Agent" below. Any registration of transfer will be effected without charge to the person requesting the exchange or registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

## **13 Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

## **14 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder in certificated form by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have

been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Acts and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notices to holders of the Preference Shares in uncertificated form, including notices for general meetings of holders of Preference Shares, will be published in accordance with the operating procedures for the time being of CREST and the Regulations. In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

## **15 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

## **16 Governing Law**

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

## **17 Registrar and Paying Agent**

Equiniti Limited located at Aspect House, Spencer Wood, Lancing, West Sussex BN99 6DA will maintain the register and will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent having its specified office in the United Kingdom. Notice of any change of registrar or paying agent will be given to holders of the Preference Shares.

## **18 Further Issues**

Subject to the provisions set out in "Variation of Rights", the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference

Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

## 19 Definitions

**“Applicable Regulatory Capital Requirements”** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

**“Articles”** means the articles of association of the Company;

**“Business Day”** means a day on which banks are open for business in London;

**“Capital Disqualification Event”** shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

**“Companies Acts”** means the Companies Act 1985 and the Companies Act 2006 (in each case as amended from time to time);

**“Company”** means Lloyds TSB Group plc;

**“Directors”** means the executive and non-executive directors of the Company who make up its board of directors;

**“CREST”** means the system for the paperless settlement of trades and holding of uncertificated securities operated by Euroclear UK & Ireland Limited, the operator of CREST (in accordance with the Regulations) (or any successor);

**“distributable profits”** has the meaning given to it in the Companies Acts as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

**“Dividend Payment Date”** means 15 March and 15 September in each year;

**“Dividend Period”** means the period from and including the most recent Dividend Payment Date (or the Issue Date) to but excluding the next proceeding Dividend Payment Date;

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

**“in certificated form”** means a share or other security which is not in uncertificated form;

**“Issue Date”** means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];

**“Junior Share Capital”** means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

**“Non-Innovative Tier 1 Capital”** means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA’s General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation;

**“Parity Securities”** means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

**“Paying Agent”** means the Registrar or any other entity appointed by the Company it and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

**“Preference Shares”** means the £198,065,600 in aggregate value of Fixed Rate Non-Cumulative Callable Preference Shares of the Company;

**“Qualifying Non-Innovative Tier 1 Securities”** means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by an independent investment bank appointed by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by £1, (5) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

**“Redemption Date”** means the date on which the Preference Shares are called for redemption in accordance with paragraph 7 above;

**“Redemption Price”** means the paid-up amount of £1 per Preference Share to be redeemed together with any dividends on such Preference Shares accrued but unpaid since the immediately preceding Dividend Payment Date (or, if none, accrued, or assumed in accordance with paragraph 2.2 above to be accrued, but unpaid since the Issue Date);

**“Registrar”** means Equiniti Limited or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

**“Regulations”** means the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in such regulations) (or any successor);

**“Shareholder”** means a holder of the Company’s shares;

**“Stopper Period”** means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid;

**“uncertificated form”** or **“in uncertificated form”** means, when used in relation to shares, means shares recorded on the relevant register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST; and

**“2004 Preference Shares”** means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.



## Description of the Lloyds TSB 6.0884% Preference Shares

### 1 General

Each Preference Share will have a nominal value of £0.25 and will be issued fully paid with a premium of £999.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued in registered form and may be held in either certificated form or uncertificated form in CREST. See “**Provisions relating to the Preference Shares while held through Clearing Systems**” below for a description of the provisions applying to transfers of beneficial interests in the Preference Shares held through accounts with the Clearing Systems. Temporary documents of title in relation to the Preference Shares in certificated form will not be issued in respect of the Preference Shares pending the despatch by post of definitive certificates.

#### Provisions relating to the Preference Shares while held through Clearing Systems

*Accountholders in the Clearing Systems may hold Preference Shares through the Clearing Systems in accordance with the relevant Clearing Systems’ procedures and regulations.*

*Transfers of Preference Shares held through the Clearing Systems may only be made in accordance with the regulations and procedures of the relevant Clearing System.*

*TRANSFERS FROM PARTICIPANTS IN EUROCLEAR TO PARTICIPANTS IN CLEARSTREAM, LUXEMBOURG AND VICE VERSA, WILL BE EFFECTED THROUGH THE CLEARING SYSTEMS’ ACCOUNTS HELD IN CREST. PARTICIPANTS TRANSFERRING PREFERENCE SHARES BETWEEN EUROCLEAR AND CLEARSTREAM, LUXEMBOURG AND VICE VERSA, SHOULD (PROVIDED THAT, AT THE TIME OF THE TRANSFER, NO RELEVANT ELECTION UNDER SECTION 97A OF THE FINANCE ACT 1986 IS IN FORCE IN RELATION TO THE TRANSFEROR CLEARING SYSTEM) INSTRUCT THE TRANSFEROR CLEARING SYSTEM TO “FLAG” THE TRANSFER AS EXEMPT FROM SDRT IN ACCORDANCE WITH THE RULES OF THAT CLEARING SYSTEM, AS SET OUT IN THE RELEVANT PARTICIPANT USER GUIDE.*

*All payments on Preference Shares held through Euroclear and Clearstream, Luxembourg accounts will be credited through the relevant Clearing System nominee’s account with CREST to the account of Euroclear and Clearstream, Luxembourg holders in accordance with the relevant Clearing System’s rules and procedures.*

*Holders of Preference Shares through Euroclear and Clearstream, Luxembourg accounts will receive notices in accordance with the relevant Clearing System’s rules and procedures.*

### 2 Dividends

- 2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “**Board of Directors**”) or a duly authorised committee of the Board of Directors (the “**Committee**”). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “**Preference Dividend**”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.
- 2.2 In respect of the period from (and including) the Issue Date to (but excluding) 12 May 2015 (the “**First Call Date**”), the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 6.0884 per cent. per annum on the liquidation preference outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in sterling on 12 May and 12 November each year when, as and if declared by the Board of Directors or the Committee. In respect of the first Dividend Payment Date on 12 May 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to £30.442 per Preference Share. Thereafter, the Preference Dividend during any full semi-annual Dividend Period will amount to £30.442 per Preference Share. For the purposes hereof, “**liquidation preference**” means, in relation to each Preference Share, an amount of £1,000. In respect of the period from (and including) the Issue Date to (but excluding) the First Call Date, the amount of dividend accruing in respect of any Fixed Rate Calculation

Period (other than a full semi-annual Dividend Period) will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 365, on the assumption that £[●] per Preference Share [to be determined on the basis of the period from, and including, 12 November 2008 to, but excluding, the Issue Date] of dividend had already accrued as at the Issue Date.

- 2.3 From (and including) the First Call Date, the dividend on the Preference Shares shall accrue at a rate, reset quarterly, equal to the aggregate of 1.31 per cent. per annum and LIBOR in respect of the relevant Dividend Period on the liquidation preference in respect of each Preference Share outstanding which dividend will be payable in quarterly instalments in arrear in sterling on, 12 February, 12 May, 12 August and 12 November in each year (subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention and, together with the payment dates specified in paragraph 2.2 above, each a “**Dividend Payment Date**”) when, as and if declared by the Board of Directors or the Committee. The amount of dividend accruing in respect of any period commencing on or after the First Call Date will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 365 with the resultant figure rounded to the nearest £0.01 (£0.005 being rounded upwards). The Company shall, upon determination of the rate at which the Preference Dividend will accrue pursuant to this paragraph 2.3, cause such rate and the amount payable in respect of the relevant Dividend Period on each Preference Share to be notified to holders of the Preference Shares in accordance with the Articles and (for so long as the Preference Shares are listed on such exchange) to the London Stock Exchange as soon as possible after determination of the rate, but in no event later than the fourth Business Day thereafter.

### **3 Declaration of Dividends**

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of dividends accrued on the Preference Shares during the Dividend Period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend shall be declared and paid only in part.

Notwithstanding the Board of Directors’ or the Committee’s discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends will be mandatorily payable as described under “Payment of Dividends” on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company’s capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally

with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

#### **4 Payment of Dividends**

The Company will pay Preference Dividends out of its distributable profits in sterling, calculated on the liquidation preference of £1,000 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct.

Any such Preference Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date or Redemption Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payment on redemption will be against presentation and surrender of the relative certificate at the place or at one of the places specified in the notice of redemption.

Payments in respect of amounts payable by way of Preference Dividend and on redemption of the Preference Shares will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date in respect of the Preference Shares, then holders of Preference Shares will have no claim in respect of the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company's profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.

#### **5 Restrictions on Dividends and Redemption**

If the Company has not declared or paid in full a Preference Dividend stated to be payable as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

#### **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and

under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1,000 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares, the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

## **7 Redemption**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), to the provisions of the Companies Acts and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all or some only of the Preference Shares on the First Call Date, and thereafter on any Dividend Payment Date thereafter. The Redemption Price shall be paid on each Preference Share so redeemed. In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw at the registered office of the Company or at any other place which the Board of Directors or the Committee decides on in the presence of its auditors on such basis as the Board of Directors or the Committee considers appropriate at the time.

If some or all of the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a "**Redemption Notice**") to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date, (ii) the number of Preference Shares to be redeemed, (iii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid), (iv) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made and (v) in the case of Preference Shares held in uncertificated form, details of the issuer-instruction to be sent to Euroclear UK & Ireland Limited by the Company requesting the deletion of the relevant entries in CREST relating to the holdings of the Preference Shares concerned. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

Payments in respect of the amount due on redemption of a Preference Share will be made by the same methods as described in "Payment of Dividends". Any such amount which has remained



unclaimed for 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

From the Redemption Date, the Preference Dividend will cease to accrue on the Preference Shares being redeemed except on any Preference Share in respect of which payment of the Redemption Price due on the Redemption Date is improperly withheld or refused. In such case, the Preference Dividend will be deemed to have continued and will accordingly continue to accrue at the rate which would have applied but for the redemption, as described under "Payment of Dividends" above, from the Redemption Date to the actual date of payment of the Redemption Price. Such Preference Share will not be treated as having been redeemed until the Redemption Price, including accrued Preference Dividend, has been paid.

A receipt given by the holder for the time being of any Preference Shares (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Shares will constitute an absolute discharge to the Company.

## **8 Substitution**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the "**Substitution Date**") without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **9 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).

If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each £0.25 of nominal value of Preference Shares of which he or she is the holder.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.



## **10 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under "Restrictions on Dividends and Redemption" above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

## **11 Untraced shareholders**

11.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends have become payable and no Preference Dividend on those Preference Shares has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and
- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

11.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

11.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## **12 Form and Denomination**

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of £0.25 will be credited to the Company's issued share capital account and an amount of £999.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

The Preference Shares will be issued in registered form.

Title to Preference Shares in certificated form will pass by transfer and registration on the register of members of the Company in accordance with the Articles. The Articles provide, amongst other matters, that transfers of the Preferences Shares in certificated form must be in writing and are to be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and
- (c) is deposited at the office of the Registrars accompanied by the relevant share certificate(s) and any other evidence which the Directors ask for to provide the entitlement of the person wishing to make the transfer.

Transfers of Preference Shares in uncertificated form must be made using CREST and must comply with the Regulations. See “Registrar and Paying Agent” below. Any registration of transfer will be effected without charge to the person requesting the exchange or registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

### **13 Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company’s profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company’s profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

### **14 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder in certificated form by sending it by post to the holder’s registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder’s registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Acts and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for

part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notices to holders of the Preference Shares in uncertificated form, including notices for general meetings of holders of Preference Shares, will be published in accordance with the operating procedures for the time being of CREST and the Regulations. In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

## **15 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

## **16 Governing Law**

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

## **17 Registrar and Paying Agent**

Equiniti Limited located at Aspect House, Spencer Wood, Lancing, West Sussex BN99 6DA will maintain the register and will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent having its specified office in the United Kingdom. Notice of any change of registrar or paying agent will be given to holders of the Preference Shares.

## **18 Further Issues**

Subject to the provisions set out in "Variation of Rights", the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

## **19 Definitions**

**"Applicable Regulatory Capital Requirements"** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

**"Articles"** means the articles of association of the Company;

**"Business Day"** means a day on which banks are open for business in London;

**"Capital Disqualification Event"** shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

“**Clearing Systems**” means Euroclear and Clearstream, Luxembourg;

“**Clearstream, Luxembourg**” means Clearstream Banking *société anonyme*;

“**Companies Acts**” means the Companies Act 1985 and the Companies Act 2006 (in each case as amended from time to time);

“**Company**” means Lloyds TSB Group plc;

“**CREST**” means the system for the paperless settlement of trades and holding of uncertificated securities operated by Euroclear UK & Ireland Limited, the operator of CREST (in accordance with the Regulations) (or any successor);

“**Directors**” means the executive and non-executive directors of the Company who make up its board of directors;

“**distributable profits**” has the meaning given to it in the Companies Acts as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

“**Dividend Determination Date**” means, in relation to each Dividend Period commencing on or after the First Call Date, the first day of such Dividend Period, provided that if the First Call Date is not a Business Day, the Dividend Determination Date in respect of the Dividend Period commencing on the First Call Date shall be the Business Day immediately preceding the First Call Date;

“**Dividend Payment Date**” means (i) 12 May and 12 November in each year up to and including the First Call Date and (ii) thereafter, subject to the Modified Following Business Day Convention, 12 February, 12 May, 12 August and 12 November in each year;

“**Dividend Period**” means the period from and including the most recent Dividend Payment Date (or the Issue Date) to but excluding the next proceeding Dividend Payment Date;

“**Euroclear**” means Euroclear Bank S.A./N.V.;

“**Fixed Rate Calculation Period**” means the period from (and including) the most recent Dividend Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date;

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

“**in certificated form**” means a share or other security which is not in uncertificated form;

“**Issue Date**” means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];

“**Junior Share Capital**” means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

“**LIBOR**” means, in relation to a Dividend Period, the offered rate for three month deposits in sterling as at 11.00 a.m. London time on the related Dividend Determination Date appearing on the display designated as page “LIBOR01” on the Reuters Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Company or on its behalf;

“**Modified Following Business Day Convention**” means if a Dividend Payment Date falls on a day which is not a Business Day, such Dividend Payment Date shall be postponed to the next day which is a Business Day unless it would fall into the next calendar month in which event such Dividend Payment Date shall be brought forward to the immediately preceding day which is a Business Day;

“**Non-Innovative Tier 1 Capital**” means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA’s General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation;

“**Parity Securities**” means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

**“Paying Agent”** means the Registrar or any entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

**“Preference Shares”** means the £750,000,000 in aggregate value of Fixed/Floating Rate Non-Cumulative Callable Preference Shares of the Company;

**“Qualifying Non-Innovative Tier 1 Securities”** means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by an independent investment bank appointed by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by £1,000, (5) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

**“Redemption Date”** means the date on which the Preference Shares are called for redemption in accordance with paragraph 7 above;

**“Redemption Price”** means the liquidation preference of £1,000 per Preference Share to be redeemed together with any dividends on such Preference Shares accrued but unpaid since the immediately preceding Dividend Payment Date (or, if none, accrued, or assumed in accordance with paragraph 2.2 above to be accrued, but unpaid since the Issue Date);

**“Registrar”** means Equiniti Limited or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

**“Regulations”** means the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in such regulations) (or any successor);

**“SDRT”** means stamp duty reserve tax;

**“Shareholder”** means a holder of the Company’s shares;

**“Stopper Period”** means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid;

**“uncertificated form”** or **“in uncertificated form”** means, when used in relation to shares, means shares recorded on the relevant register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST; and

**“2004 Preference Shares”** means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.



## **Description of the Lloyds TSB 6.413% Preference Shares and the Lloyds TSB 5.92% Preference Shares**

### **1 General**

Each Preference Share will have a nominal value of U.S.\$0.25 and will be issued fully paid with a premium of U.S.\$999.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued in registered form and are expected to be represented by a share warrant to bearer, within the meaning of the Companies Acts, in the form of a single global share warrant to bearer (the “**Global Preference Share**”) which will be deposited with the Depositary under the Deposit Agreements. The Company may consider the Depositary to be a single holder of Preference Shares so deposited for all purposes. See “*Provisions relating to the Preference Shares while represented by the Global Preference Shares*”, below.

Title to Preference Shares represented by a share warrant to bearer will pass by delivery of the relevant bearer share warrant without any written transfer and without registration. Subject to the Articles and Companies Acts, the bearer of any share warrant for the Preference Shares shall be deemed to be a Shareholder and shall be entitled to the same privileges and advantages as it would have had if the bearer’s name had been included in the Company’s register of members as the holder of the Preference Shares specified in the warrant. See “*Provisions relating to the Preference Shares while represented by the Global Preference Share*”, below.

Upon the surrender by the bearer of a share warrant, together with the outstanding dividend coupons (if any) in respect thereof, to the Company for cancellation and delivery of an application in writing signed by the bearer, in any form which the Directors approve, requesting that the bearer of the share warrant should be registered as a Shareholder in respect of the Preference Shares included in the share warrant, the bearer of a share warrant shall be entitled to have his name entered as a member in the register of members of the Company in respect of the Preference Shares included in the share warrant and shall receive a certificate in such holder’s name. However, the Company shall not be responsible for any loss or damage incurred by any person by reason of the Company entering in its register of members the name of any other person who is not the true and lawful owner of the warrant surrendered.

Title to the Preference Shares in registered and certificated form (if any) will pass by transfer and registration in the register of members of the Company in accordance with the Articles. The Articles provide, among other matters, that transfers of the Preference Shares in certificated form must be in writing and are to be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and
- (c) is deposited at the office of the Company’s registrar accompanied by the relevant share certificate(s) and any other evidence for which the Directors ask to prove the entitlement of the person wishing to make the transfer.

No fee is payable to the Company for transferring shares and any registration of a transfer is subject in all respects to the Articles.

### **Provisions relating to the Preference Shares while represented by the Global Preference Share**

*Payments in respect of any amount payable by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share will be made to, or to the order of, the Depositary or its nominee, as holder of the Global Preference Share. The Depositary shall be the only person entitled to receive payments by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share.*

*Each Global Preference Share is exchangeable in whole or in part by the Depositary for Preference Shares in registered form. Upon surrender of ADRs by any holder of ADRs for exchange for Preference Shares, the Depositary will request the exchange of the Global Preference Share for Preference Shares in registered form to the extent of such holder’s request. Upon such exchange, the holder of ADRs surrendered for exchange will receive Preference Shares*

*in registered form and the Depositary will receive a new Global Preference Share representing the remaining Preference Shares not issued in registered form.*

*The exchange of Preference Shares represented by a share warrant to bearer (including the Global Preference Share) for Preference Shares in registered form will also be subject to applicable U.K. tax laws and regulations in effect at the time of the exchange. No exchange will be made unless any resulting taxes, stamp duties or other governmental charges have been paid to the Company. Preference Shares in registered form will not be exchangeable, in whole or in part, for Preference Shares represented by a share warrant to bearer.*

## **2 Dividends**

- 2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “**Board of Directors**”) or a duly authorised committee of the Board of Directors (the “**Committee**”). Subject to the discretions, limitations and qualifications set out herein, each of the Series A Preference Shares and the Series B Preference Shares shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “**Preference Dividend**”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.
- 2.2 In respect of the period from (and including) the Issue Date to (but excluding) 1 October 2035 (the “**Series A First Call Date**”), the Preference Dividend in respect of the Series A Preference Shares shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 6.413 per cent. per annum on the liquidation preference in respect of each Series A Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in U.S. dollars on 1 April and 1 October in each year when, as and if declared by the Board of Directors or the Committee. In respect of the first Series A Dividend Payment Date on 1 April 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to U.S.\$32.065 per Preference Share. Thereafter, the Preference Dividend in respect of the Series A Preference Shares during any full semi-annual Dividend Period will amount to U.S.\$32.065 per Series A Preference Share. For the purposes hereof, “**liquidation preference**” means, in relation to each Preference Share, an amount of U.S.\$1,000. In respect of the period from (and including) the Issue Date to (but excluding) the Series A First Call Date, the amount of Preference Dividend accruing in respect of any Fixed Rate Calculation Period (other than a full semi-annual Dividend Period) will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed and, in the case of the first Dividend Period in respect of the Series A Preference Shares, on the assumption that U.S.\$[●] per Series A Preference Share [to be determined on the basis of the period from, and including, 1 October 2008 to, but excluding, the Issue Date] of dividend had already accrued as at the Issue Date.
- 2.3 From (and including) the Series A First Call Date, the dividend on the Series A Preference Shares shall accrue at a rate, reset quarterly, equal to the aggregate of 1.495 per cent. per annum and LIBOR in respect of the relevant Series A Dividend Period on the liquidation preference in respect of each Series A Preference Share outstanding which dividend will be payable in quarterly instalments in arrear in U.S. dollars on, 1 January, 1 April, 1 July and 1 October in each year (subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention and, together with the payment dates specified in paragraph 2.2 above, each a “**Series A Dividend Payment Date**”) when, as and if declared by the Board of Directors or the Committee. The amount of dividend accruing in respect of any period commencing on or after the Series A First Call Date will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 360 with the resultant figure rounded to the nearest U.S.\$0.01 (U.S.\$0.005 being rounded upwards). The Company shall, upon the determination of the rate at which the Preference Dividend on the Series A Preference Shares will accrue pursuant to this paragraph 2.3, cause such rate and the amount payable in respect of the relevant Series A Dividend Period on each Series A Preference Share to be notified to holders of the Preference Shares in accordance with the

Articles and (for so long as the Series A Preference Shares are listed on such exchange) to the London Stock Exchange as soon as possible after determination of the rate, but in no event later than the fourth Business Day thereafter.

- 2.4 In respect of the period from (and including) the Issue Date to (but excluding) 1 October 2015 (the “**Series B First Call Date**”), the Preference Dividend in respect of the Series B Preference Shares shall, save as provided below in respect of the first Preference Dividend in respect of the Series B Preference Shares, accrue at a rate of 5.920 per cent. per annum on the liquidation preference in respect of each Series B Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in U.S. dollars on 1 April and 1 October in each year when, as and if declared by the Board of Directors or the Committee. In respect of the first Series B Dividend Payment Date on 1 April 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to U.S.\$29.60 per Series B Preference Share. Thereafter, the Preference Dividend during any full semi-annual Dividend Period will amount to U.S.\$29.60 per Preference Share. For the purposes hereof, “liquidation preference” means, in relation to each Preference Share, an amount of U.S.\$1,000. In respect of the period from (and including) the Issue Date to (but excluding) the Series B First Call Date, the amount of dividend accruing in respect of any Fixed Rate Calculation Period (other than a full semi-annual Dividend Period) will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed and, in the case of the first Dividend Period in respect of the Series B Preference Shares, on the assumption that U.S.\$[●] per Series B Preference Share *[to be determined on the basis of the period from, and including, 1 October 2008 to, but excluding, the Issue Date]* of dividend had already accrued as at the Issue Date.
- 2.5 From (and including) the Series B First Call Date, the dividend on the Series B Preference Shares shall accrue at a rate, reset quarterly, equal to the aggregate of 1.295 per cent. per annum and LIBOR in respect of the relevant Series B Dividend Period on the liquidation preference in respect of each Series B Preference Share outstanding which dividend will be payable in quarterly instalments in arrear in U.S. dollars on, 1 January, 1 April, 1 July and 1 October in each year (as so adjusted subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention and, together with the payment dates specified in paragraph 2.4 above, each a “**Series B Dividend Payment Date**”) when, as and if declared by the Board of Directors or the Committee. The amount of dividend accruing in respect of any period commencing on or after the Series B First Call Date will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 360 with the resultant figure rounded to the nearest U.S.\$0.01 (U.S.\$0.005 being rounded upwards). The Company shall, upon the determination of the rate at which the Preference Dividend on the Series B Preference Shares will accrue pursuant to this paragraph 2.5, cause such rate and the amount payable in respect of the relevant Series B Dividend Period on each Series B Preference Share to be notified to holders of the Series B Preference Shares in accordance with the Articles and (for so long as the Series B Preference Shares are listed on such exchange) to the London Stock Exchange as soon as possible after determination of the rate, but in no event later than the fourth Business Day thereafter.

### **3 Declaration of Dividends**

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of dividends accrued on the Preference Shares during the Dividend Period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend shall be declared and paid only in part.

Notwithstanding the Board of Directors' or the Committee's discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends will be mandatorily payable as described under "Payment of Dividends" on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

#### **4 Payment of Dividends**

The Company will pay Preference Dividends out of its distributable profits in U.S. dollars, calculated on the liquidation preference of U.S.\$1,000 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct. Any such dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date or Redemption Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payment on redemption will be against presentation and surrender of the relative certificate at the place or at one of the places specified in the notice of redemption.

Payments in respect of amounts payable by way of Preference Dividend and on redemption of the Preference Shares will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date, then holders of Preference Shares will have no claim in respect of



the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company's profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.

## **5 Restrictions on Dividends and Redemption**

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

## **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) U.S.\$1,000 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares, the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

## **7 Redemption**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), to the provisions of the Companies Acts and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all or some only of the Series A Preference Shares on the Series A First Call Date, and on each Dividend Payment Date thereafter and the



Series B Preference Shares on the Series B First Call Date and thereafter on the Series B Dividend Payment Date falling on or closest to each tenth anniversary of such date. The Redemption Price shall be paid on each Preference Share so redeemed. In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw at the registered office of the Company or at any other place which the Board of Directors or the Committee decides on in the presence of its auditors on such basis as the Board of Directors or the Committee consider appropriate at the time.

If some or all of the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a “**Redemption Notice**”) to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date, (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid), (iii) the number of Preference Shares to be redeemed, (iv) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made and (v) while the Preference Shares are represented by the Global Preference Share, the place or places where the holder may surrender the Global Preference Share and where payment of the Redemption Price will be made. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

Payments in respect of the amount due on redemption of a Preference Share will be made by the same methods as described in “Payment of Dividends”. Any such amount which has remained unclaimed for 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

From the Redemption Date, the Preference Dividend will cease to accrue on the Preference Shares being redeemed except on any Preference Share in respect of which payment of the Redemption Price due on the Redemption Date is improperly withheld or refused. In such case, the Preference Dividend will be deemed to have continued and will accordingly continue to accrue at the rate which would have applied but for the redemption, as described under “Payment of Dividends” above, from the Redemption Date to the actual date of payment of the Redemption Price. Such Preference Share will not be treated as having been redeemed until the Redemption Price, including accrued Preference Dividend, has been paid.

A receipt given by the holder for the time being of any Preference Shares (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Shares will constitute an absolute discharge to the Company.

## **8 Substitution**

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the “**Substitution Date**”) without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **9 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).

If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each U.S.\$0.25 of nominal value of Preference Shares of which he or she is the holder.

The bearer of a share warrant in respect of Preference Shares shall not be entitled to attend or vote, personally or by proxy, unless the share warrant has been deposited with the Company and the Company has delivered a certificate in exchange. Subject as described above, the certificate shall entitle such person, either personally or by proxy, to attend and vote at any Shareholders' meeting at which the holder is entitled to attend and vote held within three months of the date of the certificate and prior to the return of the certificate to the Company, in the same way as if the holder were the registered holder of Preference Shares specified in the certificate.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **10 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under "Restrictions on Dividends and Redemption" above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

## **11 Untraced shareholders**

11.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends have become payable and no Preference Dividend on those Preference Shares has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such

holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and

- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

11.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

11.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## **12 Form and Denomination**

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of U.S.\$0.25 will be credited to the Company's issued share capital account and an amount of U.S.\$999.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

## **13 Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

## **14 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Acts and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the

“UK Listing Authority”) by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

In addition, any notice to the bearer of any warrant or any other person who holds or is interested in the Preference Shares in bearer form or any related coupons or talons (if any) shall be sufficiently given if advertised in such newspaper or newspapers as the Directors, in their discretion, shall consider appropriate or by such other means as the Directors consider appropriate. If notice is given by newspaper advertisement, it shall be deemed given on the day when the advertisement appears.

#### **15 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

#### **16 Governing Law**

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

#### **17 Registrar and Paying Agent**

The Company's company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent having its specified office in the United Kingdom. Notice of any change of registrar or paying agent will be given to holders of the Preference Shares.

#### **18 Further Issues**

Subject to the provisions set out in “Variation of Rights”, the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

## 19 Definitions

**“Applicable Regulatory Capital Requirements”** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

**“Articles”** means the articles of association of the Company;

**“Business Day”** means a day on which banks are open for business in London and New York;

**“Capital Disqualification Event”** shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

**“Companies Acts”** means the Companies Act 1985 and the Companies Act 2006 (in each case as amended from time to time);

**“Company”** means Lloyds TSB Group plc;

**“Deposit Agreements”** means the Rule 144A deposit agreement and the Regulation S deposit agreement, in each case originally dated 29 September 2005, as amended, supplemented or restated on or around the Issue Date, between the Company and the Depositary (as amended, supplemented or restated, from time to time);

**“Depositary”** means The Bank of New York Mellon;

**“Directors”** means the executive and non-executive directors of the Company who make up its board of directors;

**“distributable profits”** has the meaning given to it in the Companies Acts as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

**“Dividend Determination Date”** means, in relation to each Dividend Period commencing on or after (i) the Series A First Call Date in respect of the Series A Preference Shares or (ii) the Series B First Call Date in respect of the Series B Preference Shares, the second Business Day prior to such Dividend Period;

**“Dividend Payment Date”** means a Series A Dividend Payment Date and/or a Series B Dividend Payment Date, as the case may be;

**“Dividend Period”** means the period from and including the most recent Dividend Payment Date (or the Issue Date) to but excluding the next proceeding Dividend Payment Date;

**“Fixed Rate Calculation Period”** means the period from (and including) the most recent Dividend Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date;

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

**“Issue Date”** means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];

**“Junior Share Capital”** means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

**“LIBOR”** means, in relation to a Dividend Period, the offered rate for three month deposits in U.S. dollars as at 11.00 a.m. London time on the related Dividend Determination Date appearing on the display designated as page “LIBOR01” on the Reuters Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Company or on its behalf;

**“Modified Following Business Day Convention”** means if a Dividend Payment Date falls on a day which is not a Business Day, such Dividend Payment Date shall be postponed to the next day which is a Business Day unless it would fall into the next calendar month in which event such



Dividend Payment Date shall be brought forward to the immediately preceding day which is a Business Day;

**“Non-Innovative Tier 1 Capital”** means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA’s General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation;

**“Parity Securities”** means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

**“Paying Agent”** means the Company or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

**“Preference Shares”** means the Series A Preference Shares and/or the Series B Preference Shares, as the case may be;

**“Qualifying Non-Innovative Tier 1 Securities”** means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by an independent investment bank appointed by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by U.S.\$1,000, (5) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

**“Redemption Date”** means the date on which any of the Series A Preference Shares or Series B Preference Shares, as the case may be, are called for redemption in accordance with paragraph 7 above;

**“Redemption Price”** means the liquidation preference of U.S.\$1,000 per Preference Share to be redeemed together with any dividends on such Preference Shares accrued but unpaid since the immediately preceding Dividend Payment Date (or, if none, accrued, or assumed in accordance with paragraph 2.2 or, as appropriate, paragraph 2.4 above to be accrued, but unpaid since the Issue Date);

**“Registrar”** means the Company’s company secretarial department or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

**“Series A Preference Shares”** means the U.S.\$750,000,000 in aggregate value Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares of the Company;

**“Series B Preference Shares”** means the U.S.\$750,000,000 in aggregate value Series B Fixed/Floating Rate Non-Cumulative Callable Preference Shares of the Company;

**“Shareholder”** means a holder of the Company’s shares;

**“Stopper Period”** means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid; and

**“2004 Preference Shares”** means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.

## Description of the Lloyds TSB 6.3673% Preference Shares

### 1 General

Each Preference Share will have a nominal value of £0.25 and will be issued fully paid with a premium of £999.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company. The Preference Shares will be issued in registered form and will be initially represented by interests in a Global Certificate which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg on the Issue Date. Upon the registration of the Preference Shares in the name of a nominee of Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the common depositary for Euroclear and Clearstream, Luxembourg, the relevant Clearing System will credit each accountholder with its relevant interest in such Preference Shares.

#### Provisions relating to the Preference Shares while represented by the Global Certificate

*So long as the Preference Shares are registered in the name of a nominee for Euroclear and Clearstream, Luxembourg, the nominee for Euroclear and Clearstream, Luxembourg will be the sole registered owner or holder of the Preference Shares represented by the Global Certificate for all purposes. Except as set forth below, the persons shown in the records of Euroclear and Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”) as the holders of the Preference Share evidenced by the Global Certificate (each an “Accountholder”) will not be entitled to have Preference Shares registered in their names, will not receive or be entitled to receive physical delivery of definitive Certificates evidencing interests in the Preference Shares, and will not be considered registered owners or holders of Preference Shares thereof. Accordingly, each Accountholder must rely on the rules and procedures of Euroclear and Clearstream, Luxembourg, as the case may be, to exercise any rights and obligations of a holder of Preference Shares.*

*The Global Certificate will be exchangeable in whole but not in part (free of charge to the holder of the Preference Shares) for definitive certificates if either Euroclear or Clearstream, Luxembourg 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 clearing system satisfactory to the Registrar is available.*

*Thereupon the Company may give notice to the holders of Preference Shares of its intention to exchange the Global Certificate for definitive certificates on or after the Exchange Date (as defined below). On or after the Exchange Date, the holder of the Global Certificate may surrender the Global Certificate to or to the order of the Registrar. In exchange for the Global Certificate, the Registrar will deliver, or procure the delivery of, definitive certificates printed in accordance with any applicable legal and stock exchange requirements.*

*For these purposes, “Exchange Date” means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.*

*Each Accountholder must look solely to Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, for its share of each payment made by the Company to the registered holder of the Preference Shares and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg or such Alternative Clearing System, as the case may be. Such persons shall have no claim directly against the Company in respect of payments due on the Preference Shares for so long as the Preference Shares are represented by the Global Certificate and such obligations of the Company will be discharged by payment to the registered holder of the Preference Shares in respect of each amount so paid.*

*Accountholders will only be able to transfer their beneficial interests in the Preference Shares in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or the Alternative Clearing System, as the case may be.*

### 2 Dividends

2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “Board of Directors”) or a duly

authorised committee of the Board of Directors (the “**Committee**”). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “**Preference Dividend**”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.

2.2 In respect of the period from (and including) the Issue Date to (but excluding) 17 June 2019 (the “**First Call Date**”), the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 6.3673 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, annually in arrear in sterling on 17 June in each year when, as and if declared by the Board of Directors or the Committee. In respect of the first Dividend Payment Date on 17 June 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to £63.673 per Preference Share. Thereafter, the Preference Dividend during any full annual Dividend Period will amount to £63.673 per Preference Share. For the purposes hereof, “**liquidation preference**” means, in relation to each Preference Share, an amount of £1,000. In respect of the period from (and including) the Issue Date to (but excluding) the First Call Date, the amount of Preference Dividend accruing in respect of any Fixed Rate Calculation Period (other than a full annual Dividend Period) will be calculated on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the number of days from (and including) the immediately preceding Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next Interest Payment Date and, in the case of the first Dividend Period, on the assumption that £[●] per Preference Share *[to be determined on the basis of the period from, and including, 17 June 2008 to, but excluding, the Issue Date]* of Preference Dividend had already accrued as at the Issue Date.

2.3 From (and including) the First Call Date, the Preference Dividend shall accrue at a rate, reset quarterly, equal to the aggregate of 1.36 per cent. per annum and LIBOR in respect of the relevant Dividend Period on the liquidation preference in respect of each Preference Share outstanding which Preference Dividend will be payable in quarterly instalments in arrear in sterling on, 17 March, 17 June, 17 September and 17 December in each year (subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention and, together with the payment dates specified in paragraph 2.2 above, each a “**Dividend Payment Date**”) when, as and if declared by the Board of Directors or the Committee. The amount of Preference Dividend accruing in respect of any period commencing on or after the First Call Date will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 365 with the resultant figure rounded to the nearest £0.01 (£0.005 being rounded upwards). The Company shall, upon determination of the rate at which the Preference Dividend will accrue pursuant to this paragraph 2.3, cause such rate and the amount payable in respect of the relevant Dividend Period on each Preference Share to be notified to holders of the Preference Shares in accordance with the Articles and (for so long as the Preference Shares are listed on such exchange) to the London Stock Exchange as soon as possible after determination of the rate, but in no event later than the fourth Business Day thereafter.

### 3 Declaration of Dividends

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of Preference Dividend accrued on the Preference Shares during the Dividend Period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or

- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend shall be declared and paid only in part.

Notwithstanding the Board of Directors' or the Committee's discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends will be mandatorily payable as described under "Payment of Dividends" on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

#### **4 Payment of Dividends**

The Company will pay Preference Dividends out of its distributable profits in sterling, calculated on the liquidation preference of £1,000 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct.

Any such Preference Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date or Redemption Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payment on redemption will be against presentation and surrender of the relative certificate at the place or at one of the places specified in the notice of redemption.



Payments in respect of amounts payable by way of Preference Dividend and on redemption of the Preference Shares will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date, then holders of Preference Shares will have no claim in respect of the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company's profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.

## **5 Restrictions on Dividends and Redemption**

If the Company has not declared or paid in full a Preference Dividend stated to be payable as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

## **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1,000 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.



## 7 Redemption

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), to the provisions of the Companies Acts and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all or some only of the Preference Shares on the First Call Date, and on each Dividend Payment Date thereafter. The Redemption Price shall be paid on each Preference Share so redeemed. In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw at the registered office of the Company, or at any other place which the Board of Directors or the Committee decides on, in the presence of its auditors on such basis as the Board of Directors or the Committee considers appropriate at the time.

If some or all of the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a “**Redemption Notice**”) to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date, (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid), (iii) the number of Preference Shares to be redeemed, (iv) the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

Payments in respect of the amount due on redemption of a Preference Share will be made by the same methods as described in “Payment of Dividends”. Any such amount which has remained unclaimed for 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

From the Redemption Date, the Preference Dividend will cease to accrue on the Preference Shares being redeemed except on any Preference Share in respect of which payment of the Redemption Price due on the Redemption Date is improperly withheld or refused. In such case, the Preference Dividend will be deemed to have continued and will accordingly continue to accrue at the rate which would have applied but for the redemption, as described under “Payment of Dividends” above, from the Redemption Date to the actual date of payment of the Redemption Price. Such Preference Share will not be treated as having been redeemed until the Redemption Price, including accrued Preference Dividend, has been paid.

A receipt given by the holder for the time being of any Preference Shares (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Shares will constitute an absolute discharge to the Company.

## 8 Substitution

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the “**Substitution Date**”) without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **9 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).

If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each £0.25 of nominal value of Preference Shares of which he or she is the holder.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **10 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under "Restrictions on Dividends and Redemption" above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

## **11 Untraced shareholders**

11.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends have become payable and no Preference Dividend on those Preference Dividends has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and
- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

11.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

11.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## **12 Form and Denomination**

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of £0.25 will be credited to the Company's issued share capital account and an amount of £999.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

Title to any Preference Shares issued in definitive registered form will pass by transfer and registration in the register of members of the Company in accordance with the Articles and applicable law.

Each registration of transfer of Preference Shares will be effected by entry on the register for the Preference Shares kept by the Company's registrar at its office in the UK. See "Registrar and Paying Agent" below. Any registration of transfer will be effected without charge to the person requesting the exchange or registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

## **13 Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend payable in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

## **14 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Acts and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send

electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

### **15 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

### **16 Governing Law**

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

### **17 Registrar and Paying Agent**

Equiniti Limited located at Aspect House, Spencer Wood, Lancing, West Sussex BN99 6DA will maintain the register and will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent having its specified office in the United Kingdom. Notice of any change of registrar or paying agent will be given to holders of the Preference Shares.

### **18 Further Issues**

Subject to the provisions set out in "Variation of Rights", the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

### **19 Definitions**

**"Applicable Regulatory Capital Requirements"** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

**"Articles"** means the articles of association of the Company;

**"Business Day"** means, a day on which banks are open for business in London;

**"Capital Disqualification Event"** shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any

applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

“**Clearing Systems**” means Euroclear and Clearstream, Luxembourg;

“**Clearstream, Luxembourg**” means Clearstream Banking, *société anonyme*;

“**Companies Acts**” means the Companies Act 1985 and the Companies Act 2006 (in each case as amended from time to time);

“**Company**” means Lloyds TSB Group plc;

“**Directors**” means the executive and non-executive directors of the Company who make up its board of directors;

“**distributable profits**” has the meaning given to it in the Companies Acts as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

“**Dividend Determination Date**” means, in relation to each Dividend Period commencing on or after the First Call Date, the first day of such Dividend Period, provided that if the First Call Date is not a Business Day, the Dividend Determination Date in respect of the Dividend Period commencing on the First Call Date shall be the Business Day immediately preceding the First Call Date;

“**Dividend Payment Date**” means (i) 17 June in each year up to and including the First Call Date and (ii) thereafter, subject to the Modified Following Business Day Convention, 17 March, 17 June, 17 September and 17 December in each year;

“**Dividend Period**” means the period from and including the most recent Dividend Payment Date (or the Issue Date) to but excluding the next proceeding Dividend Payment Date;

“**Euroclear**” means Euroclear Bank S.A./N.V.;

“**Fixed Rate Calculation Period**” means the period from (and including) the most recent Dividend Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date;

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

“**Issue Date**” means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];

“**Junior Share Capital**” means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

“**LIBOR**” means, in relation to a Dividend Period, the offered rate for three month deposits in sterling as at 11.00 a.m. London time on the related Dividend Determination Date appearing on the display designated as page “LIBOR01” on the Reuters Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Company or on its behalf;

“**Modified Following Business Day Convention**” means if a Dividend Payment Date falls on a day which is not a Business Day, such Dividend Payment Date shall be postponed to the next day which is a Business Day unless it would fall into the next calendar month in which event such Dividend Payment Date shall be brought forward to the immediately preceding day which is a Business Day;

“**Non-Innovative Tier 1 Capital**” means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA’s General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation;



**“Parity Securities”** means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

**“Paying Agent”** means the Registrar or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

**“Preference Shares”** means the £350,002,000 in aggregate value of Fixed/Floating Rate Non-Cumulative Callable Preference Shares of the Company;

**“Qualifying Non-Innovative Tier 1 Securities”** means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by an independent investment bank appointed by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by £1,000, (5) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

**“Redemption Date”** means the date on which the Preference Shares are called for redemption in accordance with paragraph 7 above;

**“Redemption Price”** means the liquidation preference of £1,000 per Preference Share to be redeemed together with any dividends on such Preference Shares accrued but unpaid since the immediately preceding Dividend Payment Date (or, if none, accrued, or assumed in accordance with paragraph 2.2 above to be accrued, but unpaid since the Issue Date);

**“Registrar”** means Equiniti Limited or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

**“Shareholder”** means a holder of the Company’s shares;

**“Stopper Period”** means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid; and

**“2004 Preference Shares”** means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.

## **Description of the Lloyds TSB 6.657% Preference Shares**

### **1 General**

Each Preference Share will have a nominal value of U.S.\$0.25 and will be issued fully paid with a premium of U.S.\$999.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued in registered form and are expected to be represented by a share warrant to bearer, within the meaning of the Companies Acts, in the form of a single global share warrant to bearer (the “**Global Preference Share**”) which will be deposited with the Depositary under the Deposit Agreements. The Company may consider the Depositary to be a single holder of Preference Shares so deposited for all purposes. See “*Provisions relating to the Preference Shares while represented by the Global Preference Share*”, below.

Title to Preference Shares represented by a share warrant to bearer will pass by delivery of the relevant bearer share warrant without any written transfer and without registration. Subject to the Articles and Companies Acts, the bearer of any share warrant for the Preference Shares shall be deemed to be a Shareholder and shall be entitled to the same privileges and advantages as it would have had if the bearer’s name had been included in the Company’s register of members as the holder of the Preference Shares specified in the warrant. See “*Provisions relating to the Preference Shares while represented by the Global Preference Share*”, below.

Upon the surrender by the bearer of a share warrant, together with the outstanding dividend coupons (if any) in respect thereof, to the Company for cancellation and delivery of an application in writing signed by the bearer, in any form which the Directors approve, requesting that the bearer of the share warrant should be registered as a Shareholder in respect of the Preference Shares included in the share warrant, the bearer of a share warrant shall be entitled to have his name entered as a member in the register of members of the Company in respect of the Preference Shares included in the share warrant and shall receive a certificate in such holder’s name. However, the Company shall not be responsible for any loss or damage incurred by any person by reason of the Company entering in its register of members the name of any other person who is not the true and lawful owner of the warrant surrendered.

Title to the Preference Shares in registered and certificated form (if any) will pass by transfer and registration in the register of members of the Company in accordance with the Articles. The Articles provide, among other matters, that transfers of the Preference Shares in certificated form must be in writing and are to be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and
- (c) is deposited at the office of the Company’s registrar accompanied by the relevant share certificate(s) and any other evidence for which the Directors ask to prove the entitlement of the person wishing to make the transfer.

No fee is payable to the Company for transferring shares and any registration of a transfer is subject in all respects to the Articles.

### **Provisions relating to the Preference Shares while represented by the Global Preference Share**

*Payments in respect of any amount payable by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share will be made to, or to the order of, the Depositary or its nominee, as holder of the Global Preference Share. The Depositary shall be the only person entitled to receive payments by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share.*

*The Global Preference Share is exchangeable in whole or in part by the Depositary for Preference Shares in registered form. Upon surrender of ADRs by any holder of ADRs for exchange for Preference Shares, the Depositary will request the exchange of the Global Preference Share for Preference Shares in registered form to the extent of such holder’s request. Upon such exchange, the holder of ADRs surrendered for exchange will receive Preference Shares in registered form*

and the Depositary will receive a new Global Preference Share representing the remaining Preference Shares not issued in registered form.

The exchange of Preference Shares represented by a share warrant to bearer (including the Global Preference Share) for Preference Shares in registered form will also be subject to applicable United Kingdom tax laws and regulations in effect at the time of the exchange. No exchange will be made unless any resulting taxes, stamp duties or other governmental charges have been paid to the Company. Preference Shares in registered form will not be exchangeable, in whole or in part, for Preference Shares represented by a share warrant to bearer.

## 2 Dividends

- 2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “**Board of Directors**”) or a duly authorised committee of the Board of Directors (the “**Committee**”). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “**Preference Dividend**”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.
- 2.2 In respect of the period from (and including) the Issue Date to (but excluding) 21 May 2037 (the “**First Call Date**”), the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 6.657 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in U.S. dollars on 21 May and 21 November in each year when, as and if declared by the Board of Directors or the Committee. In respect of the first Dividend Payment Date on 21 May 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to U.S.\$33.285 per Preference Share. Thereafter, the Preference Dividend during any full semi-annual Dividend Period will amount to U.S.\$33.285 per Preference Share. For the purposes hereof, “**liquidation preference**” means, in relation to each Preference Share, an amount of U.S.\$1,000. In respect of the period from (and including) the Issue Date to (but excluding) the First Call Date, the amount of dividend accruing in respect of any Fixed Rate Calculation Period (other than a full semi-annual Dividend Period) will be calculated on the basis of a 360-day year of 12 months consisting of 30 days each and, in the case of an incomplete month, the number of days elapsed and, in the case of the first Dividend Period, on the assumption that U.S.\$[●] per Preference Share [to be determined on the basis of the period from, and including, 21 November 2008 to, but excluding, the Issue Date] of dividend had already accrued as at the Issue Date.
- 2.3 From (and including) the First Call Date, the dividend on the Preference Shares shall accrue at a rate, reset quarterly, equal to the aggregate of 1.27 per cent. per annum and LIBOR in respect of the relevant Dividend Period on the liquidation preference in respect of each Preference Share outstanding which dividend will be payable in quarterly instalments in arrear in U.S. dollars on, 21 February, 21 May, 21 August and 21 November in each year (subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention and, together with the payment dates specified in paragraph 2.2 above, each a “**Dividend Payment Date**”) when, as and if declared by the Board of Directors or the Committee. The amount of dividend accruing in respect of any period commencing on or after the First Call Date will be calculated on the basis of the actual number of days elapsed in the period divided by 360 with the resultant figure rounded to the nearest U.S.\$0.01 (U.S.\$0.005 being rounded upwards). The Company shall, upon determination of the rate at which the Preference Dividend will accrue pursuant to this paragraph 2.3, cause such rate and the amount payable in respect of the relevant Dividend Period on each Preference Share to be notified to holders of the Preference Shares in accordance with the Articles and (for so long as the Preference Shares are listed on such exchange) to the London Stock Exchange as soon as possible after determination of the rate, but in no event later than the fourth Business Day thereafter.

### **3 Declaration of Dividends**

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of dividends accrued on the Preference Shares during the Dividend Period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend on the Preference Shares shall be declared and paid only in part.

Notwithstanding the Board of Directors' or the Committee's discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends will be mandatorily payable as described under "Payment of Dividends" on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other Preference Dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

### **4 Payment of Dividends**

The Company will pay Preference Dividends out of its distributable profits in U.S. dollars, calculated on the liquidation preference of U.S.\$1,000 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct.

Any such Preference Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date or Redemption Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payment on redemption will be against presentation and surrender of the relative certificate at the place or at one of the places specified in the notice of redemption.

Payments in respect of amounts payable by way of Preference Dividend and on redemption of the Preference Shares will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date, then holders of Preference Shares will have no claim in respect of the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company's profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.

## **5 Restrictions on Dividends and Redemption**

If the Company has not declared or paid in full a Preference Dividend stated to be payable as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

## **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).

Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) U.S.\$1,000 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares, the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will



share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

## **7 Redemption**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), to the provisions of the Companies Acts and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all or some only of the Preference Shares on the First Call Date, and on each Dividend Payment Date thereafter. The Redemption Price shall be paid on each Preference Share so redeemed. In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw at the registered office of the Company or at any other place which the Board of Directors or the Committee decides on in the presence of its auditors on such basis as the Board of Directors or the Committee considers appropriate at the time.

If some or all of the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a "**Redemption Notice**") to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date, (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid), (iii) the number of Preference Shares to be redeemed, (iv) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made and (v) while the Preference Shares are represented by the Global Preference Share, the place or places where the holder may surrender the Global Preference Share and where payment of the Redemption Price will be made. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

Payments in respect of the amount due on redemption of a Preference Share will be made by the same methods as described in "Payment of Dividends". Any such amount which has remained unclaimed for 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

From the Redemption Date, the Preference Dividend will cease to accrue on the Preference Shares being redeemed except on any Preference Share in respect of which payment of the Redemption Price due on the Redemption Date is improperly withheld or refused. In such case, the Preference Dividend will be deemed to have continued and will accordingly continue to accrue at the rate which would have applied but for the redemption, as described under "Payment of Dividends" above, from the Redemption Date to the actual date of payment of the Redemption Price. Such Preference Share will not be treated as having been redeemed until the Redemption Price, including accrued Preference Dividend, has been paid.

A receipt given by the holder for the time being of any Preference Shares (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Shares will constitute an absolute discharge to the Company.

## **8 Substitution**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the

“**Substitution Date**”) without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Non-Innovative Tier 1 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## **9 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).

If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each U.S.\$0.25 of nominal value of Preference Shares of which he or she is the holder.

The bearer of a share warrant in respect of Preference Shares shall not be entitled to attend or vote, personally or by proxy, unless the share warrant has been deposited with the Company and the Company has delivered a certificate in exchange. Subject as described above, the certificate shall entitle such person, either personally or by proxy, to attend and vote at any Shareholders' meeting at which the holder is entitled to attend and vote held within three months of the date of the certificate and prior to the return of the certificate to the Company, in the same way as if the holder were the registered holder of Preference Shares specified in the certificate.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **10 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under “Restrictions on Dividends and Redemption” above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares

purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

## **11 Untraced shareholders**

11.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends have become payable and no Preference Dividend on those Preference shares has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and
- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

11.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

11.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## **12 Form and Denomination**

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of U.S.\$0.25 will be credited to the Company's issued share capital account and an amount of U.S.\$999.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

## **13 Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend payable in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying

identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

#### **14 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Act and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

In addition, any notice to the bearer of any warrant or any other person who holds or is interested in the Preference Shares in bearer form or any related coupons or talons (if any) shall be sufficiently given if advertised in such newspaper or newspapers as the Directors, in their discretion, shall consider appropriate or by such other means as the Directors consider appropriate. If notice is given by newspaper advertisement, it shall be deemed given on the day when the advertisement appears.

#### **15 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

#### **16 Governing Law**

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

#### **17 Registrar and Paying Agent**

The Company's company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent having its specified office in the United Kingdom. Notice of any change of registrar or paying agent will be given to holders of the Preference Shares.

## 18 Further Issues

Subject to the provisions set out in “Variation of Rights”, the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

## 19 Definitions

“**Applicable Regulatory Capital Requirements**” means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

“**Articles**” means the articles of association of the Company;

“**Business Day**” means a day on which banks are open for business in London and New York;

“**Capital Disqualification Event**” shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

“**Companies Acts**” means the Companies Act 1985 and the Companies Act 2006 (in each case as amended from time to time);

“**Company**” means Lloyds TSB Group plc;

“**Deposit Agreements**” means the Rule 144A deposit agreement and the Regulation S deposit agreement, in each case originally dated 29 September 2005, as amended, supplemented or restated on or around the Issue Date between the Company and the Depositary (as amended, supplemented or restated, from time to time);

“**Depositary**” means The Bank of New York Mellon;

“**Directors**” means the executive and non-executive directors of the Company who make up its board of directors;

“**distributable profits**” has the meaning given to it in the Companies Acts as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

“**Dividend Determination Date**” means, in relation to each Dividend Period commencing on or after the First Call Date, the second Business Day prior to such Dividend Period;

“**Dividend Payment Date**” means (i) 21 May and 21 November in each year up to and including the First Call Date and (ii) thereafter, subject to the Modified Following Business Day Convention, 21 February, 21 May, 21 August and 21 November in each year;

“**Dividend Period**” means the period from and including the most recent Dividend Payment Date (or the Issue Date) to but excluding the next proceeding Dividend Payment Date;

“**Fixed Rate Calculation Period**” means the period from (and including) the most recent Dividend Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date;

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

“**Issue Date**” means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];



**“Junior Share Capital”** means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

**“LIBOR”** means, in relation to a Dividend Period, the offered rate for three month deposits in U.S. dollars as at 11.00 a.m. London time on the related Dividend Determination Date appearing on the display designated as page “LIBOR01” on the Reuters Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Company or on its behalf;

**“Modified Following Business Day Convention”** means if a Dividend Payment Date falls on a day which is not a Business Day, such Dividend Payment Date shall be postponed to the next day which is a Business Day unless it would fall into the next calendar month in which event such Dividend Payment Date shall be brought forward to the immediately preceding day which is a Business Day;

**“Non-Innovative Tier 1 Capital”** means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA’s General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation;

**“Parity Securities”** means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

**“Paying Agent”** means the Company or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

**“Preference Shares”** means the U.S.\$750,000,000 in aggregate value of Fixed/Floating Rate Non-Cumulative Callable Preference Shares of the Company;

**“Qualifying Non-Innovative Tier 1 Securities”** means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by an independent investment bank appointed by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by U.S.\$1,000, (5) comply with the then current requirements of the FSA in relation to Non-Innovative Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

**“Redemption Date”** means the date on which the Preference Shares are called for redemption in accordance with paragraph 7 above;

**“Redemption Price”** means the liquidation preference of U.S.\$1,000 per Preference Share to be redeemed together with any dividends on such Preference Shares accrued but unpaid since the immediately preceding Dividend Payment Date (or, if none accrued, assumed in accordance with paragraph 2.2 above to be accrued, but unpaid since the Issue Date);

**“Registrar”** means the Company’s company secretarial department or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

**“Shareholder”** means a holder of the Company’s shares;

**“Stopper Period”** means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on

which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid; and

**“2004 Preference Shares”** means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.

## Description of the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares

On their issue date, the New HM Treasury Preference Shares, representing £1,000,000,000 in aggregate value of 12% Fixed to Floating Non-Cumulative Preference Shares, and the £3,000,000,000 in aggregate value of Lloyds TSB 12% Fixed to Floating Non-Cumulative Preference Shares, will become immediately fungible and be subject to the terms described below.

### 1 General

Each Preference Share will have a nominal value of £0.25 and will be issued fully paid for cash with a premium of £999.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued in definitive registered form and may be held in either certificated form or uncertificated in CREST. Temporary documents of title in relation to the Preference Shares in certificated form will not be issued pending despatch by post of definitive certificates.

### 2 Dividends

- 2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “**Board of Directors**”) or a duly authorised committee of the Board of Directors (the “**Committee**”). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “**Preference Dividend**”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.
- 2.2 In respect of the period from (and including) the Issue Date to (but excluding) [●] 2013 [*the day falling five years and one day after the Issue Date*] (the “**First Call Date**”), the Preference Dividend shall accrue at a rate of 12 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in sterling on [●] and [●] [*the corresponding dates falling in the sixth and twelfth month in each year following the Issue Date*] in each year (save that the tenth Dividend Payment Date shall fall on the First Call Date) when, as and if declared by the Board of Directors or the Committee. The first payment of the Preference Dividend will, subject to the discretions, limitations and qualifications set out herein, be made on [●] 2009 [*the day falling six months following the Issue Date*] in the amount of £60 per Preference Share in respect of the period from (and including) the Issue Date to (but excluding) [●] 2009 [*the day falling six months following the Issue Date*]. For the purposes hereof, “**liquidation preference**” means, in relation to each Preference Share, an amount of £1,000. In respect of the period from (and including) the Issue Date to (but excluding) the First Call Date, the amount of Preference Dividend accruing in respect of any Fixed Rate Calculation Period (other than a full semi-annual Dividend Period) will be calculated on the basis of the Fixed Rate Day Count Fraction.
- 2.3 From (and including) the First Call Date, the Preference Dividend shall accrue at a rate, reset quarterly, equal to the aggregate of 7 per cent. per annum and LIBOR in respect of the relevant Dividend Period on the liquidation preference in respect of each Preference Share outstanding which dividend will be payable quarterly in arrear in sterling on [●], [●], [●] and [●] [*the corresponding dates falling in the third, sixth, ninth and twelfth month in each year following the First Call Date*] in each year (each, as adjusted in accordance with the Modified Following Business Day Convention, together with the payment dates specified in paragraph 2.2 above, a “**Dividend Payment Date**”) when, as and if declared by the Board of Directors or the Committee. The amount of the Preference Dividend accruing in respect of any period commencing on or after the First Call Date will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 365 or, if a leap year, 366 with the resultant figure rounded to the nearest £0.01 (£0.005 being rounded upwards). The Company shall, upon determining the rate at which the Preference Dividend will accrue pursuant to this paragraph 2.3, cause such rate and the amount payable in respect of the relevant Dividend Period on each Preference Share to be notified to holders of the Preference Shares in

accordance with the Articles and (for so long as the Preference Shares are listed on such exchange) to the London Stock Exchange as soon as possible after determination of the rate, but in no event later than the fourth Business Day thereafter.

### **3 Declaration of Dividends**

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of Preference Dividends accrued on the Preference Shares during the Dividend Period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend shall be declared and paid only in part.

Notwithstanding the Board of Directors' or the Committee's discretion described in (a) and (b) above, subject always to the existence of sufficient distributable profits as described in the first paragraph of this section and subject to the immediately following paragraph, Preference Dividends will be mandatorily payable as described under "Payment of Dividends" on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements.

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

As soon as practicable after resolving that no Preference Dividend shall be declared and paid or that it shall be declared and paid only in part, the Board of Directors or the Committee shall give notice thereof to the holders of the Preference Shares.

### **4 Payment of Dividends**

The Company will pay Preference Dividends out of its distributable profits in sterling, calculated on the liquidation preference of £1,000 per Preference Share. Preference Dividends may be paid by the Company by crediting any account which the holder of the Preference Shares, or in the case of joint holders, the holder whose name stands first in the register in respect of the Preference Shares, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or persons, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any Preference Dividend may also be paid by cheque or warrant sent by post addressed to the holder of the Preference Shares at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the register in respect of the Preference

Shares at his address as appearing in such register or addressed to such person at such address as the holder or joint holders may in writing direct.

Any such Preference Dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person as the holder or joint holders may in writing direct.

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date or Redemption Date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payments in respect of amounts payable by way of Preference Dividend and on redemption of the Preference Shares will be subject in all cases to any applicable fiscal or other laws and other regulations.

Preference Dividends will be non-cumulative and, to the extent that the Board of Directors or the Committee does not declare a Preference Dividend or any part of a Preference Dividend payable on a Dividend Payment Date, then holders of Preference Shares will have no claim in respect of the non-payment. Except as described in this description of the Preference Share rights, the holders of the Preference Shares will have no right to participate in the Company's profits.

Any Preference Dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board of Directors so resolves, be forfeited and shall revert to the Company.

## **5 Restrictions on Dividends and Redemption**

5.1 If the Company has not declared or paid in full a Preference Dividend stated to be payable as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period:

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Parity Securities, Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Parity Securities (other than any Parity Securities in existence at the Issue Date which, by their terms, do not confer on the Board of Directors or the Committee a discretion to defer any such distribution, dividend or payment and any Parity Securities that are issued on or after the Issue Date in connection with any exchange for, scheme of arrangement in relation to, or substitution for, any Relevant Securities), Junior Share Capital or the 2004 Preference Shares.

5.2 Until the date on which the Preference Shares are redeemed or repurchased in full, the Company shall not:

- (a) declare or pay any dividend or make any distribution (whether in cash or otherwise) on or in respect of the ordinary shares of the Company or set aside any sum to provide for payment of any such dividend or distribution (save that the foregoing restriction shall not apply to a capitalisation issue pursuant to which newly issued bonus shares are paid up out of undistributable reserves); or
- (b) redeem, purchase, cancel or otherwise acquire in any way any ordinary shares of the Company or effect a reduction of the ordinary share capital of the Company which involves a distribution to holders of ordinary shares.

## **6 Rights upon Liquidation**

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its Articles and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital).



Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1,000 per Preference Share, (2) the amount of any Preference Dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any Preference Dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date. In respect of any such Preference Dividend, the amount of Preference Dividend accruing in respect of any such period will be calculated on the same basis as is applicable to calculation of a Preference Dividend accruing on the then-relevant basis. If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any Parity Securities and the 2004 Preference Shares, the holders of the Preference Shares and the holders of such Parity Securities and the 2004 Preference Shares will share rateably in the distribution of surplus assets (if any) of the Company in proportion to the full amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Preference Shares will have no claim on any of the Company's remaining assets and will not be entitled to any further participation in the return of capital. If there is a sale of all or substantially all of the Company's assets, the distribution to the Company's shareholders of all or substantially all of the consideration for the sale, unless the consideration, apart from assumption of liabilities, or the net proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

## **7 Redemption**

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), to the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, upon not less than 30 nor more than 60 days' notice redeem all or some only of the Preference Shares on the First Call Date, and on each Dividend Payment Date thereafter. The Redemption Price shall be paid on each Preference Share so redeemed. In the event that fewer than all the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by the Company by means of a draw at the registered office of the Company, or at any other place which the Board of Directors or the Committee decides on, in the presence of its auditors on such basis as the Board of Directors or the Committee considers appropriate at the time.

If the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a "**Redemption Notice**") to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date; (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid) (iii) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made and (iv) in the case of Preference Shares held in uncertificated form, details of the issuer-instruction to be sent to Euroclear UK & Ireland Limited by the Company requesting the deletion of the relevant entries in CREST relating to the holdings of the Preference Shares concerned. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

Payments in respect of the amount due on redemption of a Preference Share will be made by the same methods as described in "Payment of Dividends". Any such amount which has remained unclaimed for 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

From the Redemption Date, the Preference Dividend will cease to accrue on the Preference Shares being redeemed except on any Preference Share in respect of which payment of the Redemption Price due on the Redemption Date is improperly withheld or refused. In such case, the Preference Dividend will be deemed to have continued and will accordingly continue to accrue at the rate which would have applied but for the redemption, as described under "Payment of

Dividends” above, from the Redemption Date to the actual date of payment of the Redemption Price. Such Preference Share will not be treated as having been redeemed until the Redemption Price, including accrued Preference Dividend, has been paid.

A receipt given by the holder for the time being of any Preference Shares (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Shares will constitute an absolute discharge to the Company.

## **8 Voting**

Subject to the next paragraph immediately below, holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of Shareholders and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind up, or in relation to the winding up of, the Company (and then in each such case only to speak and vote upon any such resolution).

If on the applicable Dividend Payment Date immediately preceding the date of notice of any general meeting of Shareholders, the Preference Dividend on the Preference Shares has not been declared and paid in full, holders of the Preference Shares will be entitled to speak and to vote upon all resolutions proposed at such general meeting. In these circumstances only, the rights of the holders of the Preference Shares so to speak and vote will continue until the Company has resumed the payment in full of Preference Dividends.

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each £0.25 of nominal value of Preference Shares of which he or she is the holder.

Other provisions in the Articles relating to voting rights and procedures also apply to the Preference Shares.

## **9 Purchase of own shares**

Subject to the Articles, the provisions of the Companies Act, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under “Restrictions on Dividends and Redemption” above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares repurchased shall be cancelled by the Company.

## **10 Untraced shareholders**

10.1 The Articles provide that the Company may sell any Preference Shares of a holder of Preference Shares at the best price reasonably obtainable at the time of such sale if and provided that:

- (a) during the period of 12 years prior to the date of the publication of the advertisements referred to in sub-paragraph (b) below (or, if published on different dates, the first thereof) at least three Preference Dividends on the Preference Shares have become payable and no Preference Dividend on those Preference Shares has been claimed;
- (b) the Company shall on expiry of such period of 12 years have inserted advertisements in both a national newspaper and a newspaper circulating in the area of the registered address of the holder of such Preference Shares within the United Kingdom, or (if such holder has no such address) of the address, if any, within the United Kingdom supplied by such holder to the Company for the service of documents giving notice of its intention to sell the Preference Shares; and

- (c) during the period of three months following the publication of such advertisements the Company shall have received no communication from such holder.

10.2 To give effect to any such sale the Company may appoint any person to transfer those Preference Shares, and such transfer shall be as effective as if it had been carried out by the holder of such Preference Shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

10.3 The net proceeds of sale shall belong to the Company which shall be obliged to account to the former holder of such Preference Shares for an amount equal to such proceeds and shall enter the name of such former holder in the books of the Company as a creditor for such amount which shall be a debt of the Company. Any net proceeds of sale unclaimed after a period of 12 years from the date of sale shall be forfeited and shall revert to the Company.

## **11 Form and Denomination**

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value of £0.25 will be credited to the Company's issued share capital account and an amount of £999.75, being the difference between its nominal value and its issue price, will be credited to the Company's share premium account.

The Preference Shares will be issued in registered form. Title to Preference Shares in certificated form will pass by transfer and registration on the register of members of the Company in accordance with the Articles. The Articles provide, amongst other matters, that transfers of the Preference Shares in certificated form must be in writing and are to be effected by an instrument of transfer in the usual standard form or in any other form approved by the Directors. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The Directors may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer is duly stamped and:

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and
- (c) is deposited at the office of the Registrars accompanied by the relevant share certificate(s) and any other evidence which the Directors ask for to provide the entitlement of the person wishing to make the transfer.

Transfers of Preference Shares in uncertificated form must be made using CREST and must comply with the Regulations.

See "Registrar and Paying Agent" below. Any registration of transfer will be effected without charge to the person requesting the exchange or registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

## **12 Variation of Rights**

If applicable law permits, the rights, preferences and privileges attached to Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons at least holding or representing by proxy one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

If the Company has paid the most recent Preference Dividend in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion and whether denominated in sterling or any other currency.

### **13 Notices**

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise. A notice may be given by the Company to any holder of Preference Shares in certificated form by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected on the day after the letter containing the same is posted. Where a holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of Preference Shares by giving the notice to the joint holder first named in the register.

A notice may be given by the Company to the extent permitted by the Companies Act and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notices to holders of the Preference Shares in uncertificated form, including notices for general meetings of holders of Preference Shares, will be published in accordance with the operating procedures for the time being of CREST and the Regulations.

In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

### **14 No Additional Amounts**

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Preference Shares, the Company will not pay additional amounts. As a result, the net amount received from the Company by each holder of a Preference Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or the withholding.

### **15 Governing Law**

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

### **16 Registrar and Paying Agent**

The Company's company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor registrar or paying agent; provided, however, that if, and for so long as, the Preference Shares are listed on the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Regulated Market and the applicable rules so require, the Company shall maintain a paying agent

having its specified office in the United Kingdom. Notice of any change of registrar or agent will be given to holders of the Preference Shares.

## 17 Further Issues

Subject to the provisions set out in “Variation of Rights”, the Company may, at any time and from time to time, and without any consent or sanction of the holders of the Preference Shares, create or issue further preference shares or other share capital ranking equal or junior to the Preference Shares. The creation or issuance of further preference shares or other share capital ranking equally with the Preference Shares will not be deemed to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares. These rights will not be deemed to be varied by any change to the provisions in the Articles, other than a change which would result in any further preference shares or other share capital ranking senior to the Preference Shares. Any further series of preference shares or other share capital ranking equal or junior to the Preference Shares may either carry identical rights in all respects with the Preference Shares (except as regards the date from which such shares rank for dividend) or carry different rights.

## 18 Definitions

“**Applicable Regulatory Capital Requirements**” means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers;

“**Articles**” means the articles of association of the Company;

“**Business Day**” means a day on which banks are open for business in London;

“**Capital Disqualification Event**” shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital for the Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company;

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

“**Companies Act**” means the Companies Act 1985 or the Companies Act 2006 (in each case as amended from time to time);

“**Company**” means Lloyds TSB Group plc;

“**CREST**” means the system for the paperless settlement of trades and holding of uncertificated securities operated by Euroclear UK & Ireland Limited, the operator of CREST (in accordance with the Regulations) (or any successor);

“**Directors**” means the executive and non-executive directors of the Company who make up its board of directors;

“**Distributable Profits**” has the meaning given to it in the Companies Act as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

“**Dividend Determination Date**” means, in relation to each Dividend Period commencing on or after the First Call Date, the first day of such Dividend Period, provided that if the First Call Date is not a Business Day, the Dividend Determination Date in respect of the Dividend Period commencing on the First Call Date shall be the Business Day immediately preceding the First Call Date;

“**Dividend Payment Date**” means (i) [●] and [●] [*the corresponding dates falling in the sixth and twelfth month in each year following the Issue Date*] in each year up to and including the First Call Date, save that the tenth Dividend Payment Date shall fall on the First Call Date and (ii) thereafter, subject to the Modified Following Business Day Convention, [●], [●], [●] and [●] [*the corresponding date falling in the third, sixth, ninth and twelfth month in each year following the First Call Date*] in each year;

“**Dividend Period**” means the period from and including the most recent Dividend Payment Date (or the Issue Date) to but excluding the next proceeding Dividend Payment Date;

“**First Call Date**” means [●] 2013 [*the day falling five years and one day after the Issue Date*];

“**Fixed Rate Calculation Period**” means the period from (and including) the most recent Dividend Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date;



**“Fixed Rate Day Count Fraction”** means the actual number of days in the period from and including the date from which dividends begin to accrue for the relevant Fixed Rate Calculation Period (the “Accrual Date”) to but excluding the date on which it falls due divided by two times the actual number of days from and including the Accrual Date to but excluding the next following Dividend Payment Date;

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

**“in certificated form”** means a share or other security which is not in uncertificated form;

**“Issue Date”** means [●] [*the date of issue of the Preference Shares following the coming into effect of the Preference Scheme*];

**“Junior Share Capital”** means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares);

**“LIBOR”** means, in relation to a Dividend Period, the offered rate for three month deposits in sterling as at 11.00 a.m. London time on the related Dividend Determination Date appearing on the display designated as page “LIBOR01” on the Reuters Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Company;

**“Modified Following Business Day Convention”** means if a Dividend Payment Date falls on a day which is not a Business Day, such Dividend Payment Date shall be postponed to the next day which is a Business Day unless it would fall into the next calendar month in which event such Dividend Payment Date shall be brought forward to the immediately preceding day which is a Business Day;

**“Parity Securities”** means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank *pari passu* with the Preference Shares other than the 2004 Preference Shares;

**“Paying Agent”** means the Company or any other entity appointed by it and notified by the Company to the holders of the Preference Shares to perform the function as Paying Agent in respect of the Preference Shares;

**“Preference Shares”** means the £4,000,000,000 in aggregate value of the 12% Fixed to Floating Non-Cumulative Callable Preference Shares;

**“Redemption Date”** means the date on which the Preference Shares are called for redemption in accordance with paragraph 7 above;

**“Redemption Price”** means the liquidation preference of £1,000 per Preference Share to be redeemed plus the dividend accrued for the Dividend Period in which the Redemption Date falls to, but excluding, the Redemption Date, but only to the extent that any such amount was, or would have been, payable as a cash dividend;

**“Regulations”** means the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in such regulations) (or any successor);

**“Relevant Securities”** means the most senior class or classes of preference shares in the capital of HBOS plc and any other obligations ranked, or expressed to rank, *pari passu* therewith and, in any such case, which are in issue as at the Issue Date and which contain provisions for the payment (or satisfaction) of interest, dividends or other payments but which do not provide for the relevant issuer or guarantor (as the case may be) to defer or cancel any such payment (or satisfaction) at its discretion;

**“Shareholder”** means a holder of the Company’s shares;

**“Stopper Period”** means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or (ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid;

**“uncertificated form”** or **“in uncertificated form”** means, when used in relation to shares, shares recorded on the relevant register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST; and

**“2004 Preference Shares”** means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.

## **PART V**

### **INFORMATION ON THE LLOYDS TSB GROUP**

Information on the Lloyds TSB Group is contained in Part VII (“Information on the Lloyds TSB Group”) of the Share Circular and in the business review at pages 6 to 11 of the Annual Report on Form 20-F, for the year ended 31 December 2007, both of which are incorporated by reference into this document.

Information on current trading, trends and prospects is contained in Part A (“Letter from Sir Victor Blank, the Chairman of Lloyds TSB Group plc”) of Part VI (“Information on the Acquisition”) of the Lloyds TSB Placing and Open Offer Prospectus and in section 7 (“Current Trading, Trends and Prospects”) of Part VII (“Information on the Lloyds TSB Group”) of the Share Circular, both of which are incorporated by reference into this document.

## **PART VI**

### **INFORMATION ON THE HBOS GROUP**

Information on HBOS is contained in the following:

- (a) Part XIII (“HBOS Interim Management Statement 3 November 2008”) of the Share Circular;
- (b) Part X (“Information on the HBOS Group”), Part XVI (“Risk Management”) and Part XXII (“Additional Information”) sections 7, 9, 10 (except 10.7 and 10.8), 11, 12.1, 13, 14.1, 15.1 and 15.2, 16 (first paragraph), 17.1.6, 18.1, 19 (except second to last paragraph), 20, 21 (first paragraph) of the HBOS Placing and Open Offer Prospectus; and
- (c) Section 18 (“Litigation”) of Part XVIII (“Additional Information”) of the HBOS Rights Issue Prospectus.

all of which are incorporated by reference into this document.

## PART VII

### REGULATION AND SUPERVISION IN THE UNITED KINGDOM

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

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

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

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

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

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

#### ***European Commission Directive on Consumer Credit***

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

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

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

#### ***Insurance business supervision***

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

#### ***Financial services supervision***

Aspects of the Lloyds TSB Group's and the HBOS Group's business activities such as advising on, dealing in or managing investments such as bonds, money market derivative products and equities and also the sale of personal financial services and investments, undertaken through bank



branches and other business channels (e.g. telephone and online banking), are regulated by the FSA.

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

### ***Financial Services Compensation Scheme***

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

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

### ***Capital adequacy***

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

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

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

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

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

### ***The Bank of England***

The Bank of England has the task of ensuring stability in the financial markets which it undertakes in co-operation with the FSA. The agreed framework for co-operation in the field of financial stability is set out in detail in the Memorandum of Understanding published jointly by HM Treasury, the FSA and the Bank of England at the end of October 1997 and updated in March 2006. The Bank of England is responsible for the overall stability of the financial system as a whole, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems at home and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FSA's Board.

### ***UK Government***

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

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

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

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

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

Further information relating to the BSP Act and the proposed Banking Bill is set out in section 3.2 of Part III (“Risk Factors”) of this document.

### ***Data protection***

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

### ***Retail Distribution Review***

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

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

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

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

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

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

The Competition Commission is expected to adopt its final report by February 2009. The final report will contain the Competition Commission’s final decision on the competition issues addressed in its provisional findings and the remedies to be adopted to address any adverse competition effects which the report identifies. After adoption of the report, it will be open to the Competition Commission to adopt statutory orders implementing the remedies included in its final report. Whilst the impact of the final remedies as a whole remains uncertain, if the provisional remedies were to

be adopted in any statutory orders this could have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Lloyds TSB Group and the Enlarged Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Lloyds TSB Group or the Enlarged Group, as appropriate, were able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams.

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

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

## **UK Office of Fair Trading**

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

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

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions' terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions' current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 22 May 2008, the Lloyds TSB Group and the HBOS Group along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

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

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the



legal proceedings initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations and any Appeal Court determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

### ***Interchange Fees***

The European Commission has adopted a formal decision finding that an infringement of EC competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (along with certain other MasterCard issuers) have applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with EC competition laws. The European Commission has objected to these proposed interventions. The Court of First Instance has not yet decided whether to allow the proposed interventions to proceed. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. The ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

### ***Personal current accounts***

In April 2007, the OFT launched a market study into personal current accounts which resulted in a report that was published on 16 July 2008. The OFT stated that it had found evidence of competition in the personal current account market. Banks could also demonstrate high consumer satisfaction and low fees on the more visible elements of current accounts – such as withdrawals from ATMs. Internet and telephone banking have also made it easier for consumers to manage their accounts. However, the OFT concluded that the personal current account market as a whole is not working well for consumers. A combination of complexity and a lack of transparency means that consumers and competition are focused almost exclusively on more visible fees and not on the less visible elements, such as insufficient funds charges and foregone interest – despite the fact that these make up the vast bulk of banks' revenues. For insufficient fund charges, this effect is exacerbated by a lack of simple mechanisms to control, or opt out of, an unarranged overdraft. Furthermore, a significant proportion of consumers believe that it is complex and risky to switch accounts, with the result that switching rates are very low.

The OFT invited comments from interested parties, with a deadline for responses of 31 October 2008. It has in particular highlighted the low levels of transparency and switching and complexity of charges as issues upon which it would welcome comments together with potential measures to address those issues. The OFT has indicated that, depending upon the outcome of the consultation, it may publish a further or final report early in 2009. Its objective is to produce recommendations that the banking industry, in consultation with government and other relevant stakeholders, will take forward. Failing resolution of its concerns by that means, the OFT has indicated that it would consider alternative remedies including changes to the Banking Code, recommendations to government or regulatory bodies or a market reference to the Competition Commission.

### ***Continuing review of certain markets***

In the Secretary of State's announcement on 31 October 2008 that the Acquisition would not be referred to the Competition Commission (noted in section 2.4 of Part III ("Risk Factors")), he said that, in view of the fact that there were some concerns about the possible effects of the Acquisition on competition, he was asking the OFT to keep the relevant markets under review in order to protect the interests of UK consumers and the British economy.

The concerns to which the Secretary of State referred are identified in the OFT's report to him on the effects of the Acquisition on competition. The OFT's concerns relate to three markets, namely personal current accounts, SME banking (primarily in Scotland) and mortgages. The OFT stated



that it was not required to reach a definite conclusion as to the competitive effects of the Acquisition. Rather, it was only required to conclude whether the test for reference of the Acquisition to the Competition Commission was satisfied. Applying that test, the OFT concluded that it believed there to be a realistic prospect that the Acquisition may give rise to a substantial lessening of competition in the three markets identified. It was by no means a foregone conclusion, the OFT said, that, in the event of a reference, the Competition Commission would find that, on a balance of probabilities, the Acquisition would give rise to a substantial lessening of competition in any of those markets.

In relation to the personal current account market, the OFT's assessment follows closely the analysis and conclusions in the market study that it published in July 2008 (see preceding section). In the context of a market that, in the OFT's opinion, is not working well for consumers, the OFT said that there was a realistic prospect that, by reason of the Enlarged Group's greater market share, it would have a lesser incentive to reduce prices or raise standards of quality and service to established customers.

In relation to SME banking, the OFT's assessment mirrored that applied to the personal current account market. It was particularly concerned about the possible effects of the Acquisition in Scotland where the Enlarged Group and Royal Bank of Scotland plc would together account for a substantial proportion of SME banking. The OFT also said that it could not exclude the risk of adverse effects in other local markets.

In relation to mortgages, the OFT said that its concerns were more marginal. Prior investigations (notably the Competition Commission's investigation of Lloyds TSB's proposed acquisition of Abbey National in 2001) had concluded that the mortgage market was competitive. However, the OFT observed that, under current conditions, the mortgage market may be tighter than it was with higher barriers to entry and greater obstacles to customer switching: under such conditions, the combination of the largest and third largest mortgage providers was significant enough to cause concern.

The OFT also assessed the impact of the Acquisition on other markets (wealth management savings, personal loans, credit cards, pensions, banking services to large corporations, treasury and capital markets, asset finance/fleet car hire, life insurance and general insurance) and concluded that it did not raise competition concerns in any of those markets. The market for payment protection insurance is currently under investigation by the Competition Commission which has proposed a number of possible remedies to address adverse effects on competition that it has identified in the market: the OFT concluded that, given the present factual situation and the uncertain effect of the Competition Commission's possible remedies, it could not be said that there was a reasonable prospect that the Acquisition would result in a substantial lessening of competition in that market.

The OFT has not yet indicated what steps it will take to keep the relevant markets under review. In relation to personal current accounts, however, it is to be expected that those steps will consist of a continuation of the process initiated by the market study (discussed above).

### ***The European Commission***

On 10 January 2007, the European Commission published the Final Report of its sector inquiry into European retail banking markets covering payment cards and (non-card) payment systems and current accounts and related services. The Commission found that markets were fragmented along national lines, limiting consumer choice and leading to higher costs for current accounts, loans or payments. High degrees of variation of prices, profit margins and selling patterns between Member States and high degrees of homogeneity within Member States were found to be indicative of persisting regulatory or behavioural barriers to competition.

The Final Report identified competition concerns in several areas of retail banking, including:

- the combination of sustained high profitability, high market concentration and evidence of entry barriers in some Member States raise concerns about banks' ability to influence the level of prices for consumers and small firms;
- large variations in merchant and interchange fees between banks across the EU may indicate competition barriers;
- the existence of high joining fee for payment cards, co-branding, surcharging and the practice of "blending" card fees where a retailer is charged the same merchant fee irrespective of the different costs of card types;

- some credit registers, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets;
- some aspects of co-operation among banks, including savings and co-operative banks, can reduce competition and deter market entry;
- product tying by banks is widespread in Member States and can reduce consumer choice and increase banks' power in the market place to influence prices; and
- obstacles to customer mobility in banking, notably the inconvenience of changing a current account, are high.

Some of these concerns have already been addressed, at least in part. For example, following the interim report being published, the Commission met with Austrian banks who agreed to review arrangements for setting interchange fees and announced that a reduction can be expected. In Portugal, issuers and acquirers have met some of the concerns raised in the report by reducing domestic interchange fees and removing preferential bilateral domestic interchange fees. The establishment of a Single Euro Payments Area ("SEPA") is also seen as a method of remedying some of the competition concerns raised in the report. Since 1 January 2008, banks have been able to make the first SEPA products available and are aiming to make SEPA a reality for all customers by the end of 2010.

The Final Report also listed the following specific areas where enforcement action by the European Commission and the national competition authorities is appropriate:

- high interchange fees and merchant fees in some payment card networks;
- access barriers and discriminatory rules in relation to credit registers;
- tying of products by some banks; and
- bank co-operation (in respect to which the Commission indicated that it intended to gather more information before acting).

Since the Final Report was published, the Commission has adopted three decisions affecting payment card services. On 3 October 2007, the Commission fined Visa International and Visa Europe €10.2 million for refusing to admit Morgan Stanley as a member from March 2000 to September 2006. In a decision of 17 October 2008, the Commission concluded that the Groupement des Cartes Bancaires infringed Article 81 of the Treaty by adopting price measures hindering the issuing of cards in France at competitive rates by certain member banks, thereby keeping the price of payment cards artificially high and thus favouring the major French banks. On 19 December 2007, the Commission adopted a decision prohibiting MasterCard's multilateral interchange fees for cross-border card payments with MasterCard and Maestro consumer credit and debit cards between Member States of the European Economic Area (intra-EEA MIFs).

In addition, a number of EU directives, including the Unfair Commercial Practices Directive, Acquisitions Directive and the Payment Services Directive are currently being implemented in the UK. The EU is also considering regulatory proposals for, *inter alia*, Consumer Credit, Mortgage Credit, Single European Payments Area, Retail Financial Services Review and capital adequacy requirements for insurance companies (Solvency II).

### ***International Regulation***

Certain entities within the Lloyds TSB Group and the HBOS Group are also subject to the supervision of international regulators, including the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and various state regulators in the United States, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority in Australia, the Irish Financial Regulator in the Republic of Ireland and the Irish Financial Regulator and the FSA in Northern Ireland.

### ***Recapitalisation of financial institutions***

The global financial system has recently experienced an unprecedented degree of volatility. The UK Government has announced recently a package of measures to address the current instability in the financial markets, which include a recapitalisation scheme for the UK banking sector. As part of the recapitalisation scheme, HM Treasury is underwriting, and may acquire, a significant shareholding in certain financial institutions issued under placings and open offers. HM Treasury has announced that its intention is to return to the private sector its holdings in the financial institutions participating in the recapitalisation scheme as soon as feasibly possible. The New HM Treasury Preference Shares are being issued by the Company to HM Treasury as part of the recapitalisation scheme.

## PART VIII

### HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS TSB

#### Part A – Audited Financial Information

##### 1 Basis of Financial Information

The financial statements of Lloyds TSB included in the consolidated audited Annual Report and Accounts of Lloyds TSB for the financial years ended 31 December 2007 (and also included in the Annual Report on Form 20-F for the year ended 31 December 2007), 2006 and 2005, together with the audit reports, are incorporated by reference into this document. The audit reports for the financial years ended 31 December 2007, 2006 and 2005 were unqualified. The financial statements for the years ended 2007, 2006 and 2005 were prepared in accordance with IFRS.

##### 2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

##### 2.1 Financial Statements for the year ended 31 December 2007 (on Form 20-F) and Independent Audit Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of Lloyds TSB for the financial year ended 31 December 2007 on Form 20-F:

- Independent Auditors' Report – page F-2.
- Consolidated Income Statement – page F-3;
- Consolidated Balance Sheet – pages F-4 to F-5;
- Consolidated Statement of Changes in Equity – page F-6;
- Consolidated Cash Flow Statement – page F-7; and
- Notes to the Group Accounts – pages F-8 to F-77.

##### 2.2 Financial Statements for the year ended 31 December 2007 and Independent Audit Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of Lloyds TSB for the financial year ended 31 December 2007:

- Independent Auditors' Report – page 76;
- Consolidated Income Statement – page 77;
- Consolidated Balance Sheet – pages 78 to 79;
- Consolidated Statement of Changes in Equity – page 80;
- Consolidated Cash Flow Statement – page 81; and
- Notes to the Group Accounts – pages 82 to 147.

##### 2.3 Financial Statements for the year ended 31 December 2006 and Independent Audit Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of Lloyds TSB for the financial year ended 31 December 2006:

- Independent Auditors' Report – page 62;
- Consolidated Income Statement – page 63;
- Consolidated Balance Sheet – pages 64 to 65;
- Consolidated Statement of Changes in Equity – page 66;
- Consolidated Cash Flow Statement – page 67; and
- Notes to the Group Accounts – pages 68 to 120.

## **2.4 Financial Statements for the year ended 31 December 2005 and Independent Audit Report thereon**

The page numbers below refer to the relevant pages of the Annual Report and Accounts of Lloyds TSB for the financial year ended 31 December 2005:

- Independent Auditors Report – page 58;
- Consolidated Income Statement – page 59;
- Consolidated Balance Sheet – pages 60 to 61;
- Consolidated Statement of Changes in Equity – page 62;
- Consolidated Cash Flow Statement – page 63; and
- Notes to the Group Accounts – pages 64 to 120.

## **PART VIII**

### **HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS TSB**

#### **Part B – Unaudited Interim Information**

##### **1 Basis of Financial information**

The financial statements of Lloyds TSB included in the unaudited interim financial information for the six months ended 30 June 2008, submitted to the SEC under cover of Form 6-K, are incorporated by reference into this document. These interim financial statements were prepared in accordance with IFRS.

##### **2 Cross Reference List**

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

##### **2.1 Interim Financial Statements for the half year ended 30 June 2008**

The page numbers below refer to the relevant pages of the 2008 Lloyds TSB Interim Results for the half year ended 30 June 2008:

- Consolidated Income Statement – page 30;
- Consolidated Balance Sheet – page 31;
- Consolidated Statement of Changes in Equity – pages 32 to 33;
- Consolidated Cash Flow Statement – page 34;
- Notes to Condensed Interim Financial Statements – pages 35 to 45; and
- Independent Review Report – page 47.

The Interim Financial Statements for the half year ended 30 June 2008 include comparative financial information for the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the Half Year ended 30 June 2007.



## **PART IX**

### **OPERATING AND FINANCIAL REVIEW RELATING TO LLOYDS TSB**

The Operating and Financial Review of Lloyds TSB Group for the period 1 January 2005 to 31 December 2007 can be found on pages 3, and 15 to 74 of the Annual Report for 2007, and on Form 20-F, which is incorporated by reference into this document. The Operating and Financial Review of Lloyds TSB Group for the six months ended 30 June 2008 compared with the six months ended 30 June 2007 is contained in the section entitled "Overview and Trend Information" of Part XIII ("Operating and Financial Review Relating to Lloyds TSB") of the Lloyds TSB Placing and Open Offer Prospectus, which is incorporated by reference into this document.

Part VI ("Information on the Acquisition") of the Lloyds TSB Placing and Open Offer Prospectus, as incorporated by reference herein, contains a business overview, a list of examples of current projects and an overview of current trading, trends and prospects. Part VIII of this document contains and incorporates by reference selected historical financial information in respect of the years ended 31 December 2007, 2006 and 2005 and for the six month periods ended 30 June 2008 and 30 June 2007. This Part IX should be read in conjunction with the information contained in and incorporated by reference into Part VI ("Information on the Acquisition") of the Lloyds TSB Placing and Open Offer Prospectus and Part VIII ("Historical Information Relating to Lloyds TSB") hereof.

The results discussed in this Part IX are not necessarily indicative of Lloyds TSB Group's or the Enlarged Group's results or financial condition in future periods. The information in this Part IX contains certain forward-looking statements. For a discussion of certain cautionary statements relating to forward looking statements, see "Forward-Looking Statements" in the section entitled "Presentation of Information and General Information" of this document.

The Operating and Financial Review relating to Lloyds TSB as incorporated by reference herein is based on and should be read in conjunction with the consolidated financial statements for the years ended 31 December 2007, 2006 and 2005 and the related notes thereto and the unaudited interim financial statements for the six months ended 30 June 2007 and 30 June 2008 which are incorporated herein by reference. The accounting policies used in the preparation of the consolidated financial statements are described in note 1 to the consolidated financial statements for the years ended 31 December 2007, 2006 and 2005.

Additional information relating to the Operating and Financial Review of Lloyds TSB Group is set out in Part XIII ("Operating and Financial Review Relating to Lloyds TSB") of the Lloyds TSB Placing and Offer Prospectus, which is incorporated by reference into this document.

## PART X

### CAPITAL RESOURCES – LLOYDS TSB GROUP

#### 1 Overview

Capital risk is defined as the risk that the Lloyds TSB Group has insufficient capital to absorb any losses or that the capital structure is inefficient. An exposure would arise if the Lloyds TSB Group had insufficient regulatory capital resources to support its strategic objectives and plans, or to meet external stakeholder requirements and expectations.

Liquidity risk is defined as the risk that the Lloyds TSB Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. Funding risk is further defined as the risk that the Lloyds TSB Group does not have sufficiently stable and diverse sources of funding or that funding structure is inefficient. An exposure would arise if the amount of potential outflows in any future period less committed inflows in that period is such that the Lloyds TSB Group is unable to meet its financial obligations as they fall due, or can meet them by securing funds only at excessive cost.

#### 2 Capital Arrangements

The effective management of capital and risk remains central to Lloyds TSB's strategy. Lloyds TSB continues to be focused on the maintenance of a strong capital base, to ensure this base expands appropriately and to utilise capital efficiently throughout Lloyds TSB's activities to both maintain a prudent relationship between the capital base and the underlying risks of the business and also optimise returns to shareholders. It is intended that this same approach will apply in the Enlarged Group. In the pursuit of this focused approach to capital and risk management, Lloyds TSB follows the supervisory requirements of the FSA. During 2008, the key focus of capital adequacy has shifted to the ratio of core Tier 1 capital to risk-weighted assets. At 30 June 2008 Lloyds TSB had a core Tier 1 ratio of 6.2 per cent.

In the context of continued turbulence and uncertainty in financial markets, combined with the deteriorating global economic outlook, the Lloyds TSB Board believes it is essential to maintain higher levels of capital in order to ensure the Enlarged Group remains resilient to any further shocks to the financial system and that it remains competitive. Upon completion of the Placing and Open Offer, Lloyds TSB will issue approximately 2.6 billion Open Offer Shares in accordance with the terms of the Placing and Open Offer Agreement and HBOS will issue approximately 7.5 billion HBOS Open Offer Shares in accordance with the terms of the HBOS Placing and Open Offer Agreement (which will as a result of the Acquisition be exchanged into approximately 4.5 billion Lloyds TSB Shares), raising in aggregate approximately £13 billion. The fair value of these new shares is £11.8 billion based on the Closing Price of the Lloyds TSB Shares of 166.0 pence per share on 14 November 2008, the last practicable date prior to the date of this document. Upon completion of the Acquisition and the Placing and Open Offer, Lloyds TSB will also issue 1 million New HM Treasury Preference Shares with an aggregate liquidation preference of £1 billion to HM Treasury in accordance with the terms of the Preference Share Subscription Agreement, and HBOS will issue 3 million HBOS HMT Preference Shares with an aggregate liquidation preference of £3 billion to HM Treasury in accordance with the terms of the HBOS Preference Share Subscription Agreement, such issues raising in aggregate approximately £4 billion. Based on published information at 30 June 2008, and taking into account Lloyds TSB's equity placing completed on 19 September 2008, the Placing and Open Offer, HBOS' rights issue announced on 29 April 2008 and the HBOS Placing and Open Offer, Lloyds TSB estimates that the Enlarged Group would have had a core Tier 1 ratio of 8.8 per cent. at 30 June 2008. Lloyds TSB has made a preliminary assessment that net negative capital adjustments of no more than £10 billion after tax would need to be made to HBOS' financial position for core Tier 1 capital purposes as a result of the Acquisition, the effect of which would mean that the Enlarged Group would have a core Tier 1 ratio in excess of 7 per cent.

#### 3 Liquidity and Funding Arrangements

Within Lloyds TSB, the liquidity management framework focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the maturity mismatch of assets and liabilities across the balance sheet, as well as from undrawn commitments and other contingent obligations. The aim of Lloyds TSB's balance sheet structure management is to

maintain substantial diversification, minimise concentration across Lloyds TSB's various deposit sources and control the level of reliance on total short-term wholesale sources of funds (both secured and unsecured). As part of Lloyds TSB's planning process, it regularly reviews the forecast structure of its balance sheet over the planning period, and updates the funding plan as appropriate. In addition, Lloyds TSB continuously monitors the level of large deposits taken from individual bank, corporate, non-bank financial institution and other customer types and also reviews the significant cash outflows therefrom to monitor concentration and trends. Lloyds TSB operates within the context of a full suite of liquidity metrics to ensure that the Lloyds TSB Group is within the liquidity risk appetite set by the Lloyds TSB Board.

During 2008, global financial markets have experienced extremely turbulent conditions. As a consequence of this, governments and central banks have undertaken a series of escalating actions in an attempt to improve liquidity within their respective banking systems. In September and October, the Bank of England, the European Central Bank and the US Federal Reserve announced a number of new mechanisms and tools for the provision of liquidity to banks in their respective jurisdictions, including those in which Lloyds TSB and HBOS operate. Such measures include weekly and longer term repurchase agreements, expanding the types of collateral accepted by these central banks as security for funding; and co-ordinating global action to strengthen the banking system and functioning of the interbank markets. On 8 October 2008, the UK Government announced a broad range of measures intended to ease both the cause and the symptoms of the current difficulties in the UK banking system, including the provision of liquidity and funding support to banks. This currently consists of the Special Liquidity Scheme, whereby banks and building societies can exchange eligible securities for UK Treasury bills; and a guarantee on short and medium term debt issuance by HM Treasury.

However, there can be no assurance that these global measures will succeed in improving the funding and liquidity of the markets in which the major banks, including Lloyds TSB and HBOS, operate. Lloyds TSB believes the Enlarged Group remains relatively well positioned to access a number of wholesale funding sources from a range of counterparties, markets, sectors and geographical markets. However, despite the relatively advantageous situation enjoyed by the Enlarged Group, the uncertainty facing the markets is such that management believe that no institution is immune from the effects of an extended closure of the wholesale markets without the support of the central bank and/or government. It is likely that in this context, the Enlarged Group will continue to draw on the Special Liquidity Scheme, and will take advantage of the guaranteed funding provided by HM Treasury. See Part III ("Risk Factors"), section 1.5, "The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks concerning liquidity, particularly if current market conditions continue to reduce the availability of traditional sources of funding or the access to wholesale money markets becomes more limited, which could affect the Lloyds TSB Group's and the Enlarged Group's ability to meet its financial obligations as they fall due".

As discussed above, the global markets for short, medium, and long term sources of funding on which banks rely to support their business activities have undergone a period of unprecedented upheaval and contraction, which has led to direct intervention by HM Treasury (via the introduction of the government guarantee scheme for senior funding) and the Bank of England (via the extended Long Term Repo facility, and the new Discount Window facility) in order to provide further assurance of liquidity support for the markets. The Enlarged Group is eligible to participate in the schemes, and will use these tools as appropriate in future liquidity and funding management, particularly in an environment as currently experienced.

Further disclosures about the Lloyds TSB Group's management of capital and liquidity resources are set out in the 2007 Annual Report on Form 20-F on pages 62-74 and note 18 to the Interim Results for the six months ended 30 June 2008, all of which are incorporated by reference into this document.

#### **4 Capitalisation and Indebtedness**

The capitalisation and indebtedness of Lloyds TSB Group as at 30 June 2008 is shown in the table below and the Lloyds TSB Group's total indebtedness as at 30 September 2008 is disclosed in note 7 to the table.

The figures below show the unaudited external capitalisation and financial indebtedness of the Lloyds TSB Group and exclude balances between entities that comprise the Lloyds TSB Group.

	<i>30 June 2008</i>
<b>Share capital – authorised</b>	
<b>Sterling</b>	
Ordinary shares of 25p each	1,728
Limited voting ordinary shares of 25p each	20
Preference shares of 25p each	44
	1,792
	1,792
<b>US dollars</b>	
Preference shares of 25 cents each	US\$40m
<b>Euro</b>	
Preference shares of 25 cents each	€40m
<b>Japanese yen</b>	
Preference shares of ¥25 each	¥1,250m
	<i>£m</i>
<b>Share capital – allotted, called up and fully paid</b>	
Ordinary shares of 25p each	1,421
Limited voting shares of 25p each	20
	1,441
<b>Reserves</b>	
	9,356
	10,797
	10,797
<b>Group indebtedness</b>	
<b>Subordinated liabilities</b>	
Preferred securities	4,078
Undated subordinated liabilities	4,926
Dated subordinated liabilities	5,690
	14,694
<b>Total subordinated liabilities</b>	
	14,694
<b>Debt securities</b>	
Debt securities in issue	58,437
Liabilities held at fair value through profit or loss (debt securities)	3,553
	61,990
<b>Total debt securities</b>	
	61,990
<b>Total indebtedness</b>	
	76,684
<b>Total capitalisation and indebtedness</b>	
	87,481

Notes:

- (1) As at 30 June 2008, the Lloyds TSB Group had in issue 400 6 per cent. non-cumulative redeemable preference shares of 25 pence each, 600,000 fixed/floating rate non-cumulative callable preference shares of 25 pence each and 1,000,000 fixed/floating rate non-cumulative callable preference shares of 25 cents each. In accordance with IFRS, these shares are reported within liabilities; they are included within the preferred securities amount under subordinated liabilities above.
- (2) As at 30 June 2008, the Lloyds TSB Group had total liabilities and equity of £367.8 billion, including deposits from banks of £40.2 billion and customer accounts of £162.1 billion.
- (3) All of the indebtedness at 30 June 2008, except for £20.9 billion of debt securities in issue, is unsecured.
- (4) None of the indebtedness described above or below is guaranteed.
- (5) As at 30 June 2008 the Lloyds TSB Group had contingent liabilities arising in the normal course of business totalling £3.9 billion. No account has been taken of intra-group guarantees.
- (6) The Lloyds TSB Group has not issued any new subordinated liabilities in the three months to 30 September 2008; during this period, the Lloyds TSB Group redeemed its 5.25 per cent. Subordinated Notes 2008, which had a balance sheet value at 30 June 2008 of £304 million, on maturity. In the three months to 30 September 2008, there was a net reduction of £2,157 million in the balance sheet carrying value of the Lloyds TSB Group's debt securities.

- (7) At 30 September 2008, the Lloyds TSB Group's total indebtedness was £74.7 billion (debt securities in issue: £56.2 billion; debt securities held at fair value through profit or loss: £3.6 billion; subordinated liabilities: £14.9 billion).
- (8) Save as disclosed above and for the placement of 284,400,000 Lloyds TSB Shares for 270p each on 19 September 2008, there has been no material change in total capitalisation and indebtedness of the Lloyds TSB Group since 30 June 2008.

As at 3 November 2008, the Lloyds TSB Group's wholesale funding maturity profile was at a similar level to twelve months ago.

## 5 Cash Flow Analysis

The following table shows the cash flow analysis of the Lloyds TSB Group for the years ended 31 December 2007, 2006 and 2005 and the six months ended 30 June 2008. The figures have been extracted from Lloyds TSB's audited consolidated cash flow statement for the year ended 31 December 2007 and the Lloyds TSB Interim Results without material adjustment.

	<i>unaudited</i> 30 June 2008*	2007	2006	2005
	(£ million)			
Profit before tax	599	4,000	4,248	3,820
Adjustments for:				
Change in operating assets	(16,664)	(16,982)	(31,995)	(17,158)
Change in operating liabilities	15,042	21,541	33,069	10,037
Non-cash and other items	(1,535)	2,784	1,555	4,364
Tax paid	(531)	(859)	(798)	(708)
<b>Net cash provided by operating activities</b>	<b>(3,089)</b>	<b>10,484</b>	<b>6,079</b>	<b>355</b>
<b>Net cash used in investing activities</b>	<b>(5,268)</b>	<b>(1,083)</b>	<b>(4,893)</b>	<b>(643)</b>
Dividends paid to equity shareholders	(1,394)	(1,957)	(1,919)	(1,914)
Dividends paid to minority interests	(10)	(19)	(32)	(37)
Interest paid on subordinated liabilities	(321)	(709)	(713)	(668)
Proceeds from issuance of subordinated liabilities	2,551	—	1,116	1,361
Proceeds from issue of ordinary shares	107	35	105	26
Repayment of subordinated liabilities	—	(300)	(759)	(232)
Capital invested by minority shareholders	—	—	—	329
Repayment of capital to minority shareholders	(2)	(80)	(151)	—
<b>Net cash from/(used in) financing activities</b>	<b>931</b>	<b>(3,030)</b>	<b>(2,353)</b>	<b>(1,135)</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>180</b>	<b>82</b>	<b>(148)</b>	<b>(20)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(7,246)</b>	<b>6,453</b>	<b>(1,315)</b>	<b>(1,443)</b>

Net cash provided by operating activities is primarily derived from the principal revenue generating activities of the Group, such as net interest income received and operating costs paid. Cash flow from operating activities includes the effects of changes in operating assets, changes in operating liabilities and adjustments to profit before tax for non-cash items.

Net cash used in investing activities represents monies spent on and proceeds from the sale of fixed assets and investment securities.

Net cash from (used in) financing activities includes cash flows associated with the raising and repayment of subordinated debt, as well as the cash proceeds from shares issued and cash paid in dividends to equity and minority shareholders.

Effects of exchange rate changes on cash and cash equivalents shows the translation differences in respect of non-sterling balances.

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts from banks with a maturity of three months or less.



The following tables provide further information from the Lloyds TSB Group's cash flow statement for the six months ended 30 June 2008 with regard to change in operating assets, change in operating liabilities, non-cash and other items, analysis of cash and cash equivalents as shown in the balance sheet, analysis of changes in financing during the period and acquisition of group undertakings and businesses.

#### Change in operating assets

	<i>£m</i>
Change in loans and advances to banks	(952)
Change in loans and advances to customers	(19,633)
Change in derivative financial instruments, trading and other financial assets at fair value through profit or loss	4,863
Change in other operating assets	(942)
Change in operating assets	<u>(16,664)</u>

#### Change in operating liabilities

	<i>£m</i>
Change in deposits from banks	659
Change in customer accounts	5,398
Change in debt securities in issue	6,828
Change in derivative financial instruments, trading and other liabilities at fair value through profit or loss	2,704
Change in investment contract liabilities	(912)
Change in other operating liabilities	365
Change in operating liabilities	<u>15,042</u>

#### Non-cash and other items

	<i>£m</i>
Depreciation and amortization	325
Revaluation of investment property	334
Allowance for loan losses	1,041
Write-off of allowance for loan losses	(817)
Impairment of available-for-sale securities	62
Insurance claims	(1,344)
Insurance claims paid	(1,060)
Provision in respect of historic US dollar payments	180
Customer remediation paid	(6)
Other provision movements	3
Net charge in respect of defined benefit schemes	82
Contributions to defined benefit schemes	(301)
Other non-cash items	(418)
Total non-cash items	<u>(1,919)</u>
Interest expense on subordinated liabilities	410
Other	(26)
Total other items	<u>384</u>
Non-cash and other items	<u>(1,535)</u>

#### Analysis of cash and cash equivalents as shown in the balance sheet

	<i>£m</i>
Cash and balances with central banks	3,616
Less: mandatory reserve deposits <sup>(1)</sup>	(261)
	<u>3,355</u>

	<i>£m</i>
Loans and advances to banks	29,319
Less: amounts with a maturity of three months or more	(8,029)
	<u>21,290</u>
Total cash and cash equivalents	<u><u>24,645</u></u>

Note:

(1) Mandatory reserve deposits are held with local central banks in accordance with statutory requirements, these deposits are not available to finance the Lloyds TSB Group's day-to-day operations.

Included within cash and cash equivalents at 30 June 2008 is £9,026 million held within the Lloyds TSB Group's life funds, which is not immediately available for use in the business.

### Analysis of changes in financing during the period

	<i>£m</i>
Share capital (including share premium account):	
At 1 January	2,730
Issue of share capital	107
	<u>2,837</u>
At 30 June	<u><u>2,837</u></u>

	<i>£m</i>
Minority interests: At 1 January	284
Repayment of capital to minority shareholders	(2)
Minority share of profit after tax	12
Dividends to minority shareholders	(10)
	<u>284</u>
At 30 June	<u><u>284</u></u>

	<i>£m</i>
Subordinated liabilities:	
At 1 January	11,958
Exchange and other adjustments	185
Issue of subordinated liabilities	2,551
	<u>14,694</u>
At 30 June	<u><u>14,694</u></u>

### Acquisition of group undertakings and businesses

	<i>£m</i>
Payments to former members of Scottish Widows Fund and Life Assurance Society acquired during 2000	<u>1</u>

## PART XI

### HISTORICAL FINANCIAL INFORMATION RELATING TO HBOS

#### Part A: Audited Financial Information

##### 1 Basis of Financial Information

The financial statements of HBOS included in the consolidated audited annual report and accounts of HBOS for the financial years ended 31 December 2007, 2006 and 2005, together with the audit reports thereon, are incorporated by reference into this document. The audit reports for each of the financial years ended 31 December 2007, 2006 and 2005 were unqualified. The financial statements for the years ended 31 December 2007, 2006 and 2005 were prepared in accordance with IFRS.

##### 2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

##### 2.1 Financial Statements for the year ended 31 December 2007 and Independent Audit Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of HBOS for the financial year ended 31 December 2007:

- Independent Auditors' Report – page 152;
- Consolidated Income Statement – page 153;
- Consolidated Balance Sheet – pages 154 to 155;
- Consolidated Statement of Recognised Income and Expense – page 156;
- Consolidated Cash Flow Statement – pages 156 to 157; and
- Notes to the Financial Statements – pages 160 to 223.

##### 2.2 Financial Statements for the year ended 31 December 2006 and Independent Audit Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of HBOS for the financial year ended 31 December 2006:

- Independent Auditors' Report – page 123;
- Consolidated Income Statement – page 124;
- Consolidated Balance Sheet – pages 125 to 126;
- Consolidated Statement of Recognised Income and Expense – page 127;
- Consolidated Cash Flow Statement – pages 127 to 128; and
- Notes to the Accounts – pages 131 to 191.

##### 2.3 Financial Statements for the year ended 31 December 2005 and Independent Audit Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of HBOS for the financial year ended 31 December 2005:

- Independent Auditors' Report – page 95;
- Consolidated Income Statement – page 101;
- Consolidated Balance Sheet – pages 102 to 103;
- Consolidated Statement of Recognised Income and Expense – page 105;
- Consolidated Cash Flow Statement – pages 106 to 107; and
- Notes to the Accounts – pages 109 to 179.

## **PART XI**

### **HISTORICAL FINANCIAL INFORMATION RELATING TO HBOS**

#### **Part B: Unaudited Interim Information**

##### **1 Basis of Financial Information**

The financial statements of HBOS included in the unaudited HBOS Interim Results for the six months ended 30 June 2008 are incorporated by reference into this document. These results were prepared in accordance with IFRS.

##### **2 Cross Reference List**

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

##### **Financial Statements for the Half Year ended 30 June 2008**

The page numbers below refer to the relevant pages of the 2008 HBOS Interim Results for the Half Year ended 30 June 2008:

- Consolidated Income Statement – page 76;
- Consolidated Balance Sheet – page 77;
- Consolidated Statement of Recognised Income and Expense – page 78;
- Consolidated Cash Flow Statement – pages 79 to 80;
- Notes to the Condensed Financial Statements – pages 81 to 94; and
- Independent Review Report – page 95.

The Interim Financial Statements for the half year ended 30 June 2008 include comparative financial information for the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Recognised Income and Expense and Consolidated Cash Flow Statement for the Half Year ended 30 June 2007.

## **PART XII**

### **OPERATING AND FINANCIAL REVIEW RELATING TO HBOS**

A review of the HBOS Group's financial condition and operating results for the financial years ended 31 December 2007, 2006 and 2005 can be found on pages 73 to 116 of the HBOS Rights Issue Prospectus which is incorporated by reference herein.

A review of the HBOS Group's financial condition and operating results for the financial period ended 30 June 2008 can be found on pages 83 to 128 of the HBOS Placing and Open Offer Prospectus which is incorporated by reference herein.

Statistical and other information relating to the HBOS Group, including relating to such matters as the HBOS Group's loan portfolio, lending concentrations, securities portfolio, deposits, capital adequacy and geographical regions of HBOS Group business, can be found on pages 117 to 121 of the HBOS Rights Issue Prospectus which is incorporated by reference herein.



## **PART XIII**

### **CAPITAL RESOURCES – ENLARGED GROUP**

Following completion of the Acquisition the Enlarged Group would continue to manage its capital resources to seek to meet regulatory capital requirements both of the lead regulators as well as to ensure group entities, that are subject to local capital adequacy regulation in individual countries, meet their minimum capital requirements.

Liquidity risk management will, within the context of the current uncertainty facing the markets continue to address the management of day-to-day liquidity within specified parameters to seek to ensure all liabilities can be met on a timely basis and that in the event of either a firm-specific or general market event, the Enlarged Group is able to generate sufficient liquidity to withstand a short term liquidity crisis.

Capital and funding markets will be accessed as and when appropriate to meet these requirements. The capital and funding requirements will be assessed based on the Enlarged Group's budgeting and planning processes, including capital and funding plans. The plans will be prepared to an appropriate level of frequency and subject to review by the Enlarged Group's Asset and Liability committee. Monitoring of key ratios and measures will be undertaken to an appropriate level of frequency.

At the board level minimum control requirements for capital and liquidity risk management will be updated for the Enlarged Group, and risk control frameworks and policy structure will ensure that capital and liquidity risks are managed in accordance with these requirements.

The specific capital and liquidity management policies and processes will be reviewed upon completion of the Acquisition to ensure a consistent approach is taken across the whole group. Existing processes will continue to apply pending the outcome of such a review.

## **PART XIV**

### **RECONCILIATION OF ACCOUNTING POLICIES**

Reconciliations of the HBOS Group's financial information to IFRS as applied by the Lloyds TSB Group, together with the report thereon from PricewaterhouseCoopers LLP dated 3 November 2008, are contained in Part X ("Reconciliation of Accounting Policies") of the Share Circular, which is incorporated by reference into this document.

## **PART XV**

### **UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE ENLARGED GROUP AS AT 30 JUNE 2008**

The unaudited pro-forma statement of net assets of the Enlarged Group as at 30 June 2008 is contained in Part XVIII ("Unaudited Pro Forma Net Assets Statement of the Enlarged Group as at 30 June 2008") of the Lloyds Placing and Open Offer Prospectus, which is incorporated by reference into this document.

## PART XVI

### UNITED KINGDOM TAXATION

*The following, which is intended as a general guide only and not a substitute for detailed tax advice, is based on current United Kingdom legislation and on what is understood to be current HMRC practice at the date of this document. It summarises certain limited aspects of the current United Kingdom taxation treatment of the Preference Shares. It is not exhaustive. It relates only to the position of persons who are resident and, in the case of individuals, ordinarily resident and domiciled in the UK for UK tax purposes (unless otherwise stated), who hold the Preference Shares as investments (other than through an individual savings account) and who are the absolute beneficial owners of the Preference Shares. The statements may not apply to certain classes of holders, such as dealers in securities, insurance companies, collective investment schemes and persons who acquire (or are deemed to acquire) their Preference Shares by reason of their or another's office or employment. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.*

#### **Taxation of dividends**

The Company is not required to withhold any amounts in respect of tax at source when paying a dividend.

A shareholder who is an individual and who receives a dividend on the Preference Shares will be entitled to a tax credit equal to one-ninth of the dividend. The individual will be taxable on the total of the dividend and the related tax credit (the "gross dividend"), which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the gross dividend, unless and except to the extent that the gross dividend falls above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the gross dividend calculated at 32.5 per cent. of the gross dividend less the related tax credit. Therefore, for example, a dividend of £90 will carry a tax credit of £10 and the income tax payable on the dividend by an individual liable to income tax at the higher rate would be 32.5 per cent. of £100, namely £32.50 less the tax credit of £10, leaving a net tax charge of £22.50.

A corporate shareholder resident for tax purposes in the United Kingdom will not generally be taxable on any dividend it receives on the New Lloyds TSB Preference Shares.

A shareholder who is not liable to tax on dividends received on the New Lloyds TSB Preference Shares will not be entitled to claim payment of the tax credit in respect of those dividends.

The right of a shareholder who is not resident (for tax purposes) in the United Kingdom to a tax credit in respect of a dividend received on the New Lloyds TSB Preference Shares and to claim payment of any part of that tax credit will depend on the existence and terms of any double taxation convention between the United Kingdom and the country in which the shareholder is resident.

#### **Taxation of chargeable gains**

The sale, or other deemed disposal, of Preference Shares may give rise to the realisation of a chargeable gain (or allowable loss) for the purposes of UK taxation of chargeable gains. An individual holder of Preference Shares who is resident or ordinarily resident in the UK for tax purposes and who realises such a gain may be liable to UK capital gains tax, depending on the holder's circumstances and subject to any available exemption or relief.

An individual holder of Preference Shares who ceases to be resident or ordinarily resident in the UK for a period broadly of less than five years and who disposes of the Preference Shares during that period of temporary non-residence may be liable to UK capital gains tax on his or her return to the UK (subject to any available exemptions or reliefs).

A corporate holder of Preference Shares who is resident in the UK for tax purposes and who realises such a gain may be liable to UK corporation tax on chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief.

A holder of Preference Shares who is not resident or, in the case of an individual, ordinarily resident for tax purposes in the UK (and is not temporarily non-resident as described above) will not be liable for UK tax on chargeable gains realised on the sale or other disposal of the

Preference Shares unless such Preference Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency, or, in the case of a corporate shareholder, through a permanent establishment, may be subject to UK capital gains tax or corporation tax on a disposal of Preference Shares, subject to any available exemption or relief. Special rules apply to individuals who are temporarily not resident or ordinarily resident in the UK.

### **Stamp duty and SDRT**

#### **Issue of the Preference Shares**

Provided that the Preference Shares are not issued (a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearing services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, no stamp duty or SDRT should be payable on the issue of the Preference Shares.

#### **Agreements to transfer, and transfers of, the Preference Shares**

Any subsequent transfer on sale of a Preference Share in registered form will be liable to *ad valorem* stamp duty, generally at the rate of 0.5 per cent. (rounded up to the next multiple of £5.00) of the consideration paid. UK stamp duty is normally the liability of a purchaser or transferee of the Preference Shares.

An unconditional agreement to transfer a Preference Share in registered form will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such Preference Share, but the liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of the agreement to transfer having become unconditional. SDRT is normally the liability of the purchaser or transferee of the Preference Shares.

If the Preference Shares are transferred (a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearing services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will be payable at a higher rate of 1.5 per cent. of the amount or value of the consideration payable, or in certain circumstances, the value of the Preference Shares so transferred.

A transfer of Preference Shares held through a clearance service will generally be exempt from stamp duty and SDRT, unless the clearance service has elected for an alternative system of charge pursuant to section 97A of the Finance Act 1986.

A transfer of a registered New Lloyds TSB Preference ADS executed and retained outside the UK will not give rise to UK stamp duty and an agreement to transfer a registered New Lloyds TSB Preference ADS will not give rise to SDRT.

### **Finance Act 1996**

Under Sections 91A – 91G Finance Act 1996, it is possible that a shareholder of New Lloyds TSB Preference Shares subject to UK corporation tax would be taxed on a fair value income basis, and the positions outlined in the previous paragraphs under the sub-headings “Taxation of Dividends” and “Taxation of chargeable gains” would not apply. Those provisions would not apply where the holder does not hold the New Lloyds TSB Preference Shares for a “tax avoidance purpose”.



## PART XVII

### DIRECTORS AND CORPORATE GOVERNANCE

#### 1 Directors' Profiles

The names, business experience and principal business activities outside the Lloyds TSB Group of the current Lloyds TSB Directors, as well as the dates of their initial appointment as Lloyds TSB Directors, are set out below. The business address of the Lloyds TSB Directors is 25 Gresham Street, London EC2V 7HN.

#### **Sir Victor Blank (age 66)**

##### *Chairman*

Joined the board in 2006 as deputy chairman and became chairman in May 2006. Former partner in Clifford-Turner (now Clifford Chance) from 1969 to 1981 and chairman and chief executive of Charterhouse until 1997. Director of The Royal Bank of Scotland from 1985 to 1993 and of GUS from 1993 to 2006 (chairman from 2000). Chairman of Trinity Mirror from 1999 to 2006. A member of the Financial Reporting Council from 2002 to 2007 and a member of the Council of Oxford University from 2000 to 2007. A senior adviser to the Texas Pacific Group and appointed by the Prime Minister as a Business Ambassador. Chairs two charities, Wellbeing of Women and UJS Hillel, as well as the Council of University College School.

#### **J Eric Daniels (age 57)**

##### *Group Chief Executive*

Joined the board in 2001 as group executive director, UK retail banking before his appointment as group chief executive in June 2003. Served with Citibank from 1975 and held a number of senior and general management appointments in the USA, South America and Europe before becoming chief operating officer of Citibank Consumer Bank in 1998. Following the Citibank/Travelers merger in 1998, he was chairman and chief executive officer of Travelers Life and Annuity until 2000. Chairman and chief executive officer of Zona Financiera from 2000 to 2001. A non-executive director of BT Group.

#### **Archie G Kane (age 56)**

##### *Group Executive Director, Insurance and Investments*

Joined TSB Commercial Holdings in 1986 and held a number of senior and general management appointments in the Lloyds TSB Group before being appointed to the board in 2000, as group executive director, IT and operations. Appointed group executive director, insurance and investments in October 2003. After some 10 years in the accountancy profession, joined General Telephone & Electronics Corporation in 1980, serving as finance director in the UK from 1983 to 1985. Chairman of the Association of British Insurers and a member of the Treasury's Financial Services Global Competitiveness Group.

#### **G Truett Tate (age 58)**

##### *Group Executive Director, Wholesale and International Banking*

Joined the group in 2003 as managing director, corporate banking before being appointed to the board in 2004. Served with Citigroup from 1972 to 1999, where he held a number of senior and general management appointments in the USA, South America, Asia and Europe. He was president and chief executive officer of eCharge Corporation from 1999 to 2001 and co-founder and vice chairman of the board of Chase Cost Management Inc from 1996 to 2003. A non-executive director of British American Business Inc. A member of the fund-raising board of the National Society for the Prevention of Cruelty to Children.

#### **Tim J W Tookey (age 46)**

##### *Group Finance Director*

Joined the group in 2006 as deputy group finance director, before being appointed acting group finance director in April 2008. Appointed to the board on 30 October 2008 as group finance director. Previously finance director for the UK and Europe at Prudential from 2002 to 2006 and

group finance director of Heath Lambert Group from 1996 to 2002. Prior to that, he spent 11 years at KPMG.

**Helen A Weir CBE (age 46)**

*Group Executive Director, UK Retail Banking*

Joined the board in 2004 as group finance director. Appointed as group executive director, UK retail banking in April 2008. Group finance director of Kingfisher from 2000 to 2004. Previously finance director of B&Q from 1997, having joined that company in 1995, and held a senior position at McKinsey & Co from 1990 to 1995. Began her career at Unilever in 1983. A non-executive director of Royal Mail Holdings. A member of the Said Business School Advisory Board and a former member of the Accounting Standards Board.

**Wolfgang C G Berndt (age 66)**

*Non-Executive Director*

Joined the board in 2003. Joined Procter and Gamble in 1967 and held a number of senior and general management appointments in Europe, South America and North America, before retiring in 2001. A non-executive director of Cadbury, GfK AG and MIBA AG.

**Ewan Brown CBE FRSE (age 66)**

*Non-Executive Director*

Joined the board in 1999 and was chairman of Lloyds TSB Scotland until May 2008. Joined Noble Grossart in 1969 and was an executive director of that company until December 2003. A non-executive director of Noble Grossart and Stagecoach Group, senior governor of the Court of the University of St Andrews and vice chairman of the Edinburgh International Festival. A former chairman of tie and non-executive director of John Wood Group.

**Jan P du Plessis (age 54)**

*Non-Executive Director*

Joined the board in 2005. Chairman of British American Tobacco. Held a number of senior and general management appointments in Rembrandt Group from 1981, before joining Compagnie Financière Richemont as group finance director in 1988, a position he held until 2004. A non-executive director of Rio Tinto and Marks and Spencer Group. A former chairman of RHM from 2005 to 2007 and group finance director of Rothmans International from 1990 to 1995.

**Philip N Green (age 55)**

*Non-Executive Director*

Joined the board in May 2007. Appointed chief executive of United Utilities in 2006. Former chief executive of Royal P&O Nedlloyd from 2003 to 2005. Previously held senior positions in DHL from 1990 to 1999, becoming chief operating officer for Europe and Africa in 1994, and the Reuters Group from 1999 to 2003, becoming chief operating officer in 2001. A director of Business in the Community, a member of the government's UK Commission for Employment and Skills and a trustee of the Philharmonia Orchestra.

**Sir Julian Horn-Smith (age 59)**

*Non-Executive Director*

Joined the board in 2005. Held a number of senior and general management appointments in Vodafone from 1984 to 2006 including a directorship of that company from 1996 and deputy chief executive officer from 2005. Previously held positions in Rediffusion from 1972 to 1978, Philips from 1978 to 1982 and Mars GB from 1982 to 1984. A non-executive director of Digicel Group, a member of the Altimio International advisory board and a senior adviser to UBS in relation to the global telecommunications sector. A former chairman of The Sage Group.

**Lord Leitch (age 61)**

*Non-Executive Director*

Joined the board in 2005. Appointed chairman of Scottish Widows in 2007. Held a number of senior and general management appointments in Allied Dunbar, Eagle Star and Threadneedle Asset Management before the merger of Zurich Group and British American Tobacco's financial

services businesses in 1998. Subsequently served as chairman and chief executive officer of Zurich Financial Services United Kingdom, Ireland, Southern Africa and Asia Pacific, until his retirement in 2004. Chairman of the government's Review of Skills (published in December 2006) and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster. Former chairman of the National Employment Panel and the Association of British Insurers.

**Sir David Manning GCMG CVO (age 58)**

*Non-Executive Director*

Joined the board on 1 May 2008. Entered the Foreign and Commonwealth Office in 1972 and held senior appointments, including HM ambassador to Israel between 1995 and 1998, foreign policy adviser to the Prime Minister from 2001 to 2003 and HM ambassador to the United States from 2003 to 2007. A non-executive director of BG Group and Lockheed Martin UK Holdings.

**Carolyn J McCall OBE (age 47)**

*Non-Executive Director*

Joined the board on 1 October 2008. Appointed group chief executive of Guardian Media Group in 2006 having joined that organisation in 1986 and held a number of senior and general management appointments before becoming a director in 2000. Chair of Opportunity Now and a board member of Business in the Community.

**Martin A Scicluna (age 57)**

*Non-Executive Director*

Joined the board on 1 September 2008. Joined Deloitte & Touche (then Touche Ross & Co) in 1973 and held a number of senior and general management appointments before becoming a partner in 1982, a member of the board of partners in 1991 and chairman in 1995, a position he held until May 2007. He retired as a partner in May 2008. A non-executive director of Great Portland Estates.

## 2 Interests of the Lloyds TSB Directors

As at 14 November 2008 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Lloyds TSB Directors, their immediate families and (so far as is known to them or could with reasonable diligence be ascertained by them) persons connected (within the meaning of section 252 of the Companies Act) with the Lloyds TSB Directors in the issued ordinary share capital of Lloyds TSB, including: (i) those arising pursuant to transactions notified to Lloyds TSB pursuant to DTR 3.1.2R; or (ii) those of persons connected with the Lloyds TSB Directors, which would, if such connected person were a Lloyds TSB Director, be required to be disclosed under (i) above, together with the interests which are expected to subsist immediately following Admission, are set out in the following table:

	<i>As at 14 November 2008</i>		<i>Interests immediately following Admission<sup>(1)</sup></i>	
	<i>Number of Lloyds TSB Shares</i>	<i>Percentage of issued ordinary share capital of Lloyds TSB</i>	<i>Number of Lloyds TSB Shares</i>	<i>Percentage of enlarged issued ordinary share capital of Lloyds TSB</i>
<i>Lloyds TSB Directors</i>				
<b>Executive Directors:</b>				
J Eric Daniels	422,777	0.01	606,558	0.00
Archie G Kane	203,820	0.00	292,420	0.00
G Truett Tate	74,831	0.00	107,360	0.00
Tim J W Tookey	2,252	0.00	3,230	0.00
Helen A Weir CBE	61,581	0.00	88,350	0.00
<b>Non-Executive Directors:</b>				
Sir Victor Blank	301,199	0.01	432,130	0.00
Wolfgang C G Berndt	170,000	0.00	243,899	0.00
Ewan Brown CBE FRSE	5,074	0.00	7,279	0.00
Jan P du Plessis	50,000	0.00	71,735	0.00
Philip N Green	5,000	0.00	7,173	0.00
Sir Julian Horn-Smith	5,000	0.00	7,173	0.00
Lord Leitch	10,000	0.00	14,347	0.00
Sir David Manning GCMG CVO	4,500	0.00	6,456	0.00
Carolyn J McCall OBE	0	0.00	0	0.00
Martin A Scicluna	0	0.00	0	0.00

Note:

(1) Figures are calculated assuming (i) that save as referred to in (iii) the interests of the Lloyds TSB Directors as at close of business on 14 November 2008, being the last practicable date prior to the publication of this document, do not change, (ii) that the maximum number of Lloyds TSB Shares to be issued pursuant to the Placing and Open Offer have been issued, (iii) that the Open Offer Shares which the Lloyds TSB Directors currently intend to take up under the Placing and Open Offer are taken up, (iv) no Lloyds TSB Shares (including under Lloyds TSB Share Plans) are issued between 14 November 2008, being the last practicable date prior to the publication of this document, and the Effective Date, and (v) no HBOS Shares (including under the HBOS Share Schemes) are issued between 14 November 2008, being the last practicable date prior to the publication of this document, and the Effective Date.

Taken together, the combined percentage interest of the Lloyds TSB Directors in the issued ordinary share capital of Lloyds TSB as at 14 November 2008 was approximately 0.02 per cent.

In accordance with the commitments given by Lloyds TSB in the Placing and Open Offer Agreement, the Executive Directors of Lloyds TSB have agreed that they will receive Lloyds TSB Shares in lieu of any cash entitlement to bonus for the year ending 31 December 2008. These shares will be subject to a restriction on sale until December 2009.

Details of options over Lloyds TSB Shares held by the Lloyds TSB Directors are set out below. They are not included in the interests of the Lloyds TSB Directors shown in the table above.

## Directors' options and awards

The following Lloyds TSB Directors had interests in the following options and awards relating to Lloyds TSB Shares under one or more of the Lloyds TSB Share Plans (each as defined in Part XXIII ("Definitions") of this document) as at 14 November 2008 (being the latest practicable date prior to publication of this document):

<i>Name</i>	<i>Share plan</i>	<i>Date of grant</i>	<i>Number of Shares</i>	<i>Option price</i> (£)	<i>Market price at date of award</i>	<i>Vested/ Unvested</i>	<i>Exercise period/ vesting date/year</i>
J Eric Daniels	Lloyds TSB Group Executive Share Option Scheme	18.03.04	131,484	4.1925	—	Vested	21.02.08 – 17.03.14
	Lloyds TSB Group Executive Share Option Scheme	17.03.05	430,547	4.7425	—	Vested	17.03.08 – 16.03.15
	Lloyds TSB Performance Share Plan- Bonus Shares	20.03.06	50,944		5.661	Unvested	20.03.09
	Lloyds TSB Performance Share Plan- Performance Shares	20.03.06	172,694		5.661	Unvested	20.03.09
	Lloyds TSB Long-Term Incentive Plan	12.05.06	507,692		5.20	Unvested	2009
	Lloyds TSB Long-Term Incentive Plan	08.03.07	534,322		5.39	Unvested	2010
	Lloyds TSB Long-Term Incentive Plan	04.04.08	838,735		4.6275	Unvested	2011
	Overall Total			2,666,418			
Archie G Kane	Lloyds TSB Group Executive Share Option Scheme	04.03.99	27,000	8.875		Unvested	04.03.02 – 03.03.09
	Lloyds TSB Group Executive Share Option Scheme	06.03.00	64,786	5.495		Unvested	06.03.03 – 05.03.10
	Lloyds TSB Group Executive Share Option Scheme	08.08.00	11,841	6.155		Unvested	08.08.03 – 07.08.10
	Lloyds TSB Group Executive Share Option Scheme	06.03.01	34,759	6.55		Unvested	06.03.04 – 05.03.11
	Lloyds TSB Group Executive Share Option Scheme	18.03.04	73,255	4.1925		Vested	21.02.08 – 17.03.14
	Lloyds TSB Group Executive Share Option Scheme	17.03.05	247,891	4.7425		Vested	17.03.08 – 16.03.15
	Lloyds TSB Performance Share Plan- Bonus Shares	20.03.06	20,531		5.661	Unvested	20.03.09
	Lloyds TSB Performance Share Plan- Performance Shares	20.03.06	69,598		5.661	Unvested	20.03.09
	Lloyds TSB Long-term Incentive Plan	12.05.06	288,460		5.20	Unvested	2009
	Lloyds TSB Long-Term Incentive Plan	08.03.07	306,122		5.39	Unvested	2010
	Lloyds TSB Long-Term Incentive Plan	06.03.08	413,309		4.2825	Unvested	2011
	Overall Total			1,557,552			



Name	Share plan	Date of grant	Number of Shares	Option price (£)	Market price at date of award	Vested/ Unvested	Exercise period/ vesting date/year
G Truett	Tate Lloyds TSB Group Executive Share Option Scheme	18.03.04	64,400	4.1925		Vested	21.02.08 – 17.03.14
	Lloyds TSB Group Executive Share Option Scheme	12.08.04	27,357	4.03		Vested	21.02.08 – 11.08.14
	Lloyds TSB Group Executive Share Option Scheme	17.03.05	247,891	4.7425		Vested	17.03.08 – 16.03.15
	Lloyds TSB Performance Share Plan – Bonus shares	20.03.06	27,358		5.661	Unvested	20.03.09
	Lloyds TSB Performance Share Plan – Performance shares	20.03.06	92,738		5.661	Unvested	20.03.09
	Lloyds TSB Long-term Incentive Plan	12.05.06	297,114		5.20	Unvested	2009
	Lloyds TSB Long-term Incentive Plan	08.03.07	333,951		5.39	Unvested	2010
	Lloyds TSB Long-term Incentive Plan	04.04.08	518,638		4.6275	Unvested	2011
	Overall Total			1,609,447			
	Tim J W Tookey	Lloyds TSB Group Executive Share Plan 2003	19.04.06	35,305	Nil	—	Unvested
Lloyds TSB Long-term Incentive Plan		12.05.06	54,258		5.20	Unvested	2009
Lloyds TSB Long-term Incentive Plan		08.03.07	52,875		5.39	Unvested	2010
Lloyds TSB Long-term Incentive Plan		06.03.08	71,220		4.2825	Unvested	2011
Overall Total				213,658			
Helen A Weir	CBE Lloyds TSB Group Executive Share Option Scheme	29.04.04	77,868	4.2475		Vested	21.02.08 – 28.04.14
	Lloyds TSB Group Executive Share Option Scheme	17.03.05	247,891	4.7425		Vested	17.03.08 – 16.03.15
	Lloyds TSB Performance Share Plan – Bonus shares	20.03.06	20,062		5.661	Unvested	20.03.09
	Lloyds TSB Performance Share Plan – Performance shares	20.03.06	68,008		5.661	Unvested	20.03.09
	Lloyds TSB Long-term Incentive Plan	12.05.06	288,460		5.20	Unvested	2009
	Lloyds TSB Long-term Incentive Plan	08.03.07	320,037		5.39	Unvested	2010
	Lloyds TSB Long-term Incentive Plan	04.04.08	506,482		4.6275	Unvested	2011
	Overall Total			1,528,808			

Save as disclosed in this section 2, no Lloyds TSB Director nor their immediate families, nor any person connected with any Lloyds TSB Director within the meaning of section 252 of the Companies Act has any interests (beneficial or non-beneficial) in the share capital of Lloyds TSB or any of its subsidiaries.

Save as disclosed in the information incorporated by reference into section 6 (“Related Party Transactions of the Lloyds TSB Group and HBOS Group”) of Part XVIII (“Additional Information”) of this document there are no outstanding loans granted by Lloyds TSB or any member of the Lloyds TSB Group to any of the Lloyds TSB Directors nor has any guarantee been provided by Lloyds TSB or any of its subsidiaries for their benefit other than those provided on commercial,

arm's length terms. No Lloyds TSB Group plc director has received loans or guarantees from Lloyds TSB Bank plc at other than commercial rates (applicable to an individual of his or her financial status).

### **3 Corporate Governance**

As at the date of this document, Lloyds TSB is in full compliance with the provisions of the Combined Code.

The Combined Code recommends that at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement.

Currently, the Lloyds TSB Board is comprised of 15 members, consisting of the Chairman, five Executive Directors and nine Non-Executive Directors, all of whom are independent.

The roles of the Chairman and Group Chief Executive are not exercised by the same individual and there is a clear division of responsibilities. The Chairman is pivotal in creating the conditions for overall board and individual director effectiveness, both inside and outside the boardroom. The Lloyds TSB Group Chief Executive has responsibility for the recommendation of objectives and strategy for the group; the successful execution of strategy; establishing, maintaining and implementing the risk management framework; the continuing review of organisational structure; and the optimum use and adequacy of the group's resources.

The Lloyds TSB Board has established nomination, remuneration, audit and risk oversight committees, with formally delegated duties and responsibilities and written terms of references. From time to time, separate committees may be set up by the Lloyds TSB Board to consider specific issues when the need arises.

#### **3.1 Lloyds TSB Audit Committee**

Current members:

Jan P du Plessis (Chairman), Ewan Brown CBE FRSE, Philip N Green, Lord Leitch and Martin A Scicluna.

The members of the audit committee are independent Non-Executive Directors. The audit committee usually holds at least five meetings each year, two of which are held shortly before submission of the interim and annual financial statements to the Lloyds TSB Board. Audit committee meetings are normally attended by the Group Finance Director, Chief Risk Director and the external auditors. The Chairman, the Group Chief Executive and other members of the Lloyds TSB Board or management attend if requested by the committee. At least once per annum, the audit committee meets privately with the external auditors. The audit committee held six meetings in 2007 and has held five meetings so far in 2008.

The committee is responsible for approving the auditors' terms of engagement, including their remuneration, and assessing their independence and objectivity. The committee also reviews:

- the financial statements published in the name of the board and the quality and acceptability of the related accounting policies, practices and financial reporting disclosures;
- the scope of the work of the group audit department, reports from that department and the adequacy of its resources;
- the effectiveness of the systems for internal control, risk management and compliance with financial services legislation and regulations;
- the results of the external audit and its cost effectiveness; and
- reports from the external auditors on audit planning and their findings on accounting and internal control systems.

The committee has established procedures for handling complaints regarding accounting, internal accounting controls or auditing matters and for staff to raise concerns in confidence.

### **3.2 Lloyds TSB Remuneration Committee**

Current members:

Wolfgang C G Berndt (Chairman), Sir Victor Blank, Philip N Green, Sir Julian Horn-Smith and Sir David Manning GCMG CVO.

The members of the remuneration committee comprise independent Non-Executive Directors together with the Chairman of the Company. The remuneration committee holds at least three meetings each year.

The committee reviews the remuneration policy for the top management group, to ensure that members of the executive management are provided with appropriate incentives to encourage them to enhance the performance of the Lloyds TSB Group and that they are rewarded for their individual contribution to the success of the organisation. It advises on major changes of employee benefits schemes and it also agrees the policy for authorising claims for expenses from the Lloyds TSB Group Chief Executive and the Chairman. It has delegated power for settling remuneration for the Chairman, the Lloyds TSB Group executive directors, the company secretary and any Lloyds TSB Group employee whose salary exceeds a specified amount.

All the independent Non-Executive Directors are invited to attend meetings if they wish, and they receive the minutes and have the opportunity to comment and have their views taken into account before the committee's decisions are implemented.

### **3.3 Lloyds TSB Nomination Committee**

Current members:

Sir Victor Blank (Chairman), Wolfgang C G Berndt, Jan P du Plessis, Sir Julian Horn-Smith, Lord Leitch and Sir David Manning GCMG CVO.

The nomination committee comprises independent Non-Executive Directors, including the Chairman of the Company. The nomination committee meets at least twice a year.

The committee reviews the structure, size and composition of the board, taking into account the skills, knowledge and experience of directors and considers and makes recommendations to the board on potential candidates for appointment as directors. The committee also makes recommendations to the board concerning the re-appointment of any independent Non-Executive Director by the board at the conclusion of his or her specified term, the re-election of any director by the shareholders under the retirement provisions of the Articles of Association, any matters relating to the continuation in office of a director, and the appointment of any director to executive or other office in Lloyds TSB, although the chairman of Lloyds TSB would not chair the committee when it was dealing with the appointment of a successor to the chairmanship of Lloyds TSB.

## **4 Conflicts of Interest**

In respect of any Lloyds TSB Director, there are no actual or potential conflicts of interest between any duties they have to the Company, either in respect of the Acquisition or otherwise, and the private interests and/or other duties they may also have. Save as disclosed in section 2 of this Part XVII which sets out interests of the Lloyds TSB Directors in the share capital of Lloyds TSB, there are no interests, including conflicting ones, that are material to the Acquisition and/or Issues.

No Lloyds TSB Director has or had during the year ended 31 December 2007 a material interest in any significant contract with Lloyds TSB or any of its subsidiaries.

None of the Lloyds TSB Directors was selected to be a director of Lloyds TSB pursuant to any arrangement or understanding with any major shareholder, customer, supplier or other person having a business connection with the Lloyds TSB Group.

Save as disclosed in section 4.1 ("The Chairman and the Executive Directors of Lloyds TSB") of Part XX ("Directors, Corporate Governance and Employees") of the Lloyds TSB Placing and Open Offer Prospectus, which is incorporated by reference herein, no restrictions have been agreed by any Lloyds TSB Director on the disposal within a certain period of time of his holding in Lloyds TSB securities.

There are no family relationships between any of the Lloyds TSB Directors.

## PART XVIII

### ADDITIONAL INFORMATION

#### 1 The Company

The Company was incorporated and registered in Scotland on 21 October 1985 with registered number 95000 as a public company limited by shares under the name TSB Group Public Limited Company. On 28 December 1995, it changed its name to its present name.

The principal legislation under which the Company operates, and pursuant to which the Preference Shares will be created, is the Companies Act and regulations made thereunder.

The Company is domiciled in Scotland. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44(0)20 7626 1500) and its registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH.

The auditors of Lloyds TSB are, and have been throughout the period covered by the financial information in this document, PricewaterhouseCoopers LLP.

#### 2 Share Capital

##### 2.1 Share Capital Summary

###### *Authorised ordinary share capital*

At 14 November 2008, being the latest practicable date before publication of this document, the authorised ordinary share capital of Lloyds TSB was £1,747,500,000 divided into 6,911,052,632 ordinary shares of £0.25 each and 78,947,368 limited voting shares, of which 5,972,853,501 ordinary shares and 78,947,368 limited voting shares were issued and fully paid up or credited as fully paid.

As at 1 January 2005, the first day covered by the historical financial information incorporated by reference into this document, the authorised ordinary share capital of Lloyds TSB was £1,747,500,000 divided into 6,911,052,632 ordinary shares of £0.25 each and 78,947,368 limited voting ordinary shares of £0.25 each.

###### *Issued ordinary share capital*

As at 1 January 2005, the first day covered by the historical financial information incorporated by reference into this document, 5,596,397,111 ordinary shares and 78,947,368 limited voting ordinary shares were in issue fully paid or credited as fully paid.

###### *Current Share Capital Position*

The following table shows the authorised and issued share capital of the Company, as at 14 November 2008, being the latest practicable date prior to the publication of this document:

<i>Class of Share</i>	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
Ordinary Shares of £0.25 each	6,911,052,632	£1,727,763,158	5,972,853,501	£1,493,213,375
Limited Voting Ordinary Shares of £0.25 each	78,947,368	£19,736,842	78,947,368	£19,736,842
Preference Shares of £0.25 each	175,000,000	£43,750,000	600,400	£150,100
Preference Shares of US\$0.25 each	160,000,000	US\$40,000,000	1,000,000	US\$250,000
Preference Shares of €0.25 each	160,000,000	€40,000,000	—	—
Preference Shares of ¥25 each	50,000,000	¥1,250,000,000	—	—

The authorised, issued and fully paid share capital of the Company immediately following completion of the Placing and Open Offer, the New Preference Share Issue, the HBOS Preference Share Scheme and the Acquisition<sup>(1)</sup> is expected to be as follows:

Class of Share	Authorised		Issued and fully paid	
	Number	Amount	Number	Amount
Ordinary Shares of £0.25 each	21,822,960,853	£5,455,740,213	16,367,332,731	£4,091,833,183
Limited Voting Ordinary Shares of £0.25 each	78,947,368	£19,736,842	78,947,368	£19,736,842
Preference Shares of £0.25 each	800,000,000	£200,000,000	603,700,400	£150,925,100
Preference Shares of US\$0.25 each	160,000,000	US\$40,000,000	3,250,000	US\$812,500
Preference Shares of €0.25 each	160,000,000	€40,000,000	—	—
Preference Shares of ¥25 each	50,000,000	¥1,250,000,000	—	—

Note:

- (1) The number of Lloyds TSB Shares in issue immediately following the Placing and Open Offer, the New Preference Share Issue, the HBOS Preference Share Scheme and the Acquisition assumes (i) that the maximum number of Lloyds TSB Shares and Lloyds TSB Preference Shares to be issued pursuant to the Acquisition, Placing and Open Offer, the New Preference Share Issue and the HBOS Preference Share Scheme have been issued, (ii) no other issues of Lloyds TSB Shares or Lloyds TSB Preference Shares (including under Lloyds TSB Share Plans) between 14 November 2008, being the last practicable date prior to the publication of this document, and the Effective Date, and (iii) no other issues of HBOS Shares (including under the HBOS Share Schemes) between 14 November 2008, being the last practicable date prior to the publication of this document, and the Effective Date.

Options and awards to acquire Lloyds TSB Shares have been granted to employees of the Lloyds TSB Group under the Lloyds TSB Share Plans. As at 14 November 2008 there were options and awards outstanding over 53,643,157 Lloyds TSB Shares.

## 2.2 History of the share capital of Lloyds TSB:

The following table and paragraphs show the changes in the issued share capital of Lloyds TSB which have occurred between 1 January 2005 and 14 November 2008, being the latest practicable date prior to the publication of this document:

Year	Ordinary shares issued under Lloyds TSB Share Plans		Ordinary shares allotted	
	Number of shares	Nominal value (£)	Number of shares	Nominal value (£)
1 January 2005 – 31 December 2005	6,216,489	1,554,122	0	0
1 January 2006 – 31 December 2006	35,350,837	8,837,709	0	0
1 January 2007 – 31 December 2007	9,739,508	2,434,877	0	0
1 January 2008 – 14 November 2008	40,749,556	10,187,389	284,400,000	71,100,000
Total	92,056,390	23,014,097	284,400,000	71,100,000

During 2004 the directors approved the allotment at par of 400 6 per cent. non-cumulative redeemable preference shares of 25p each. The shares, which are redeemable at the option of Lloyds TSB at any time, carry the rights to a fixed rate non-cumulative preferential dividend at a rate of 6 per cent. per annum; no dividend shall be payable in the event that the directors determine that prudent capital ratios would not be maintained if the dividend were paid. Upon winding up, the shares rank equally with any other preference shares issued by Lloyds TSB. With effect from 1 January 2005, following the implementation of IAS 39, these instruments were reclassified as debt.

During 2006 Lloyds TSB issued 600,000 fixed/floating rate non-cumulative callable preference shares of 25 pence each with a liquidation preference of £1,000 per share and 1,000,000 fixed/floating rate non-cumulative callable preference shares of 25 cents each with a liquidation preference of US\$1,000 per share. Both issues of preference shares are perpetual, although the two issues can be redeemed at the option of Lloyds TSB on or after 25 August 2015 and 14 November 2016 respectively and carry the right to non-cumulative dividends which are fixed until those first redemption dates. The terms of these two issues of preference shares are such that Lloyds TSB cannot declare and pay a dividend on any other junior class of share (including the mandatory dividend on the 400 6 per cent. non-cumulative redeemable preference shares mentioned above) until the coupon has been paid on these



preference shares. As Lloyds TSB is effectively committed to the payment of a coupon on these shares they are classified as liabilities on the balance sheet in accordance with IFRS. The holders of the fixed/floating rate non-cumulative callable preference shares, who held less than 0.1 per cent. of the total share capital as at 31 December 2007, do not have the right to receive notice of, attend, speak or vote at any general meetings other than on resolutions relating to the variation or abrogation of any of the rights or restrictions attached to the preference shares or the winding-up or dissolution of Lloyds TSB or if, at the date of the notice of meeting, the dividend payable at the immediately preceding dividend payment date has failed to be declared and paid in full. Upon winding-up, the fixed/floating rate non-cumulative callable preference shares shall rank equally with the most senior class of preference shares and any other class of shares which are expressed to rank equally. Any repayment of the fixed/floating rate non-cumulative callable preference shares would require prior notification to the Financial Services Authority. The sterling fixed/floating rate non-cumulative callable preference shares can be redeemed at the option of the Company on or after 25 August 2015; at this call date, dividends will be reset at a margin of 1.28 per cent. over three months LIBOR. The US dollar fixed/floating rate non-cumulative callable preference shares can be redeemed at the option of the Company on or after 14 November 2016; at this call date, dividends will be reset at a margin of 1.035 per cent. over three month LIBOR. In certain circumstances, the fixed/floating rate non-cumulative callable preference shares may be mandatorily exchanged for qualifying non-innovative Tier 1 securities and, in certain circumstances and subject to compliance with certain requirements, the fixed/floating rate non-cumulative callable preference shares may be redeemed by the Company at certain times in the event that the FSA makes a decision that the preference shares can no longer qualify as non-innovative Tier 1 capital. The Company may declare no dividend or a partial dividend on these preference shares; notwithstanding this discretion, in certain circumstances, the dividends on the fixed/floating rate non-cumulative callable preference shares will be mandatorily payable if the preference shares cease to be eligible to qualify as regulatory capital and the Company is in compliance with relevant FSA regulations regarding capital adequacy. Dividends may be reduced if the distributable profits of the Company are insufficient to cover the payment in full of the dividends and also the payment in full of all other dividends on shares issued by the Company. These securities were issued during 2006 primarily to finance the development and expansion of the business of the Lloyds TSB Group.

### **2.3 Existing Shareholder Authorities**

At an annual general meeting of the Company held on 8 May 2008, the power conferred on the Lloyds TSB Directors by Article 9.2 of the Articles of Association was renewed for a period expiring at the conclusion of the annual general meeting of Lloyds TSB in 2009 or on 7 August 2009, whichever is the earlier, and for that period the "section 80 amount" was set at £359,319,742, US\$39,750,000, €40,000,000 and ¥1,250,000,000. The current "section 80 amount" is £288,219,742 following the placing of 284,400,000 Lloyds TSB Shares on 19 September 2008.

At that annual general meeting, the resolutions relating to the following issues were also passed:

- (a) the power conferred on the Lloyds TSB Directors by Article 9.3 of the Articles of Association was renewed for a period expiring at the conclusion of the annual general meeting of Lloyds TSB in 2009 or on 7 August 2009, whichever is the earlier, and for that purpose the "section 89 amount" was set at £71,589,007;
- (b) the Company's general and unconditional authority to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) was renewed, provided that:
  - (i) the maximum number of Lloyds TSB Shares to be purchased is 572,712,063 (equivalent to 10 per cent. of the issued ordinary share capital);
  - (ii) the minimum price which may be paid for a Lloyds TSB Share is 25 pence per share, which amount shall be exclusive of expenses;
  - (iii) the maximum price (exclusive of expenses) which may be paid for a Lloyds TSB Share is, in respect of a Lloyds TSB Share contracted to be purchased on any day, an amount equal to 105 per cent. of the average of the mid-market quotations

for a Lloyds TSB Share of the Company as derived from the Daily Official List of The London Stock Exchange for the five Business Days immediately preceding the day on which the Lloyds TSB Share is purchased;

- (iv) the authority will expire at the conclusion of the annual general meeting of the Company in 2009 or on 7 November 2009 (whichever is the earlier) unless such authority is renewed before then; and
- (v) the Company may make a contract to purchase Lloyds TSB Shares under the renewed and extended authority prior to the expiry of such authority which will or may be executed wholly or partly after such expiry, and may make a purchase of Lloyds TSB Shares in pursuance of any such contract as if the authority had not expired.

## **2.4 Shareholder Authorities at the Lloyds TSB General Meeting**

**2.4.1** The following ordinary resolutions relating, *inter alia*, to the Company's share capital are set out in the Share Circular and were passed at the Lloyds TSB General Meeting on 19 November 2008 for the purpose of facilitating the Acquisition and the Placing and Open Offer:

- (i) conditional upon the passing of the ordinary resolution cited at (iii) below, the Acquisition be approved and the Lloyds TSB Board be authorised to implement the Acquisition;
- (ii) the waiver granted by the Panel of the obligation that might otherwise arise under Rule 9 of the City Code on HM Treasury or their nominee to make a general offer to Lloyds TSB Shareholders for all of the issued ordinary shares in the capital of the Company held by them as a result of the issue of new Lloyds TSB Shares to HM Treasury pursuant to the Placing and Open Offer and the Acquisition, be approved; and
- (iii) subject to and conditional upon the Acquisition becoming unconditional:
  - (A) the authorised share capital of the Company be increased from an aggregate of £1,791,250,000, US\$40,000,000, €40,000,000 and ¥1,250,000,000 to £5,675,477,055, US\$40,000,000, €40,000,000 and ¥1,250,000,000 by the creation of 14,911,908,221 new ordinary shares of 25 pence each and the creation of 625,000,000 new preference shares of 25 pence each; and
  - (B) the Lloyds TSB Board be generally and unconditionally authorised in accordance with "section 80 of the Companies Act 1985" (in substitution for the authority conferred on it on 8 May 2008) to exercise all powers of the Company as set out in article 9.2 of the Articles of Association to allot the new relevant securities created pursuant to part (a) of this ordinary resolution, and which authority shall expire on the date of the annual general meeting of the Company in 2009 or on 7 August 2009, whichever is the earlier (unless previously revoked or varied by the Company in general meeting) and for such period the relevant section 80 amount shall be an aggregate nominal amount of £3,884,227,055, US\$39,750,000, €40,000,000 and ¥1,250,000,000 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Lloyds TSB Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired;
- (iv) conditional upon the passing of the ordinary resolution cited at (iii) above, pursuant to article 122 of the Articles of Association, upon the recommendation of the Lloyds TSB Board an amount out of the sums standing to the credit of any of the Company's share premium account, capital redemption reserve or other undistributable reserve of up to the maximum amount standing to the credit of such reserves, as the Lloyds TSB Board may at its discretion determine, be capitalised, being such amount as the Lloyds TSB Board may determine for the purposes of paying up new ordinary shares and that the Lloyds TSB Board be authorised to

apply such amount in paying up the new ordinary shares and to take all such other steps as it may deem necessary, expedient or appropriate to implement such capitalisation; and

- (v) subject to and conditional upon the Acquisition becoming unconditional, the Company be generally and unconditionally authorised for the purpose of section 166 of the Companies Act 1985 to make market purchases (as defined in section 163(3) of the Companies Act 1985) of Enlarged Group HMT Preference Shares, on such terms and in such manner as the Lloyds TSB Board may from time to time determine provided that:
  - (A) the maximum number of Enlarged Group HMT Preference Shares which may be purchased is 4,000,000;
  - (B) the minimum price which may be paid for each Enlarged Group HMT Preference Share is 25 pence (exclusive of expenses);
  - (C) the maximum price which may be paid for each Enlarged Group HMT Preference Share is an amount equal to 120 per cent. of the liquidation preference of the Enlarged Group HMT Preference Shares; and
  - (D) the authority conferred shall expire on the day which is 18 months after the date on which this ordinary resolution is passed (except in relation to the purchase of Enlarged Group HMT Preference Shares the contracts for which are concluded before such expiry and which are executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

**2.4.2** The following special resolution relating, *inter alia*, to the Company's share capital is set out in the Share Circular and was passed at the Lloyds TSB General Meeting on 19 November 2008: the power conferred on the Lloyds TSB Board by article 9.3 of the Articles of Association be renewed for the period ending on the day of the Company's annual general meeting in 2009 or on 7 August 2009, whichever is the earlier, and for that period the relevant "section 89 amount" shall be £205,577,100 if the ordinary resolution cited at 2.4.1(iii) above is passed (equivalent to 822,308,400 ordinary shares of 25 pence each in the capital of the Company) or £75,647,511 if the ordinary resolution cited at 2.4.1(iii) above is rejected (equivalent to 302,590,044 ordinary shares of 25 pence each in the capital of the Company).

### **3 Dividends, Capitalisation and Other Distributions**

#### **3.1 Dividend Terms**

No dividend may be paid on the Lloyds TSB Shares while any of the Enlarged Group HMT Preference Shares are outstanding, unless otherwise agreed by HM Treasury. However, the Lloyds TSB Board recognises the importance of dividends to shareholders and its clear intention is to achieve the repurchase of the Enlarged Group HMT Preference Shares during 2009 so as to enable it to resume the payment of dividends.

However, the restriction on payment of dividends does not preclude the declaration of a capitalisation issue paid out of non-distributable reserves. Lloyds TSB intends to issue shares by way of Capitalisation Issue for the 2008 financial year at a level to be determined by the Lloyds TSB Board at the appropriate time.

Repurchases of the Enlarged Group HMT Preference Shares would be subject to FSA approval and would take account of the Enlarged Group's capital position at the time of the proposed repurchase and prevailing market conditions. The Enlarged Group HMT Preference Shares can be repurchased using replacement Tier 1 capital, retained earnings, the proceeds of disposals (to the extent that these are in excess of the book value of assets disposed), gross reductions in risk-weighted assets or as otherwise permitted by the FSA. Repurchase within five years will also require approval of the holders of the Enlarged Group HMT Preference Shares.

HM Treasury has indicated its encouragement that the Enlarged Group HMT Preference Shares be repurchased as soon as practicable, applying a repurchase price of 101 per cent. of nominal value for six months after the close of the Placing and Open Offer and, thereafter, a price reflecting prevailing market conditions (with no value to be attributed to the fact that upon repurchase by the Company it may become able to pay dividends). Any such

repurchase arrangements will be subject to such constraints as are necessary to ensure the Enlarged Group HMT Preference Shares constitute Tier 1 capital. HM Treasury has agreed that if it were to dispose of any of the Enlarged Group HMT Preference Shares, it would either impose on any buyer an obligation to allow Lloyds TSB to repurchase the relevant Enlarged Group HMT Preference Shares on the repurchase terms set out above, or (at HM Treasury's sole discretion) release the restriction on payment of dividends. This would be done in a manner consistent with maintaining the Enlarged Group HMT Preference Shares' Tier 1 treatment.

Lloyds TSB will assess the range of options available to allow the repurchase in full of the Enlarged Group HMT Preference Shares as set out above and intends, subject to prevailing market conditions and the restrictions described above, to achieve this during 2009 so that the block on the payment of ordinary dividends will be removed. This will allow the Lloyds TSB Board to resume the payment of cash ordinary dividends. The timing of recommencement and the level of dividend will be determined with due regard for the trading and economic environment and the Lloyds TSB Group's capital position at that time.

### 3.2 *Historical Dividends*

The following table sets out the five-year dividend history for Lloyds TSB:

<i>Year ended 31 December</i>	<i>Dividend per Lloyds TSB Share (pence)</i>
2003	34.20
2004	34.20
2005	34.20
2006	34.20
2007	35.90

Note:

The above table sets out unaudited data extracted without material adjustment from Lloyds TSB's Annual Report and Accounts 2007 (in respect of the data for 2007), its Annual Report and Accounts 2006 (in respect of the data for 2006) and its Annual Report and Accounts 2005 (in respect of the data for 2005, 2004 and 2003).

## 4 **Memorandum and Articles of Association**

Lloyds TSB's Memorandum and Articles of Association, are incorporated by reference into this document which are available for inspection as set out in section 15 of this Part XVIII.

The Memorandum of Association provides, amongst other things, that the main objects for which the Company is formed and incorporated are to take over and hold all or such part of the property and rights, and to assume and undertake all or such part of the liabilities and obligations, of the Trustee Savings Bank Central Board (the "Central Board"), Trustee Savings Banks (Holdings) Limited ("TSB Holdings") and the trustee savings banks (meaning the banks defined as the existing banks in the Trustee Savings Banks Act 1985, the "TSBA") as shall be transferred to and vested in Lloyds TSB under the TSBA, to carry on the business of banking in all or any of its aspects and to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association of the Company.

Under the Memorandum of Association, Lloyds TSB may borrow or raise money in such manner and upon such terms and on such security as may seem to the directors to be expedient and in particular by the issue or deposit of debentures or debenture stock or other securities of any description and to secure all or any of Lloyds TSB's liabilities in respect of money borrowed, raised or owing or any other debt or obligation of or binding on Lloyds TSB in such manner as may be thought expedient and in particular by mortgage, charge or lien upon all or any part of the undertaking, property and assets, present or future, and uncalled capital of Lloyds TSB.

## 5 Major Shareholders of Lloyds TSB

### 5.1 Details of Interests

As at 14 November 2008 (the latest practicable date prior to the publication of this document), notifications had been received of the following interests in three per cent. or more of Lloyds TSB's issued ordinary share capital:

Shareholder	Prior to Admission of the Consideration Shares and the Open Offer Shares <sup>(1)</sup>		Following Admission of the Consideration Shares and the Open Offer Shares <sup>(1)</sup>	
	Number of Lloyds TSB Shares	Percentage of issued ordinary share capital	Number of Lloyds TSB Shares	Percentage of issued ordinary share capital
HM Treasury	0	0	7,123,501,794	43.52
Legal & General Investment Management Limited	232,229,960 <sup>(2)</sup>	3.89	232,229,960 <sup>(2)</sup>	1.42
Barclays PLC	216,216,951	3.62	216,216,951	1.32
The Capital Group Companies, Inc.	272,152,525	4.56	272,152,525	1.66

Notes:

(1) Figures are calculated assuming that (i) the interests of the existing major shareholders as at close of business on 14 November 2008, being the last practicable date prior to the publication of this document, do not change, (ii) the maximum number of Lloyds TSB Shares to be issued pursuant to the Acquisition and the Placing and Open Offer have been issued, (iii) no other Lloyds TSB Shares (including under Lloyds TSB Share Plans) are issued between 14 November 2008, being the last practicable date prior to the publication of this document, and the Effective Date, (iv) no HBOS Shares other than those issued pursuant to the Acquisition and the HBOS Placing and Open Offer (including under the HBOS Share Schemes) are issued between 14 November 2008, being the last practicable date prior to the publication of this document, and the Effective Date, (v) no existing Lloyds TSB Shareholders or HBOS Shareholders acquire any Open Offer Shares or HBOS Open Offer Shares, as the case may be; and (vi) that the existing major shareholders do not own any HBOS Shares.

(2) Direct interest.

Save as disclosed above, the Lloyds TSB Directors are not aware of any person who is interested (within the meaning of rule 5 of the Disclosure and Transparency Rules), directly or indirectly, in the total voting rights attaching to, three per cent. or more of the issued share capital of the Company. The figures above do not take account of interests in the voting rights of the Company of any existing Lloyds TSB shareholders or third parties who buy Existing Ordinary Shares before the Open Offer Record Date and who, pursuant to the Open Offer, including the Excess Application Facility, acquire an interest in the voting rights attaching to three per cent. or more of the issued share capital of the Company. Please see Part VIII ("Terms and conditions of the Placing and Open Offer") of the Lloyds TSB Placing and Open Offer Prospectus which is incorporated by reference into this document for further details of the Open Offer and the Excess Application Facility.

As at 14 November 2008, being the latest practicable date prior to the publication of this document, the Company was not aware of any person or persons who directly, indirectly, jointly or severally, exercise or could exercise control over the Company nor is it aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.

None of the Company's major shareholders has, or will have, different voting rights attached to the Lloyds TSB Shares they hold.

### 5.2 HM Treasury

#### 5.2.1 HM Treasury's intentions regarding the Lloyds TSB Group

HM Treasury has informed Lloyds TSB that it is not a permanent investor in UK banks. Its intention, over time, is to dispose of any Lloyds TSB Shares it may acquire under the Placing and Open Offer or pursuant to the Acquisition in an orderly way and it would normally expect to consult the Lloyds TSB Board prior to any disposal. In addition to being bound by the restriction on the payment of dividends discussed in section 9 ("Dividend Policy, Capitalisation and Capital Position") of Part A ("Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc") of the Lloyds TSB Placing and Open Offer Prospectus (which has been incorporated by reference into this document), Lloyds TSB has given certain undertakings to HM Treasury in relation to the operation of its business including the provision and active marketing of competitively priced mortgage



lending and lending to SMEs and restrictions on board remuneration. These restrictions and undertakings are aimed at ensuring that any state aid involved in the potential acquisition of Open Offer Shares and Lloyds TSB's potential participation in the guarantee scheme to be promoted by HM Treasury as part of its support for the UK banking industry is compatible with the common market under EU law.

Lloyds TSB has also agreed to use The Mound as its Scottish headquarters and to hold its annual general meetings in Scotland. Pursuant to the conditions attaching to the Proposed Government Funding, a summary of which is set out in Part V ("Conditions Relating to the Proposed Government Funding") of the Share Circular, HM Treasury has agreed to work with the Lloyds TSB Board on its appointment of two new independent directors following completion of the Acquisition. Thereafter, consistent with best practice, Lloyds TSB will engage constructively with HM Treasury in its role as a shareholder. Subject to the conditions attaching to the Proposed Government Funding, at the Lloyds TSB Board's request HM Treasury has confirmed that it currently has no intentions or strategic plans concerning the Enlarged Group or its business or employees.

**5.2.2** Other than those disclosed in section 7 ("Material Contracts") of this Part XVIII ("Additional Information") of this document, there are no other material agreements entered into outside the ordinary course of business in place between Lloyds TSB and HM Treasury.

## **6 Related Party Transactions of the Lloyds TSB Group and HBOS Group**

### **6.1 *Lloyds TSB Group***

Other than as disclosed in note 49 of its audited financial statements for the financial year ended 31 December 2005 and in note 45 of its audited financial statements for the financial years ended 31 December 2006 and 2007, such notes being incorporated by reference into this document, Lloyds TSB has not entered into any related party transactions other than with wholly owned subsidiaries during the period covered by the historical financial information.

Furthermore, in the six months ending with 30 June 2008 Lloyds TSB entered into the following material transactions with related parties:

**6.1.1** At 30 June 2008 the Lloyds TSB Group's pension funds had call deposits with Lloyds TSB Bank plc amounting to £24 million.

**6.1.2** The Lloyds TSB Group manages 102 Open Ended Investment Companies ("OEICs"), and of these 44 are consolidated. The Lloyds TSB Group invested £315 million and redeemed £179 million in the unconsolidated OEICs during the six months to 30 June 2008 and had investments, at fair value, of £3,138 million at 30 June 2008. The Lloyds TSB Group earned fees of £117 million from the unconsolidated OEICs in the six months to 30 June 2008. The Company held no investments in OEICs at any time during the first half of 2008.

**6.1.3** The Lloyds TSB Group has a number of associates held by its venture capital business that it accounts for at fair value through profit or loss. At 30 June 2008, these companies had total assets of approximately £3,571 million, total liabilities of approximately £3,547 million and for the six months ended 30 June 2008 had turnover of £1,248 million and made a net loss of approximately £5 million. In addition, the Lloyds TSB Group has provided £691 million of financing to these companies on which it received £21 million of interest income in the six month period to 30 June 2008.

In the period between 30 June 2008 and 14 November 2008 (being the last practicable date prior to the publication of this document) Lloyds TSB has not entered into any material related party transactions.

### **6.2 *HBOS Group***

Other than as disclosed in notes 50-51 of its Annual Report and Accounts for the financial year ended 31 December 2005 and in notes 47-48 of its Annual Report and Accounts for the financial years ended 31 December 2006 and 2007, such notes being incorporated by reference into this document, HBOS has not entered into any related party transactions other than with wholly owned subsidiaries during the period covered by the historical financial information.

HBOS is the ultimate parent company of its group. Banking transactions are entered into by HBOS with its subsidiaries in the normal course of business and are at normal commercial terms. These include loans, deposits and foreign currency transactions. Balances between HBOS and its subsidiaries are shown on HBOS's balance sheet. Interest income and expense in the year ended 31 December 2007 were £1,909m (2006 £1,469m, 2005 £1,336m) and £1,718m (2006 £966m, 2005 £998m) respectively. HBOS is the principal employer of the HBOS Group and staff and other costs in the year of £2,457m (2006 £2,277m, 2005 £2,015m) were recharged to subsidiaries.

In the year ended 31 December 2007, the HBOS Group provided both administration and processing services to Sainsbury's Bank plc. The amounts payable to the HBOS Group during the year were £42m (2006 £36m, 2005 £41m), of which £18m was outstanding at the year end (2006 £15m, 2005 £24m). At 31 December 2007, Sainsbury's Bank plc also had balances with the HBOS Group that were included in loans and advances to banks of £726m (2006 £766m, 2005 £1,011m) and deposits by banks of £3,430m (2006 £943m, 2005 £830m).

At 31 December 2007, there were loans and advances to customers of £11,373m (2006 £10,115m, 2005 £9,310m) outstanding and balances within customer accounts of £575m (2006 £304m, 2005 £185m) relating to jointly controlled entities and associated undertakings.

At 31 December 2007, there were customer accounts of £20m (2006 £3m, 2005 £16m) and investment and insurance contract liabilities of £425m (2006 £489m, 2005 £401m) related to the HBOS Group's pension arrangements. Additionally, the HBOS Group's pension funds held HBOS Shares with a value of £19m (2006 £28m, 2005 £28m) and HBOS plc bonds with a value of £2m (2006 £nil).

## **7 Material Contracts**

The following are all contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the Lloyds TSB Group and entered into by members of the HBOS Group: (a) within the two years immediately preceding the date of this document which are, or may be, material to the Lloyds TSB Group; or (b) at any time and contain obligations or entitlements which are, or may be, material to the Lloyds TSB Group as at the date of this document:

### **7.1 Subscription and Transfer Agreement**

In connection with the Placing and Open Offer, the Company, Citigroup Global Markets Limited, Merrill Lynch, UBS and Jersey Newco have entered into an agreement dated 18 November 2008, in respect of the subscription and transfer of ordinary shares and redeemable preference shares in Jersey Newco. Under the terms of this agreement:

- (a) the Company and UBS (or Merrill Lynch or Citigroup Global Markets Limited or a third party nominated by the Company) will acquire ordinary shares in Jersey Newco and enter into put and call options in respect of the ordinary shares in Jersey Newco subscribed for by UBS (or Merrill Lynch or Citigroup Global Markets Limited or a third party nominated by the Company) that are exercisable if the Placing and Open Offer does not proceed;
- (b) UBS, Merrill Lynch or Citigroup Global Markets Limited or a third party nominated by the Company, as applicable, will apply monies received from Qualifying Shareholders or HM Treasury under the Placing and Open Offer to subscribe for redeemable preference shares in Jersey Newco to an aggregate value equal to such monies, after deduction of the amount of certain commissions and expenses; and
- (c) the Company will allot and issue the Open Offer Shares to those persons entitled thereto in consideration of UBS, Merrill Lynch or Citigroup Global Markets Limited or a third party nominated by the Company, as applicable, transferring its holding of redeemable preference shares and ordinary shares in Jersey Newco to the Company.

Accordingly, instead of receiving cash as consideration for the issue of the Open Offer Shares, at the conclusion of the Placing and Open Offer, the Company will own the entire issued ordinary and redeemable preference share capital of Jersey Newco, whose only assets will be its cash reserves, which will represent an amount equivalent to the net proceeds of

the Placing and Open Offer. The Company is expected to be able to utilise this amount, equivalent to the Placing and Open Offer net proceeds, by exercising its right of redemption over the redeemable preference shares it will hold in Newco.

Qualifying Shareholders are not party to these arrangements and so will not acquire any direct right against UBS, Merrill Lynch, Citigroup Global Markets Limited or any third party subscriber nominated by the Company pursuant to these arrangements.

## **7.2 *Lloyds TSB Contracts Incorporated by Reference***

Material contracts in relation to the Lloyds TSB Group are discussed in section 9.1 (“Lloyds TSB Material Contracts”) of Part XII (“Additional Information”) of the Share Circular, which is incorporated by reference into this document.

## **7.3 *HBOS Contracts***

Material contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the HBOS Group: (i) within the two years preceding the date of this document which are, or may be, material to the HBOS Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the HBOS Group are discussed or incorporated by reference in this section 7.3.

### **7.3.1 *HBOS Contracts Incorporated by Reference***

Section 17.1.6 of Part XXII (“Additional Information”) of the HBOS Placing and Open Offer Prospectus, and paragraphs 17.1.2, 17.1.3, 17.1.5 and 17.1.6 therein are incorporated by reference into this document.

### **7.3.2 *HBOS Placing and Open Offer Agreement entered into with effect from 13 October 2008***

HBOS, Morgan Stanley, Dresdner Kleinwort and HM Treasury entered into the Placing and Open Offer Agreement with effect from 13 October 2008, pursuant to which (i) HBOS has agreed to invite qualifying shareholders to apply to acquire 7,482,394,366 Open Offer Shares at the issue price of 113.6 pence per Share by way of an open offer, (ii) Morgan Stanley and Dresdner Kleinwort were appointed as joint sponsors, joint bookrunners and joint placing agents and have agreed to use reasonable endeavours to procure placees to acquire the Open Offer Shares at not less than the price of 113.6 pence per share on the basis that the Open Offer Shares placed will be subject to clawback to the extent they are taken up under the Open Offer and (iii) HM Treasury has agreed that, to the extent not placed or taken up under the Open Offer, HM Treasury will acquire such Open Offer Shares itself at the price of 113.6 pence per share.

In consideration of its services under the Placing and Open Offer Agreement, HM Treasury will be paid (i) a commission of 0.5 per cent. of the aggregate value of the Open Offer Shares at the issue price per Open Offer Share payable on the earlier of the issue of the Open Offer Shares and the second business day after the day on which the Placing and Open Offer Agreement is terminated and (ii) a further commission of 1 per cent. of the aggregate value of the Open Offer Shares acquired by placees (including HM Treasury) at the issue price per Open Offer Share, payable on the issue of the Open Offer Shares. HBOS will pay all legal and other costs and expenses of HM Treasury, Morgan Stanley and Dresdner Kleinwort and the costs and expenses of HM Treasury’s financial advisers incurred in connection with the Placing and Open Offer and the issue of the HBOS HMT Preference Shares.

HBOS shall also bear all costs and expenses relating to the Placing and Open Offer and the issue of the HBOS HMT Preference Shares, including (but not limited to) the fees and expenses of its professional advisers, the cost of preparation, advertising, printing and distribution of the issue documents and all other documents connected with the Placing and Open Offer and the HBOS Preference Share Subscription Agreement, the registrars’ fees, the listing fees payable to the UK Listing Authority, any charges by CREST and the fees of the London Stock Exchange as applicable.

The obligations of HM Treasury, Morgan Stanley and Dresdner Kleinwort under the Placing and Open Offer Agreement are subject to certain conditions including, among others:

- (i) in the opinion of HM Treasury (acting in good faith) no event having occurred or being reasonably likely to occur which has resulted in or may result in a material adverse change in or affecting the condition (financial, operational, legal or otherwise), profitability, prospects, solvency, business affairs or operations of the HBOS Group, taken as a whole, whether or not arising in the ordinary course of business;
- (ii) the Acquisition having been made on terms such that, if the Acquisition becomes effective in accordance with its terms, the Placing Shares shall be acquired by Lloyds TSB on terms such that in consideration of the cancellation or transfer of the Placing Shares, the holders of Placing Shares shall receive ordinary shares in the capital of Lloyds TSB;
- (iii) the passing of the resolutions to be proposed at the HBOS Court Meeting and the HBOS General Meeting and to approve and implement the Acquisition and the Placing and Open Offer and the Scheme having been sanctioned by the Court at the Scheme Hearing; and
- (iv) the obtaining of all applicable regulatory approvals and authorisations.

HM Treasury is entitled to waive certain conditions in its absolute discretion. HM Treasury may only invoke a condition where HM Treasury does not consider it to be necessary that the arrangements contemplated by the Placing and Open Offer Agreement and by the HBOS Preference Share Subscription Agreement proceed to completion in order to maintain the financial stability of the United Kingdom.

HM Treasury may terminate the Placing and Open Offer Agreement in certain specified circumstances, but only where HM Treasury does not consider it to be necessary that the arrangements contemplated by the Placing and Open Offer Agreement and by the HBOS Preference Share Subscription Agreement proceed to completion in order to maintain the financial stability of the United Kingdom.

Each of Morgan Stanley and Dresdner Kleinwort may terminate its obligations under the Placing and Open Offer Agreement in certain circumstances. On termination by Morgan Stanley or Dresdner Kleinwort, the Placing and Open Offer Agreement will continue to be in force as between the non-terminating parties.

The proceeds of the Placing and Open Offer are to be used by HBOS for such regulatory capital purposes as may be agreed with HM Treasury, the Bank of England and the Financial Services Authority.

HBOS has given certain customary representations and warranties and indemnities to each of HM Treasury, Morgan Stanley and Dresdner Kleinwort under the Placing and Open Offer Agreement. The liabilities of HBOS are unlimited as to time and amount.

HM Treasury is entitled to novate its rights and obligations under the Placing and Open Offer Agreement to any entity which is wholly owned, directly or indirectly, by HM Treasury.

HBOS has undertaken not to declare or pay any dividend or make any distribution on or in respect of its ordinary shares or set aside any sum to provide for payment of any such dividend or distribution; or redeem, purchase, cancel or otherwise acquire in any way any of its ordinary shares or effect a reduction of its ordinary share capital which involves distribution to holders of the ordinary shares until the HBOS HMT Preference Shares are redeemed or repurchased in full.

HBOS has given certain undertakings to HM Treasury in support of HM Treasury's objective of providing assistance to the UK banking industry, as follows:

- (i) HBOS Directors will relinquish bonuses for 2008.

- (ii) The enlarged group remuneration will reflect long-term value creation and will take account of risk. The reward for board members will take into account internal relative compensation packages and perceived fairness in the current economic climate. On losing the confidence of the board, the board members can be dismissed at a reasonable and fair cost.
- (iii) To commit to a new FSA Code on risk based remuneration.
- (iv) HM Treasury will work with the board on its appointment of two new independent directors, unless HM Treasury's holding of the Enlarged Group falls below 25 per cent., in which case it will be consulted on the appointment of one independent director.
- (v) In relation to mortgages, to immediately restore and maintain the availability and active marketing of competitively priced mortgage lending until the end of 2011 at a level at least equivalent to that of 2007 (provided that HBOS shall not be required to engage in uncommercial activities); to participate in industry initiatives and comply with government codes/guidance until at least the end of 2011; to make available a sum to be agreed for the establishment and maintenance of shared equity/shared ownership schemes; and to support ongoing expansion of financial capability initiatives.
- (vi) In relation to SMEs, to immediately restore and maintain the availability and active marketing of competitively priced lending to SMEs until the end of 2011 at a level at least equivalent to that of 2007 (provided that HBOS shall not be required to engage in uncommercial activities); and to publish an annual report containing specified information relating to SMEs.

The above undertakings shall apply until HM Treasury or the European Commission determines or a court of competent jurisdiction finally determines that HBOS is no longer in receipt of the aid which is the subject of the decision. HM Treasury has agreed in certain circumstances, to consult with HBOS with a view to making submissions to the European Commission to obtain clarity as to the duration of the conditions and/or seek their disapplication.

It is anticipated that following completion of the Acquisition the conditions relating to the Proposed Government funding set out in Part VI ("Information on the Acquisition") of the Lloyds TSB Placing and Open Offer Prospectus, which is incorporated by reference (and not the conditions set out in the Placing and Open Offer Agreement) will apply to the Enlarged Group.

### **7.3.3 Implementation Agreement**

On 18 September 2008, Lloyds TSB and HBOS entered into the Implementation Agreement, as subsequently amended and restated on 13 October 2008. Please see the summary in paragraph 9.1.1 of Part XII ("Additional Information") of the Share Circular, which is incorporated by reference into this document.



## 8 Significant Subsidiaries

The following table shows, as of 14 November 2008, the significant subsidiaries of the Lloyds TSB Group and the associated undertakings of the Lloyds TSB Group which Lloyds TSB considers are likely to have a significant effect on the assessment of the Enlarged Group's assets and liabilities, financial position or profit and losses:

<i>Name</i>	<i>Percentage ownership interest and voting power</i>	<i>Field of activity</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Lloyds TSB Bank plc	100	Banking and financial services	England	25 Gresham Street, London EC2V 7HN
Lloyds TSB Commercial Finance Limited	100 <sup>(1)</sup>	Credit factoring	England	Boston House, Little Green, Richmond, Surrey TW9 1QE
Lloyds TSB Leasing Limited	100 <sup>(1)</sup>	Financial leasing	England	25 Gresham Street, London EC2V 7HN
Lloyds TSB Private Banking Limited	100 <sup>(1)</sup>	Private banking	England	25 Gresham Street, London EC2V 7HN
The Agricultural Mortgage Corporation PLC	100 <sup>(1)</sup>	Long-term agricultural finance	England	Charlton Place, Charlton Road, Andover, Hampshire SP10 1RE
Lloyds TSB Offshore Limited	100 <sup>(1)</sup>	Banking and financial services	Jersey	PO Box 160 25 New Street, St Helier, Jersey JE4 8RG
Lloyds TSB Scotland plc	100 <sup>(1)</sup>	Banking and financial services	Scotland	Henry Duncan House, 120 George Street, Edinburgh EH2 4LH
Lloyds TSB General Insurance Limited	100 <sup>(1)</sup>	General insurance	England	25 Gresham Street, London EC2V 7HN
Scottish Widows Investment Partnership Group Limited	100 <sup>(1)</sup>	Investment management	England	10 Fleet Place, London EC4M 7RH
Lloyds TSB Insurance Services Limited	100 <sup>(1)</sup>	Insurance broking	England	25 Gresham Street, London EC2V 7HN
Lloyds TSB Asset Finance Division Limited	100 <sup>(1)</sup>	Consumer credit, leasing and related services	England	25 Gresham Street, London EC2V 7HN
Black Horse Limited	100 <sup>(1)</sup>	Consumer credit, leasing and related services	England	25 Gresham Street, London EC2V 7HN
Scottish Widows plc	100 <sup>(1)</sup>	Life assurance	Scotland	69 Morrison Street, Edinburgh, Midlothian EH3 8YF
Scottish Widows Annuities Limited	100 <sup>(1)</sup>	Life assurance	Scotland	69 Morrison Street, Edinburgh, Midlothian EH3 8YF

Note:

(1) Indirect interest.

The following tables show, as of 14 November 2008, the significant subsidiaries of the HBOS Group, associated undertakings and jointly controlled entities of the HBOS Group which Lloyds TSB considers are likely to have a significant effect on the assessment of the Enlarged Group's assets and liabilities, financial position or profit and losses:

*Significant subsidiaries and associated undertakings*

<i>Name</i>	<i>Percentage ownership interest and voting power</i>	<i>Field of activity</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Bank of Scotland plc	100	Banking, financial and related services	Scotland	The Mound, Edinburgh EH1 1YZ
Bank of Scotland (Ireland) Limited	100	Banking	Ireland	Bank of Scotland House, 124-127 St. Stephen's Green, Dublin 2, Ireland
HBOS Covered Bonds LLP	100	Residential mortgage funding	England	Trinity Road, Halifax, West Yorkshire HX1 2RG
HBOS Australia Pty Limited	100	Banking	Australia	BankWest Tower, 108 St George's Terrace, Perth, Australia WA 6000
Bank of Western Australia Limited	100	Banking	Australia	BankWest Tower, 108 St George's Terrace, Perth, Australia WA 6000
Halifax Share Dealing Limited	100	Execution only stockbroking	England	Trinity Road, Halifax, West Yorkshire HX1 2RG
HBOS Insurance & Investment Group Limited	100	Investment holding	England	33 Old Broad Street, London EC2N 1HZ
Halifax General Insurance Services Limited	100	General insurance brokerage	England	Trinity Road, Halifax, West Yorkshire HX1 2RG
St Andrew's Insurance plc	100	General insurance	England	St Andrew's House, Portsmouth Road, Esher, Surrey KT10 9SA
Clerical Medical Investment Group Limited	100	Life assurance	England	33 Old Broad Street, London EC2N 1HZ
Clerical Medical Managed Funds Limited	100	Life assurance	England	33 Old Broad Street, London EC2N 1HZ
Halifax Life Limited	100	Life assurance	England	Trinity Road, Halifax, West Yorkshire HX1 2RG
HBOS Investment Fund Managers Limited	100	OEIC management	England	Trinity Road, Halifax, West Yorkshire HX1 2RG

<i>Name</i>	<i>Percentage ownership interest and voting power</i>	<i>Field of activity</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Insight Investment Management Limited	100	Investment management	England	33 Old Broad Street, London EC2N 1HZ
Invista Real Estate Investment Management Holdings plc	55	Property investment	England	Exchequer Court, 33 St. Mary Axe, London EC3A 8AA
St. James's Place plc	60	Financial services	England	St. James's Place House, Dollar Street, Cirencester GL7 2AQ
St Andrew's Life Assurance Plc	100	Pensions	England	St Andrew's House, Portsmouth Road, Esher, Surrey KT10 9SA

*Jointly controlled entities*

<i>Name</i>	<i>Percentage ownership interest and voting power</i>	<i>Field of activity</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Automobile Association Personal Finance Limited	50	Finance	England	Trinity Road, Halifax, West Yorkshire HX1 2RG
esure Holdings Ltd	70	Insurance	England	The Observatory, Reigate, Surrey RH2 0SG
Green Property Investment Fund plc	50	Investment	Ireland	Styne House, Hatch Street, Upper Dublin 2 Ireland
Sainsbury's Bank plc	50	Banking	England	33 Holborn, London EC1N 2HT

## **9 Lloyds TSB Shares held by Lloyds TSB Group**

As at 14 November 2008, being the last practicable Business Day before publication of this document, the following Lloyds TSB Shares were held by subsidiaries of the Lloyds TSB Group:

<i>Subsidiary</i>	<i>Number of Lloyds TSB Shares held</i>	<i>Percentage holding of Lloyds TSB</i>
Lloyds TSB Offshore Private Banking Limited	550,808	0.009
Lloyds TSB Private Banking Limited	35,737,652	0.598
Scottish Widows Investment Partnership Limited	93,207,958	1.561

## **10 Capital Resources and Liquidity**

The effective management of capital and risk remains central to Lloyds TSB's strategy. Lloyds TSB continues to be focused on the maintenance of a strong capital base, to ensure this base expands appropriately and to utilise capital efficiently throughout Lloyds TSB's activities to both maintain a prudent relationship between the capital base and the underlying risks of the business and also optimise returns to shareholders. It is intended that this same approach will apply in the Enlarged Group. In the pursuit of this focused approach to capital and risk management, Lloyds TSB follows the supervisory requirements of the FSA. During 2008, the key focus of capital adequacy has shifted to the ratio of core Tier 1 capital to risk-weighted assets. At 30 June 2008 Lloyds TSB had a core Tier 1 ratio of 6.2 per cent.

In the context of continued turbulence and uncertainty in financial markets, combined with the deteriorating global economic outlook, the Lloyds TSB Board believes it is essential to maintain

higher levels of capital in order to ensure the Enlarged Group remains resilient to any further shocks to the financial system and that it remains competitive. Upon completion of the Placing and Open Offer, Lloyds TSB will issue approximately 2.6 billion Open Offer Shares in accordance with the terms of the Placing and Open Offer Agreement and HBOS will issue approximately 7.5 billion HBOS Open Offer Shares in accordance with the terms of the HBOS Placing and Open Offer Agreement (which will as a result of the Acquisition be exchanged into approximately 4.5 billion Lloyds TSB Shares), raising in aggregate approximately £13.0 billion. The fair value of these new shares is £11.8 billion based on the closing price of the Lloyds TSB Shares of 166.0 pence per share set forth in the London Stock Exchange Daily Official List on 14 November 2008, the last practicable date prior to the date of this document. Upon completion of the Acquisition and the Placing and Open Offer, Lloyds TSB will also issue 1 million New HM Treasury Preference Shares with an aggregate liquidation preference of £1 billion to HM Treasury in accordance with the terms of the Preference Share Subscription Agreement, and HBOS will issue 3 million HBOS HMT Preference Shares with an aggregate liquidation preference of £3 billion to HM Treasury in accordance with the terms of the HBOS Preference Share Subscription Agreement, such issues raising in aggregate approximately £4 billion. Based on published information at 30 June 2008, and taking into account Lloyds TSB's equity placing completed on 19 September 2008, the Placing and Open Offer, HBOS' rights issue announced on 29 April 2008 and the HBOS Placing and Open Offer, Lloyds TSB estimates that the Enlarged Group would have had a core Tier 1 ratio of 8.8 per cent. at 30 June 2008. Lloyds TSB has made a preliminary assessment that net negative capital adjustments of no more than £10 billion after tax would need to be made to HBOS' financial position for core Tier 1 capital purposes as a result of the Acquisition, the effect of which would mean that the Enlarged Group would have a Core Tier 1 ratio in excess of 7 per cent.

Within Lloyds TSB the liquidity management framework focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the maturity mismatch of assets and liabilities across the balance sheet, as well as from undrawn commitments and other contingent obligations. The aim of Lloyds TSB's balance sheet structure management is to maintain substantial diversification, minimise concentration across Lloyds TSB's various deposit sources and control the level of reliance on total short-term wholesale sources of funds (both secured and unsecured). As part of Lloyds TSB's planning process, it regularly reviews the forecast structure of its balance sheet over the planning period, and updates the funding plan as appropriate. In addition, Lloyds TSB continuously monitors the level of large deposits taken from individual bank, corporate, non-bank financial institution and other customer types and also reviews the significant cash outflows therefrom to monitor concentration and trends. Lloyds TSB operates within the context of a full suite of liquidity metrics to ensure that the Group is within the liquidity risk appetite set by the Board.

During 2008, global financial markets have experienced extremely turbulent conditions. As a consequence of this, governments and central banks have undertaken a series of escalating actions in the attempt to improve liquidity within their respective banking systems. In September and October the Bank of England, the European Central Bank and the US Federal Reserve announced a number of new mechanisms and tools for the provision of liquidity to banks in their respective jurisdictions, including those in which Lloyds TSB and HBOS operate. Such measures include weekly and longer term repurchase agreements, expanding the types of collateral accepted by these central banks as security for funding; and co-ordinating global action to strengthen the banking system and functioning of the interbank markets. On 8 October 2008, the UK Government announced a broad range of measures intended to ease both the cause and the symptoms of the current difficulties in the UK banking system, including the provision of liquidity and funding support to banks. This currently consists of the Special Liquidity Scheme, whereby banks and building societies can exchange eligible securities for UK Treasury bills; and a guarantee on short and medium term debt issuance by HM Treasury.

However, there can be no assurance that these global measures will succeed in improving the funding and liquidity of the markets in which the major banks, including Lloyds TSB and HBOS, operate. Lloyds TSB believes the Enlarged Group remains relatively well positioned to access a number of wholesale funding sources from a range of counterparties, markets, sectors and geographical markets. However, despite the relatively advantageous situation enjoyed by the Enlarged Group, the uncertainty facing the markets is such that management believe that no institution is immune from the effects of an extended closure of the wholesale markets without the support of the central bank and/or government. It is likely that in this context, the Enlarged Group

will continue to draw on the Special Liquidity Scheme, and will take advantage of the guaranteed funding provided by HM Treasury.

As discussed above, the global markets for short-, medium-, and long-term sources of funding on which banks rely to support their business activities have undergone a period of unprecedented upheaval and contraction, which has led to direct intervention by HM Treasury (via the introduction of the government guarantee scheme for senior funding) and the Bank of England (via the extended Long Term Repo facility, and the new Discount Window facility) in order to provide further assurance of liquidity support for the markets. The Enlarged Group is eligible to participate in the schemes, and will use these tools as appropriate in future liquidity and funding management, particularly in an environment as currently experienced.

## **11 Litigation**

### **11.1 *Litigation relating to the Lloyds TSB Group and the HBOS Group***

Save as disclosed in section 11.2 and 11.3 of this Part XVIII and as is detailed in section 11.1.3 (“Office of Foreign Assets Control”) of Part XII (“Additional Information”) of the Share Circular and section 18.1.1 to 18.1.3 (“Litigation – HBOS”) of Part XXII (“Additional Information”) of the HBOS Placing and Open Offer Prospectus and section 18 (“Litigation”) of Part XVIII (“Additional Information”) of the HBOS Rights Issue Prospectus, each of which are incorporated by reference into this document, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which Lloyds TSB is aware) during the year preceding the date of this document, which may have or have had in the recent past, significant effects on the financial position or profitability of Lloyds TSB and/or the Lloyds TSB Group.

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

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

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

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

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



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

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

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

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

11.3.1 The following reviews and inquiries are being carried out:

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

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions' terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions' current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 22 May 2008, the Lloyds TSB Group and the HBOS Group, along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

A further hearing was held on 7 to 9 July to consider whether the financial institutions' historical terms and conditions are similarly not capable of being penalties, and to consider whether their historical terms are assessable for fairness. On 8 October 2008, the High Court issued its judgment broadly holding that these unplanned overdraft charges are not capable of being penalties, although it has invited further clarification from a number of banks, including the Lloyds TSB Group, before making any formal ruling on their historical terms and conditions. Subject to the outcome of any appeal in relation to whether the charges are

assessable for fairness, it is expected that there will be further substantive hearings to establish whether the charges are fair. If various appeals are pursued, the proceedings may take a number of years to conclude.

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the legal proceedings initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

#### 11.3.2 Interchange Fees

The European Commission has adopted a formal decision finding that an infringement of EC competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (along with certain other MasterCard issuers) have applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with EC competition laws. The European Commission has objected to these proposed interventions. The Court of First Instance has not yet decided whether to allow the proposed interventions to proceed. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. The ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

#### 11.4 *Continuing Obligations*

Lloyds TSB intends to comply with its continuing obligations as a company with securities admitted to the Official List in connection with further disclosures in relation to the impact of the reviews and enquiries being conducted by the UK Office of Fair Trading as disclosed in section 11.3 of this Part XVIII above on the Lloyds TSB Group.

### 12 **Costs of the Acquisition and Placing and Open Offer**

Lloyds TSB estimated costs directly attributable to the Acquisition are £60 million. In addition, the Lloyds TSB estimated costs directly attributable to the Placing and Open Offer and the New Preference Share Issue are £70 million.

### **13 Sources and Bases of Selected Financial Information**

#### **13.1** Unless otherwise stated:

- (A) financial information relating to Lloyds TSB and the Lloyds TSB Group has been extracted (without any adjustment) from the audited annual report and accounts for Lloyds TSB for the year ended 31 December 2007 and unaudited interim financial statements of Lloyds TSB for the six months as at and for the period ended 30 June 2008; and
- (B) financial information relating to HBOS and the HBOS Group has been extracted (without any adjustment) from the audited annual report and accounts for HBOS for the year ended 31 December 2007 and unaudited interim financial statements of HBOS for the six months as at and for the period ended 30 June 2008.

#### **13.2** The value of the Acquisition on an all share basis is calculated:

- (A) by reference to a price of 166.0p per Lloyds TSB Share (being the Closing Price on 14 November 2008, the latest practicable date prior to the publication of this document); and
- (B) by reference to HBOS' issued share capital of 5,406,574,275 HBOS Shares.

#### **13.3** The terms of the Acquisition value each HBOS Share at 100.4p. The Acquisition price is based on a share price of 166.0p per Lloyds TSB Share (the Closing Price on 14 November 2008, the latest practicable date prior to the publication of this document), and 0.605 Lloyds TSB Shares to be issued for each HBOS Share, representing 100.4p in Lloyds TSB Shares.

#### **13.4** The fully diluted share capital of HBOS is calculated on the basis of:

- (A) the number of issued HBOS Shares;
- (B) the assumption that 7,482,394,366 HBOS Shares are issued to HM Treasury pursuant to the terms of the HBOS Placing and Open Offer; and
- (C) any further HBOS Shares which may be issued on or after that date on the exercise of options or vesting of awards under the HBOS Share Schemes, amounting to 124,553,270 HBOS Shares.

#### **13.5** The respective percentages that Lloyds TSB Shareholders and HBOS Shareholders will own of the Enlarged Group are calculated on the following basis:

- (A) by reference to Lloyds TSB's issued share capital of 5,972,853,501 Lloyds TSB Shares; and
- (B) by reference to HBOS' issued share capital of 5,406,574,275 HBOS Shares;
- (C) the assumption that the HBOS Shareholders do not participate in the HBOS Placing and Open Offer; and
- (D) the assumption that the Lloyds TSB Shareholders do not participate in the Placing and Open Offer.

#### **13.6** The expected operational cost savings have been calculated on the basis of the existing cost and operating structures of the Lloyds TSB Group and the HBOS Group. These statements of estimated cost savings and one-off costs for achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. As a result, the cost savings referred to may not be achieved, or those achieved could be materially different from those estimated. No statement in this document or incorporated by reference into this document is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for either Lloyds TSB or HBOS as appropriate.

#### **13.7** The premium calculations to the price per HBOS Share in this document have been calculated by reference to the Closing Price of 166.0p of a Lloyds TSB Share, being the Closing Price on 14 November 2008, the latest practicable date prior to the publication of this document.

## **14 Significant Change and Material Adverse Change**

### **14.1 Lloyds TSB Group**

14.1.1 Save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed "Strong relationship banking growth in Wholesale and International Banking", the third paragraph of the section headed "In a difficult economic environment, asset quality remains satisfactory" and the section headed "Insurance volatility" in the Interim Management Statement (which is incorporated by reference into this document), there has been no significant change in the financial or trading position of the Lloyds TSB Group since 30 June 2008, the date to which Lloyds TSB's last published interim financial information was prepared.

14.1.2 Save as disclosed in Lloyds TSB's Interim Results for the half year ended 30 June 2008 (as incorporated by reference herein) and save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed "Strong relationship banking growth in Wholesale and International Banking", the third paragraph of the section headed "In a difficult economic environment, asset quality remains satisfactory" and the section headed "Insurance volatility", in the Interim Management Statement (as incorporated by reference herein), there has been no material adverse change in the prospects of the Lloyds TSB Group since 31 December 2007.

### **14.2 HBOS Group**

Save for the £4 billion net cash proceeds raised by HBOS in its rights issue in July 2008 and as disclosed in the sections headed "Group Overview", "Divisional Review" and "Outlook" in the HBOS Interim Management Statement which is included in Part XIII ("HBOS Interim Management Statement 3 November 2008") of the Share Circular (which is incorporated by reference into this document), which sets out the current trading, trends and prospects of the HBOS Group, there has been no significant change in the financial or trading position of the HBOS Group since 30 June 2008, the date to which HBOS's last published interim financial information was prepared.

## **15 New Lloyds TSB Preference ADSs**

Following the Preference Scheme becoming effective in relation to the relevant class of HBOS Preference Shares represented by ADSs, the HBOS Preference Share Depositary will receive (i) one new Lloyds TSB 6.657% Preference Share for each HBOS 6.657% Preference Share cancelled pursuant to the terms of the Preference Scheme, (ii) one new Lloyds TSB 6.413% Preference Share for each HBOS 6.413% Preference Share cancelled pursuant to the terms of the Preference Scheme and (iii) one new Lloyds TSB 5.92% Preference Share for each HBOS 5.92% Preference Share cancelled pursuant to the terms of the Preference Scheme. The New Lloyds TSB Preference Shares received by the HBOS Preference Share Depositary will remain in the respective HBOS ADS facility and will be deposited securities under the respective HBOS Preference Share Deposit Agreement. ADSs representing Preference Scheme Shares will remain outstanding but will then represent the relevant New Lloyds TSB Preference Shares. The HBOS Preference Share Deposit Agreements relating to the Preference Scheme will not be terminated. Following the cancellation and issue described above, Lloyds TSB will assume the obligations of HBOS under the respective Preference Share Deposit Agreement with respect to the series of HBOS Preference ADSs that then represent New Lloyds TSB Preference Shares. Details of the HBOS Preference Share Depositary and the current HBOS Preference Share Deposit Agreement are set out in the section entitled "Description of the American Depositary Receipts" of the HBOS 6.657% Preference Share Prospectus, which is incorporated by reference into this document. References in that section to "Depositary" shall mean the HBOS Preference Share Depositary.

## **16 Documents Available for Inspection**

Copies of the following documents:

- (A) the Memorandum and Articles of Association of the Company;
- (B) the Annual Reports and audited Consolidated Accounts of the Lloyds TSB Group for the financial years ended 31 December 2005, 2006 and 2007 (and for this year only, on Form 20-F);

- (C) Lloyds TSB Interim Results for the six months ended 30 June 2008;
- (D) Lloyds TSB Interim Results for the six months ended 30 June 2007 and 30 June 2008 on Form 6-K;
- (E) the audited consolidated accounts of the HBOS Group for the years ended 31 December 2007, 2006 and 2005;
- (F) HBOS Interim Results for the six months ended 30 June 2008;
- (G) the Scheme Document;
- (H) the Preference Share Scheme Circular;
- (I) the Share Circular;
- (J) the Placing Agreement between Lloyds TSB, Citigroup Global Markets Limited and Merrill Lynch dated 19 September 2008;
- (K) the Placing and Open Offer Agreement;
- (L) the Preference Share Subscription Agreement;
- (M) the HBOS Rights Issue Underwriting Agreement between HBOS, Morgan Stanley & Co. Limited and Dresdner Bank AG, London Branch dated 19 April 2008;
- (N) the Agreement for the sale of Bank of Western Australia Limited and St Andrew's Insurance plc to Commonwealth Bank of Australia dated 8 October 2008;
- (O) the HBOS Placing and Open Offer Agreement;
- (P) the HBOS Preference Share Subscription Agreement;
- (Q) the Implementation Agreement;
- (R) the service contracts of the Lloyds TSB Directors;
- (S) the Lloyds TSB Placing and Open Offer Prospectus;
- (T) the subscription and transfer agreement between Lloyds TSB, Citigroup Global Markets Limited, Merrill Lynch, UBS and Jersey NewCo dated 18 November 2008;
- (U) this document; and
- (V) the documents incorporated by reference into this document.

are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period from the date of publication of this document until Admission at:

- (A) the registered office of the Company, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH; and
- (B) the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ.

## 17 Details of Key Individuals Important to HBOS's Business

As far as the Company is aware, the following persons are key individuals who are important to the business of HBOS:

<i>Name</i>	<i>Position</i>
Dennis Stevenson	Chairman
Andy Hornby	Chief Executive
Peter Cummings	Chief Executive, Corporate
Jo Dawson	Chief Executive, Retail Distribution, Insurance & Investment
Mike Ellis	Group Finance Director
Philip Gore-Randall	Chief Operating Officer
Colin Matthew	Chief Executive, Strategy, International and Treasury & Asset Management
Dan Watkins	Chief Executive, Retail Products
Harry Baines	Company Secretary & Group Counsel
Peter Hickman	Group Risk Director

As disclosed in Part A ("Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc") of Part VI ("Information on the Acquisition") of the Lloyds TSB Placing and Open Offer Prospectus (which is incorporated by reference into this document), Lloyds TSB has announced Board,



Company secretary and other Group executive committee appointments to the Enlarged Group with effect from completion of the Acquisition. Of those listed above, Jo Dawson is to be appointed Wealth and International Director of the Enlarged Group and Harry Baines is to be appointed General Counsel and Company Secretary of the Enlarged Group. At this stage, other than as described in section 17 below, no further decisions have been taken in respect of future appointments (if any) of the above-named individuals within the Enlarged Group.

## **18 Consultancy agreement**

Andy Hornby has agreed in principle to provide his services to Lloyds TSB on a consultancy basis to assist with integration-related matters. The appointment will commence when the Acquisition becomes Effective and is terminable on one month's notice by either party. The appointment will be reviewed after three months, and, monthly thereafter. Mr Hornby's consultancy fee is £60,000 per month.

## **19 Listing of the Preference Shares and the ADRs evidencing New Lloyds TSB Preference ADSs**

The listing of the Preference Shares and the ADRs evidencing New Lloyds TSB Preference ADSs on the Official List will be expressed as a percentage of their liquidation preference (exclusive of accrued interest). It is expected that listing of the Preference Shares and the ADRs evidencing New Lloyds TSB Preference ADSs on the Official List and admission of the Preference Shares and the ADRs evidencing New Lloyds TSB Preference ADSs to trading on the Market will be granted on or about 19 January 2009, subject only to the issue of the Preference Shares.

## **20 Authorisations**

The issue of the Preference Shares was authorised pursuant to a resolution of a Committee of the Board of Directors passed on 17 November 2008 and by a resolution of the Board of Directors passed on 11 November 2008.

## **21 Net Proceeds and Use of Proceeds**

The net proceeds of the issue of the New HM Treasury Preference Shares, issued in connection with the UK Government's recapitalisation scheme (as further discussed in Part VII ("Regulation and Supervision in the United Kingdom") of this document), are estimated to amount to £1,000,000,000 and will be used for the development and expansion of the business of the Company and its subsidiaries and to strengthen further the capital base of the Company. The Company estimates that the expenses in connection with the issue of the New HM Treasury Preference Shares are expected to amount to £100,000.

## **22 Miscellaneous**

The Company undertakes to obtain an International Securities Identification Number (ISIN) for each class of Preference Shares on or around the relevant Issue Date. The ISINs for the ADRs evidencing New Lloyds TSB Preference ADSs will be the same as the ISINs of the ADRs evidencing HBOS Preference ADSs.

## **PART XIX**

### **RESTRICTIONS**

The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about, and observe, such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction.

This document does not constitute an offer or an invitation to purchase or subscribe for any securities or a solicitation of an offer to buy any securities pursuant to the document or otherwise in any jurisdiction in which such offer or solicitation is unlawful.

#### **Australia**

This document is not an Australian law compliant prospectus and has not been, and will not be, lodged with the Australian Securities and Investments Commission. The information disclosed in this document may not be the same as that which would have been disclosed if this document had been prepared in accordance with Australian law.

The New Lloyds TSB Preference Shares issued to HBOS Preference Shareholders under the Preference Scheme will be issued in consideration for the cancellation of their HBOS Preference Shares under the Preference Scheme. For the purposes of Australian securities law, the New Lloyds TSB Preference Shares will not be issued with the purpose of the HBOS Preference Shareholders on-selling or transferring them.

#### **Cyprus**

This document does not constitute, and may not be used by any person for the purposes of, an offer or an invitation to subscribe for, invest in, purchase or otherwise acquire any New Lloyds TSB Preference Shares (i) in any circumstances which would require the publication of a prospectus pursuant to the Law on Public Offer and Prospectus, Law No.114(I)/2005, or the Companies Law, Cap.113 as amended, or any other law applicable in Cyprus or (ii) to any person in Cyprus to whom it is unlawful to make such an offer or invitation.

#### **Czech Republic**

This document has not been and will not be notified to, and it has not been and will not be approved by, the Czech National Bank of the Czech Republic. The New Lloyds TSB Preference Shares may only be offered in the Czech Republic to existing HBOS Preference Shareholders. This document may only be distributed in the Czech Republic to existing HBOS Preference Shareholders, exclusively for their own use. The recipients of this document may not reproduce or distribute it or pass it on to any other person.

#### **Finland**

The New Lloyds TSB Preference Shares may not be offered or sold, or this document be distributed, directly or indirectly, to any resident of the Republic of Finland or in the Republic of Finland, except pursuant to applicable Finnish laws and regulations. Specifically, the New Lloyds TSB Preference Shares may not be offered or sold, or this document be distributed, directly or indirectly, to any resident of the Republic of Finland or in the Republic of Finland, other than to a maximum of 99 investors (under the Finnish Securities Market Act of 1989). This document has not been approved by or notified to the Finnish Financial Supervision Authority.

#### **France**

Nothing in this document, nor anything communicated to HBOS Preference Shareholders or potential holders of New Lloyds TSB Preference Shares by HBOS or Lloyds TSB, constitutes a public offering of financial instruments within the meaning of Article L. 411-1 of the French Monetary and Financial Code. Therefore, neither this document nor anything communicated to HBOS Preference Shareholders or potential holders of New Lloyds TSB Preference Shares by HBOS or Lloyds TSB, has been submitted to the Autorité des Marchés Financiers for prior approval and clearance procedure. Please also refer to the paragraph headed "Other EEA Jurisdictions".

## **Hong Kong**

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Preference Scheme. If you are in any doubt about any of the contents of this document you should obtain independent professional advice.

Please note that (i) none of the New Lloyds TSB Preference Shares may be offered or sold in Hong Kong by means of this document or any other document other than to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571) (“SFO”) and any rules made thereunder (“professional investors”), or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance of Hong Kong (Cap. 32) (“CO”) or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO, and (ii) no person shall issue or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to New Lloyds TSB Preference Shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to those New Lloyds TSB Preference Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors.

## **Malaysia**

This document has not been approved by the Securities Commission of Malaysia as a prospectus and will not be registered with the Securities Commission of Malaysia. This document is not an offer or invitation to subscribe or purchase securities and shall not be issued, circulated or distributed in Malaysia.

## **Malta**

The contents of this document should not be construed to amount to an offer to the public for subscription in New Lloyds TSB Preference Shares. This document is not required to be filed, lodged, registered or approved with, or by, any regulatory authority in Malta.

## **New Zealand**

This document is not a New Zealand prospectus or an investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (or any other relevant New Zealand law). This document may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain. New Lloyds TSB Preference Shares are offered to the public of New Zealand under this document in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

## **Other EEA Jurisdictions**

This document does not constitute an offer to sell or an invitation to purchase or the solicitation of an offer to buy shares in either Lloyds TSB or HBOS or invest in any scheme, nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract or commitment whatsoever for such shares. The information contained herein is not binding, is solely for the information of recipients of this document and must not be reproduced, distributed to any other person (including the press and other media) or published, in whole or in part, for any purpose.

## **Portugal**

This document does not constitute an offer to sell, or a solicitation of an offer to subscribe for, New Lloyds TSB Preference Shares or New Lloyds TSB Preference ADSs and any such offer will have to comply with the rules set out in the Portuguese Securities Code and the clearance procedures of the Portuguese Market and Securities Commission.

## **Slovenia**

The addressee has received this document pursuant to an exemption under the Prospectus Directive as implemented in Slovenia in the Market in Financial Instruments Act from the requirement to produce a prospectus under the Prospectus Directive for offers of shares. No offering material in relation to any New Lloyds TSB Preference Shares has been or will be

approved by the Slovenian Securities Market Agency. The New Lloyds TSB Preference Shares may only be offered to existing HBOS Preference Shareholders. This document may only be distributed in Slovenia to the HBOS Preference Shareholders, exclusively for their own use, and may not be reproduced or distributed. If the addressee makes or intends to make an offer of New Lloyds TSB Preference Shares in Slovenia, it may only do so in circumstances in which no obligation arises for Lloyds TSB to produce a prospectus under the Prospectus Directive and/or passport a prospectus into Slovenia.

### **South Africa**

This document is not an invitation to the public to subscribe for or an offer to the public to purchase shares in Lloyds TSB, as contemplated in the South African Companies Act, 1973, but is issued for purposes of giving information to the public with regard to the Preference Scheme. HBOS Preference Shareholders resident in and/or nationals or citizens of or who have emigrated from South Africa who participate in the Preference Scheme should be aware that they may be required to comply with all applicable South African exchange control requirements relating to receipt of any consideration for disposing of their HBOS Preference Shares and should seek advice from a person properly qualified to advise them if they are in any doubt as to what this may involve. Such HBOS Preference Shareholders should also consider any special conditions which were imposed on them by the South African Exchange Control Authorities when they acquired their HBOS Preference Shares.

### **Thailand**

The New Lloyds TSB Preference Shares may not be offered or sold nor may this document be distributed, directly or indirectly, in Thailand, except pursuant to applicable Thai laws and regulations. Specifically, the New Lloyds TSB Preference Shares may not be offered or sold, or this document be distributed, directly or indirectly, in Thailand. This document has not been approved by or notified to the Office of the Securities and Exchange Commission of Thailand. Therefore, no part of this document may be reproduced or taken or transmitted into Thailand or to any Thai persons or entities. Failure to comply with these instructions may constitute a violation of Thai Securities laws.

### **United Arab Emirates**

The Preference Shares have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates or Dubai International Financial Centre other than in compliance with any laws applicable in the United Arab Emirates or the Dubai International Financial Centre (as appropriate) governing the issue, offering or the sale of securities. This document does not constitute an offer to sell, or a solicitation of an offer to subscribe for, the Preference Shares.

### **United States of America**

This document is not an offer of securities for sale in the United States. Information disclosed in this document is provided to HBOS Preference Shareholders and HBOS Preference ADS Holders in the United States solely in order to assist such holders in their participation in the Meetings and voting on the Preference Scheme.

The New Lloyds TSB Preference Shares and the New Lloyds TSB Preference ADSs have not been and will not be registered under the Securities Act in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof. For the purpose of establishing this exemption from the registration requirements of the Securities Act, HBOS will advise the Court at the Preference Scheme Court Hearing that its sanctioning of the Preference Scheme will be relied upon by HBOS and Lloyds TSB for such purpose as an approval of the Preference Scheme following a hearing on the fairness of the terms and conditions of the Preference Scheme for HBOS Preference Shareholders, at which hearing all such holders (subject to compliance with applicable procedures) are entitled to attend in person or through counsel to support or oppose the sanctioning of the Preference Scheme.

The New HM Treasury Preference Shares will not be registered under the Securities Act and are offered and sold outside the United States in accordance with Regulation S under the Securities Act.

**General**

The statements contained herein are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set out herein since such date. Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of Lloyds TSB or HBOS except where otherwise stated.



## PART XX

### DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

“ <b>A Preference Shares</b> ”	any class or classes of A preference shares in the capital of HBOS, as created on the reclassification of one or more Reclassified Classes pursuant to the Preference Scheme Special Resolution and the Preference Scheme, and “ <b>A Preference Share</b> ” means any one of them;
“ <b>Acquisition</b> ”	the proposed acquisition by Lloyds TSB of HBOS by means of the Scheme (or by means of an offer if Lloyds TSB so elects in accordance with the terms of the Share Circular and subject to the consent of the Panel);
“ <b>Admission</b> ”	admission of the Open Offer Shares, the Consideration Shares, the Preference Shares and/or ADRs evidencing New Lloyds TSB Preference ADSs, as the case may be, to the Official List and to trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards;
“ <b>Admission and Disclosure Standards</b> ”	the requirements contained in the publication of the London Stock Exchange “Admission and Disclosure Standards” (as amended from time to time) containing, amongst other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities;
“ <b>ADRs</b> ”	American Depositary Receipts;
“ <b>ADSs</b> ”	American Depositary Shares;
“ <b>Announcement</b> ”	the announcement of the Acquisition made by Lloyds TSB on 18 September 2008, as supplemented and amended by the announcement made on 13 October 2008 announcing the revised terms of the Acquisition;
“ <b>Application Form</b> ”	the personalised application form using which Qualifying Non-CREST Shareholders may take up and apply for Open Offer Shares under the Open Offer;
“ <b>Articles</b> ” or “ <b>Articles of Association</b> ”	the articles of association of the Company, details of which are set out in section 4 of Part XX (“ <b>Additional Information</b> ”);
“ <b>B Preference Share</b> ”	any class or classes of B preference in the capital of HBOS, created on the reclassification of any one or more Reclassified Classes pursuant to the Preference Scheme Special Resolution and the Preference Scheme, and “ <b>B Preference Share</b> ” means any one of them;
“ <b>Basel II</b> ”	the New Capital Adequacy Framework issued in June 2004 by the Basel Committee, as implemented by Directive 2006/48/EC and Directive 2006/49/EC;
“ <b>BSP Act</b> ”	the Banking (Special Provisions) Act 2008;
“ <b>Business Day</b> ”	a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London and Edinburgh;
“ <b>Capital Reduction</b> ”	the proposed reduction of share capital of HBOS comprised in the Scheme;
“ <b>Capitalisation Issue</b> ”	the proposed issue of the Capitalisation Issue Shares as described in the Interim Management Statement;

<b>“Capitalisation Issue Shares”</b>	the Lloyds TSB Shares to be issued in connection with the Capitalisation Issue;
<b>“City Code”</b>	the City Code on Takeovers and Mergers;
<b>“Closing Price”</b>	the closing middle-market quotation of an HBOS Share, a Lloyds TSB Share or in respect of any class of B Preference Share, the equivalent class of New Lloyds TSB Preference Share (as the case may be) as derived from the London Stock Exchange Daily Official List (as the context requires);
<b>“Combined Code”</b>	the UK Combined Code on Corporate Governance dated June 2008, as amended from time to time;
<b>“Companies Act”</b>	the Companies Act 2006 (as amended) in so far as in force;
<b>“Company”</b>	Lloyds TSB Group plc, registered in Scotland (no. 95000);
<b>“Competition Commission”</b>	the body corporate known as the Competition Commission as established under section 45 of the Competition Act 1998, as amended;
<b>“Conditions”</b>	the conditions to the implementation of the Preference Scheme set out in Part 3 (“Conditions to the Implementation of the Preference Scheme”) of the Preference Scheme Circular and <b>“Condition”</b> means any one of them;
<b>“Consideration ADSs”</b>	the Lloyds TSB ADSs proposed to be issued pursuant to the Acquisition;
<b>“Consideration Shares”</b>	the Lloyds TSB Shares proposed to be issued (or delivered in full or in part from treasury stock) and credited as fully paid pursuant to the Acquisition;
<b>“Court”</b>	the Court of Session in Edinburgh, Scotland;
<b>“Court Hearing”</b>	the Scheme Court Hearing or the Reduction Court Hearing, as the case may be;
<b>“Court Meeting” or “HBOS Court Meeting”</b>	the meeting of the Scheme Shareholders (and any adjournment thereof) to be convened pursuant to an order of the Court pursuant to section 896 of the Companies Act for the purpose of considering and, if thought fit, approving the Scheme (with or without amendment);
<b>“Court Orders” or “Orders”</b>	the Scheme Court Order and the Reduction Court Order respectively or, where the context so requires, either of them;
<b>“CREST”</b>	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear (or any successor) is the operator (as defined in the CREST Regulations);
<b>“CREST Manual”</b>	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms);
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), including any modification thereof or any regulations in substitution therefore made under section 207 of the Companies Act and for the time being in force;
<b>“Daily Official List”</b>	the daily official list of the London Stock Exchange;
<b>“Disclosure and Transparency Rules” or “DTR”</b>	the Disclosure and Transparency Rules made by the FSA under Part VI of FSMA;
<b>“Discount Window”</b>	the Bank of England facility for lending to financial institutions at a rate based upon the nature of the eligible collateral;

<b>“Effective”</b>	in the context of the Acquisition: (i) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (ii) if the Acquisition is implemented by way of a takeover offer under section 974 of the Companies Act, the takeover offer having been declared or become unconditional in all respects in accordance with the requirements of the City Code;
<b>“Effective Date”</b>	the date on which either (i) the Scheme becomes effective or (ii) in respect of a class of Preference Scheme Shares the Preference Scheme becomes effective, each in accordance with its terms;
<b>“Enlarged Group”</b>	with effect from the Effective Date, the combined Lloyds TSB Group and HBOS Group;
<b>“Enlarged Group Ordinary Share Capital”</b>	the issued Lloyds TSB ordinary share capital immediately following the Acquisition becoming Effective;
<b>“Enlarged Group HMT Preference Shares”</b>	the New HM Treasury Preference Shares, together with Lloyds TSB 12% Preference Shares issued by Lloyds TSB to HM Treasury in exchange for the HBOS HMT Preference Shares, pursuant to the Preference Scheme;
<b>“Euroclear”</b>	Euroclear UK & Ireland Limited, the operator of CREST;
<b>“European Economic Area” or “EEA” or “EEA State”</b>	the European Union, Iceland, Norway and Liechtenstein;
<b>“Excess Application Facility”</b>	the arrangement pursuant to which Qualifying Shareholders may apply for Open Offer Shares in excess of their Open Offer Entitlement (up to a maximum number of Open Offer Shares equal to thirty-five times the number of Open Offer Shares comprised in their Open Offer Entitlement) provided they have agreed to take up their Open Offer Entitlement in full;
<b>“Existing Ordinary Shares”</b>	the Lloyds TSB Shares in issue at the Open Offer Record Date and <b>“Existing Ordinary Share”</b> means any one of them;
<b>“FSCS”</b>	the United Kingdom’s Financial Services Compensation Scheme;
<b>“Financial Services Authority” or “FSA”</b>	the Financial Services Authority of the United Kingdom, as amended;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended;
<b>“Half Year”</b>	the period 1 January 2008 to 30 June 2008 (inclusive);
<b>“HBOS”</b>	HBOS plc, registered in Scotland (no. 218813);
<b>“HBOS 6.657% Preference ADSs”</b>	the Rule 144A and Regulation S Preference ADSs each representing 100 6.657% HBOS Preference Shares;
<b>“HBOS 6.413% Series A Preference ADSs”</b>	the Rule 144A and Regulation S Preference ADSs each representing 100 6.413% HBOS Preference Shares;
<b>“HBOS 5.92% Series B Preference ADSs”</b>	the Rule 144A and Regulation S Preference ADSs each representing 100 5.92% HBOS Preference Shares;
<b>“HBOS 6.657% Preference Share Prospectus”</b>	means the prospectus dated 16 May 2007 in respect of the HBOS 6.657% Preference Shares;
<b>“HBOS 9.25% Preference Shares”</b>	the 9.25% non-cumulative irredeemable preference shares of £1 each in the capital of HBOS;
<b>“HBOS 9.75% Preference Shares”</b>	the 9.75% non-cumulative irredeemable preference shares of £1 each in the capital of HBOS;
<b>“HBOS 6.0884% Preference Shares”</b>	the 6.0884% non-cumulative preference shares of £1 each in the capital of HBOS;

<b>“HBOS 6.475% Preference Shares”</b>	the 6.475% non-cumulative preference shares of £1 each in the capital of HBOS;
<b>“HBOS 6.3673% Preference Shares”</b>	the 6.3673% fixed-to-floating rate non-cumulative preference shares of £1 each in the capital of HBOS;
<b>“HBOS 6.413% Preference Shares”</b>	the 6.413% non-cumulative callable fixed-to-floating rate Series A preference shares of U.S.\$1 each in the capital of HBOS;
<b>“HBOS 5.92% Preference Shares”</b>	the 5.92% non-cumulative callable fixed-to-floating rate Series B preference shares of U.S.\$1 each in the capital of HBOS;
<b>“HBOS 6.657% Preference Shares”</b>	the 6.657% non-cumulative callable preference shares of U.S.\$1 each in the capital of HBOS;
<b>“HBOS 12% Preference Shares”</b>	the 12% fixed-to-floating callable non-cumulative preference shares of £1 each in the capital of HBOS;
<b>“HBOS ADSs”</b>	the American Depositary Shares of HBOS, each representing one HBOS Share and evidenced by American Depositary Receipts, and <b>“HBOS ADS”</b> means any one of them;
<b>“HBOS Articles”</b>	the articles of association of HBOS in force from time to time;
<b>“HBOS Directors”</b>	the directors of HBOS as at the date of this document and <b>“HBOS Director”</b> means any one of them;
<b>“HBOS General Meeting”</b>	the general meeting of HBOS Shareholders (and any adjournment thereof) to be convened for the purposes of considering and, if thought fit, approving, among other things, certain resolutions in connection with the Scheme and the Preference Scheme, including any adjournment thereof;
<b>“HBOS Group”</b>	HBOS and its subsidiary undertakings;
<b>“HBOS HMT Preference Shares”</b>	the 12% fixed-to-floating callable non-cumulative preference shares of £1 each, with an aggregate liquidation preference or £3,000,000,000 to be issued by HBOS to HM Treasury or to one or more persons nominated by HM Treasury pursuant to the HBOS Preference Share Subscription Agreement;
<b>“HBOS Interim Management Statement”</b>	the statement issued by HBOS on 3 November 2008 commenting on trading since 30 June 2008;
<b>“HBOS Interim Results”</b>	the condensed consolidated Half Year unaudited financial statements of HBOS prepared in accordance with the Disclosure and Transparency Rules and with IAS 34 “Interim Financial Reporting” as adopted by the European Union;
<b>“HBOS Open Offer”</b>	the offer by HBOS to qualifying HBOS shareholders to apply for the HBOS Open Offer Shares on the terms and subject to the prospectus to be published by HBOS and any associated application form;
<b>“HBOS Open Offer Shares”</b>	approximately 7.5 billion new HBOS Shares to be offered pursuant to the HBOS Placing and Open Offer and which HM Treasury has agreed to acquire pursuant to the HBOS Placing and Open Offer Agreement, subject to clawback in respect of valid applications by qualifying HBOS Shareholders;
<b>“HBOS Placing”</b>	the conditional placing by HBOS of the HBOS Open Offer Shares with HM Treasury;
<b>“HBOS Placing and Open Offer”</b>	the HBOS Placing and the HBOS Open Offer;
<b>“HBOS Placing and Open Offer Agreement”</b>	the agreement relating to the HBOS Placing and Open Offer entered into with effect from 13 October 2008 by HBOS, HM Treasury, Morgan Stanley & Co. Limited and Dresdner Kleinwort Limited;

<b>“HBOS Placing and Open Offer Prospectus”</b>	the prospectus dated 18 November 2008 in connection with the HBOS Placing and Open Offer;
<b>“HBOS Preference ADS Holders”</b>	the holders of the HBOS Preference ADSs;
<b>“HBOS Preference ADSs”</b>	the HBOS 6.413% Series A Preference ADSs, HBOS 5.92% Series B Preference ADSs and HBOS 6.657% Preference ADSs;
<b>“HBOS Preference Share Deposit Agreements”</b>	the Rule 144A deposit agreement, dated 29 September 2005, between HBOS, The Bank of New York Mellon, as depositary, and the owners and holders of HBOS Preference ADSs issued thereunder (as amended or restated) and the Reg S deposit agreement, dated 29 September 2005, between HBOS, The Bank of New York Mellon, as depositary, and the owners and holders of HBOS Preference ADSs issued thereunder (as amended or restated);
<b>“HBOS Preference Share Depositary”</b>	the depositary of the HBOS Preference ADSs, being The Bank of New York Mellon;
<b>“HBOS Preference Share Subscription Agreement”</b>	the agreement entered into between HBOS and HM Treasury, effective as of 13 October 2008, in connection with the issue of HBOS HMT Preference Shares;
<b>“HBOS Preference Shareholders”</b>	the registered holders of the HBOS Preference Shares and to the extent certain classes of HBOS Preference Shares are represented by a Share Warrant, the holder of that Share Warrant;
<b>“HBOS Preference Shares”</b>	<p>the HBOS 9.25% Preference Shares, the HBOS 9.75% Preference Shares, the HBOS 6.0884% Preference Shares, the HBOS 6.475% Preference Shares, the HBOS 6.3673% Preference Shares, the HBOS 6.413% Preference Shares, the HBOS 5.92% Preference Shares, the HBOS 6.657% Preference Shares, and the HBOS 12% Preference Shares,</p> <p>(i) in issue at the date of the Preference Scheme Circular;</p> <p>(ii) issued after the date of the Preference Scheme Circular and prior to the Preference Voting Record Time; and</p> <p>(iii) issued at or after the Preference Voting Record Time but before the Preference Scheme Record Time either on terms that the original or any subsequent holder thereof shall be bound by the Preference Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the HBOS Articles to be adopted at the HBOS General Meeting, in respect of which the original or any subsequent holder thereof is, or shall have agreed in writing to be, bound by the Preference Scheme,</p> <p>and <b>“HBOS Preference Share”</b> means any one of them and, for the avoidance of doubt, including the HBOS 12% Preference Shares, and, where the context requires, any A Preference Shares and B Preference Shares;</p>
<b>“HBOS Rights Issue”</b>	the rights issue announced by HBOS on 29 April 2008;
<b>“HBOS Rights Issue Prospectus”</b>	the prospectus issued by HBOS in connection with the HBOS Rights Issue dated 19 June 2008;
<b>“HBOS Shareholders”</b>	the registered holders of HBOS Shares and such term shall, where the context requires, include holders of HBOS ADSs, as the case may be, and <b>“HBOS Shareholder”</b> means any of such holders;



<b>“HBOS Share Schemes”</b>	the HBOS plc Sharesave Plan 2001, the HBOS plc International Sharesave Plan 2001, the HBOS plc Inland Revenue Approved Employee Share Option Plan 2002, the Bank of Scotland 1995 Executive Stock Option Scheme, the Bank of Scotland 1996 Executive Stock Option Scheme and the HBOS plc International Free Shares Plan, the HBOS plc Long Term Executive Bonus Plan, the HBOS plc Australian Free Shares Plan, the HBOS plc Annual Bonus Plan, the HBOS plc Share Incentive Plan, the HBOS plc Approved Profit Sharing Scheme, the ICC Bank Employee Share Ownership Trust and the ICC Bank Approved Profit Sharing Scheme and the Insight Investment Management Limited Share Option Plan and “HBOS Share Scheme” means any one of them;
<b>“HBOS Shares”</b>	the ordinary shares of 25 pence each in the capital of HBOS (including shares underlying HBOS ADRs) and “ <b>HBOS Share</b> ” means any one of them;
<b>“Hearing Record Time”</b>	6.00 p.m. on the Business Day immediately preceding the date of the Reduction Court Hearing;
<b>“HMRC”</b>	Her Majesty’s Revenue & Customs;
<b>“HM Treasury”</b>	the Commissioners of Her Majesty’s Treasury (or, where HM Treasury has nominated a nominee to acquire any shares which HM Treasury would otherwise be obliged to acquire, such nominee);
<b>“IAS”</b>	International Accounting Standards;
<b>“IFRS”</b>	International Financial Reporting Standards, as adopted for use in the European Union;
<b>“Implementation Agreement”</b>	the implementation agreement dated 18 September 2008 between Lloyds TSB and HBOS in relation to the Acquisition and as amended and restated on 13 October 2008;
<b>“Institutional Investor Restricted Jurisdictions”</b>	Canada, the United States, Hong Kong, Japan and Thailand;
<b>“Interim Management Statement”</b>	the statement issued by Lloyds TSB on 3 November 2008 commenting on trading since the Lloyds TSB Interim Results;
<b>“ISIN”</b>	International Securities Identifying Number;
<b>“Issues”</b>	when taken together, (i) the cancellation and exchange of HBOS Preference Shares for the New Lloyds TSB Preference Shares pursuant to the Preference Share Scheme; and (ii) the issue of the New HM Treasury Preference Shares to HM Treasury by Lloyds TSB;
<b>“Jersey NewCo”</b>	Syrah Limited, a Jersey-incorporated subsidiary of Lloyds TSB, established in connection with the Placing and Open Offer mechanics;
<b>“LIBOR”</b>	London Inter-Bank Offered Rate;
<b>“Listing Rules”</b>	the Listing Rules made by the FSA under Part VI of FSMA;
<b>“Lloyds TSB” or “the Company”</b>	Lloyds TSB Group plc, registered in Scotland (no. 95000);
<b>“Lloyds TSB 6.413% Series A Preference ADSs”</b>	the Rule 144A and Regulation S Preference ADSs each representing 100 6.413% Lloyds TSB Preference Shares, evidenced by an American Depositary Receipt
<b>“Lloyds TSB 5.92% Series B Preference ADSs”</b>	the Rule 144A and Regulation S Preference ADSs each representing 100 5.92% Lloyds TSB Preference Shares, evidenced by American Depositary Receipts

<b>“Lloyds TSB 6.657% Preference ADSs”</b>	the Rule 144A and Regulation S Preference ADSs each representing 100 6.657% Lloyds TSB Preference Shares, evidenced by American Depositary Receipts
<b>“Lloyds TSB 9.25% Preference Shares”</b>	the 9.25% non-cumulative irredeemable preference shares of £0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 9.75% Preference Shares”</b>	the 9.75% non-cumulative irredeemable preference shares of £0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 6.0884% Preference Shares”</b>	the 6.0884% non-cumulative preference shares of £0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 6.475% Preference Shares”</b>	the 6.475% non-cumulative preference shares of £0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 6.3673% Preference Shares”</b>	the 6.3673% fixed-to-floating rate non-cumulative preference shares of £0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 6.413% Preference Shares”</b>	the 6.413% non-cumulative callable fixed-to-floating rate Series A preference shares of U.S.\$0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 5.92% Preference Shares”</b>	the 5.92% non-cumulative callable fixed-to-floating rate Series B preference shares of U.S.\$0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 6.657% Preference Shares”</b>	the 6.657% non-cumulative callable preference shares of U.S.\$0.25 each in the capital of Lloyds TSB proposed to be issued in accordance with the Preference Scheme;
<b>“Lloyds TSB 12% Preference Shares”</b>	the 12% fixed-to-floating callable non-cumulative rate preference shares of £0.25 each in the capital of Lloyds TSB;
<b>“Lloyds TSB ADSs”</b>	the American Depositary Shares of Lloyds TSB, each representing four Lloyds TSB Shares and evidenced by American Depositary Receipts;
<b>“Lloyds TSB Board” or “Board”</b>	the board of directors of Lloyds TSB as at the date of this prospectus;
<b>“Lloyds TSB Directors”</b>	the directors of Lloyds TSB as at the date of this prospectus, and <b>“Lloyds TSB Director”</b> means any one of them;
<b>“Lloyds TSB General Meeting”</b>	the general meeting of Lloyds TSB held at 11.00 a.m. on 19 November 2008 at the Scottish Exhibition and Conference Centre, Glasgow, G3 8YW, to consider and, if thought fit, to approve, among other things, the Acquisition and to pass various resolutions in connection with the Placing and Open Offer;
<b>“Lloyds TSB Group” or “Group”</b>	Lloyds TSB and its subsidiary undertakings from time to time and (other than for the purposes of Section 10 (“Capital Resources and Liquidity”) in Part XVIII (“Additional Information”) of this document) being the Enlarged Group following completion of the Acquisition;
<b>“Lloyds TSB Interim Results”</b>	the condensed consolidated Half Year unaudited financial statements of the Lloyds TSB Group prepared in accordance with the Disclosure and Transparency Rules and with IAS 34 “Interim Financial Reporting” as adopted by the European Union;
<b>“Lloyds TSB Placing and Open Offer Prospectus”</b>	the prospectus issued by Lloyds TSB dated 18 November 2008 in connection with the Placing and Open Offer;

<b>“Lloyds TSB Preference Shares”</b>	preference shares of 25 pence each in the capital of Lloyds TSB and <b>“Lloyds TSB Preference Share”</b> means any one of them;
<b>“Lloyds TSB Scotland”</b>	Lloyds TSB Scotland plc;
<b>“Lloyds TSB Share Plans”</b>	the Lloyds TSB Long-term Incentive Plan 2006, the Lloyds TSB Deferred Bonus Plan 2008, the Lloyds TSB Performance Share Plan, the Lloyds TSB Group Executive Share Plan 2003, the Lloyds TSB Group No. 1 Executive Share Option Scheme 1997, the Lloyds TSB Group No. 2 Executive Share Option Scheme 1997, the Lloyds TSB Group Sharesave Scheme 2007, the Lloyds TSB Group Sharesave Scheme 1997 and the Lloyds TSB Group Shareplan and <b>“Lloyds TSB Share Plan”</b> means any one of them;
<b>“Lloyds TSB Shareholders”</b>	holders of Lloyds TSB Shares and <b>“Lloyds TSB Shareholder”</b> means any one of them;
<b>“Lloyds TSB Shares”</b>	ordinary shares of 25 pence each in the capital of Lloyds TSB (including shares underlying Lloyds TSB ADSs and, if the context requires, the Consideration Shares and the Open Offer Shares) and <b>“Lloyds TSB Share”</b> means any one of them;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Long Term Repo”</b>	a repurchase agreement or contract in which the seller of securities agrees to buy them back at a specified time (usually after three months of the date of that contract) and price;
<b>“Meetings”</b>	the Preference Court Meetings and the HBOS General Meeting;
<b>“Memorandum of Association”</b>	the memorandum of association of the Company, details of which are set out in section 4 of Part XVIII (“Additional Information”) of this document;
<b>“Merrill Lynch”</b>	Merrill Lynch International;
<b>“New HBOS 9.25% Preference Shares”</b>	the new 9.25% non-cumulative irredeemable preference shares of £1 each to be issued in the capital of HBOS;
<b>“New HBOS 9.75% Preference Shares”</b>	the new 9.75% non-cumulative irredeemable preference shares of £1 each to be issued in the capital of HBOS;
<b>“New HBOS 6.0884% Preference Shares”</b>	the new 6.0884% non-cumulative preference shares of £1 each to be issued in the capital of HBOS;
<b>“New HBOS 6.475% Preference Shares”</b>	the new 6.475% non-cumulative preference shares of £1 each to be issued in the capital of HBOS;
<b>“New HBOS 6.3673% Preference Shares”</b>	the new 6.3673% fixed-to-floating rate non-cumulative preference shares of £1 each to be issued in the capital of HBOS;
<b>“New HBOS 6.413% Preference Shares”</b>	the new 6.413% non-cumulative callable fixed-to-floating rate Series ‘A’ preference shares of US\$1 each to be issued in the capital of HBOS;
<b>“New HBOS 5.92% Preference Shares”</b>	the new 5.92% non-cumulative callable fixed-to-floating rate series ‘B’ preference shares of US\$1 each to be issued in the capital of HBOS;
<b>“New HBOS 6.657% Preference Shares”</b>	the new 6.657% non-cumulative callable preference shares of US\$1 each to be issued in the capital of HBOS;
<b>“New HBOS 12% Preference Shares”</b>	the new 12% fixed-to-floating callable non-cumulative preference shares of £1 each to be issued in the capital of HBOS;
<b>“New HBOS Preference Shares”</b>	the New HBOS 9.25% Preference Shares, the New HBOS 9.75% Preference Shares, the New HBOS 6.0884% Preference Shares, the New HBOS 6.475% Preference Shares, the New HBOS 6.3673% Preference Shares, the New HBOS 6.413% Preference Shares, the New HBOS 5.92% Preference Shares, the New HBOS 6.657% Preference Shares, and New HBOS 12%

	Preference Shares and “ <b>HBOS Preference Share</b> ” means any one of them, to be issued in accordance with Clause 2(b) of the Preference Scheme set out in Part 8 (“The Scheme of Arrangement”) of the Preference Scheme Circular;
“ <b>New HM Treasury Preference Shares</b> ”	the fixed-to-floating callable non-cumulative preference shares of £0.25 each, with an aggregate liquidation preference of £1,000,000,000 to be issued by Lloyds TSB to HM Treasury or to one or more persons nominated by HM Treasury pursuant to the Preference Share Subscription Agreement;
“ <b>New Lloyds TSB Preference ADSs</b> ”	the Lloyds TSB 6.413% Series A Preference ADSs, the Lloyds TSB 5.92% Series B Preference ADSs and the Lloyds TSB 6.657% Preference ADSs;
“ <b>New Lloyds TSB Preference Shares</b> ”	the new Lloyds TSB preference shares to be issued and credited as fully paid pursuant to the terms of the Preference Scheme; being the Lloyds TSB 9.25% Preference Shares, the Lloyds TSB 9.75% Preference Shares, the Lloyds TSB 6.0884% Preference Shares, the Lloyds TSB 6.475% Preference Shares, the Lloyds TSB 6.3673% Preference Shares, the Lloyds TSB 6.413% Preference Shares, the Lloyds TSB 5.92% Preference Shares, the Lloyds TSB 6.657% Preference Shares and the Lloyds TSB 12% Preference Shares;
“ <b>New Preference Share Issue</b> ”	the issue of the New HM Treasury Preference Shares by Lloyds TSB pursuant to the Preference Share Subscription Agreement;
“ <b>OFT</b> ” or “ <b>Office of Fair Trading</b> ”	the UK Office of Fair Trading;
“ <b>Official List</b> ”	the official list of the UK Listing Authority;
“ <b>Open Offer</b> ”	the offer by Lloyds TSB to Qualifying Shareholders constituting an invitation to apply for the Open Offer Shares, including pursuant to the Excess Application Facility, on the terms and subject to the conditions set out in the Lloyds TSB Placing and Open Offer Prospectus and, in the case of Qualifying Non-CREST Shareholders, in the Application Form;
“ <b>Open Offer Entitlement</b> ”	the entitlement of a Qualifying Shareholder to apply for 0.4347 Open Offer Shares for every 1 Existing Ordinary Share held on the Open Offer Record Date;
“ <b>Open Offer Record Date</b> ”	close of business on 5 December 2008;
“ <b>Open Offer Shares</b> ”	approximately 2.6 billion Lloyds TSB Shares to be offered to Qualifying Shareholders under the Open Offer and which HM Treasury has agreed to acquire pursuant to the Placing and Open Offer Agreement, subject to clawback in respect of valid applications by Qualifying Shareholders and “ <b>Open Offer Share</b> ” means any one of them;
“ <b>Overseas Shareholders</b> ”	Lloyds TSB Shareholders or HBOS Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom and “ <b>Overseas Shareholder</b> ” means any one of them;
“ <b>Panel</b> ” or “ <b>Takeover Panel</b> ”	The Panel on Takeovers and Mergers;
“ <b>Placing</b> ”	the conditional placing by Lloyds TSB of the Open Offer Shares with HM Treasury;
“ <b>Placing and Open Offer</b> ”	the Placing and the Open Offer;

<b>“Placing and Open Offer Agreement”</b>	the agreement relating to the Placing and Open Offer entered into with effect from 13 October 2008 between the Company, HM Treasury, Citigroup Global Markets Limited, Citigroup Global Markets U.K. Equity Limited, Merrill Lynch and UBS Limited;
<b>“Pounds”, “pence”, “£” and “p”</b>	the lawful currency of the United Kingdom;
<b>“PPI”</b>	payment protection insurance;
<b>“Preference Reduction Court Hearing”</b>	the hearing at which the Court’s confirmation of the reductions of capital provided for by the Preference Scheme will be sought under section 137 of the Companies Act 1985;
<b>“Preference Court Meetings”</b>	the meetings of each class of HBOS Preference Shareholders as convened by order of the Court under section 896 of the Companies Act to consider and, if thought fit to approve the Preference Scheme (in respect of that class of HBOS Preference Shares) in its original form or with or subject to any modification, addition or condition approved or imposed by the Court, such meetings to be held between 12 noon and 12.35 p.m. on 12 December 2008 at The NEC, Birmingham B40 1NT, and any adjournment thereof and <b>“Preference Court Meeting”</b> means any one of them;
<b>“Preference Court Orders”</b>	the Preference Scheme Court Order and the Preference Reduction Court Order;
<b>“Preference Reduction Court Order”</b>	the order of the Court confirming under section 137 of the Companies Act 1985, as amended, the reduction of capital provided for by the Preference Scheme;
<b>“Preference Reduction Special Resolutions”</b>	the resolutions to be proposed at the HBOS General Meeting to approve the reductions of capital of the various classes of HBOS Preference Shares numbered 5 to 13 in the Notice of General Meeting in Part 9 (“Notice of Preference Court Meetings”) of the Preference Scheme Circular;
<b>“Preference Scheme”</b>	the proposed scheme of arrangement under sections 895 to 899 of the Companies Act between HBOS and the HBOS Preference Shareholders (with or subject to any modification thereof or in addition thereto or condition agreed by HBOS and Lloyds TSB and which the Court may think fit to approve or impose), particulars of which are set out in Part 8 (“The Scheme of Arrangement”) of the Preference Scheme Circular;
<b>“Preference Scheme Circular”</b>	the circular issued by HBOS dated 14 November 2008 in respect of the proposal of the cancellation of the HBOS Preference Shares and the issue of the New Lloyds TSB Preference Shares by Lloyds TSB;
<b>“Preference Scheme Court Hearing”</b>	the hearing at which the Court’s sanction of the Preference Scheme will be sought under sections 895 to 899 of the Companies Act;
<b>“Preference Scheme Court Order”</b>	the order of the Court sanctioning the Preference Scheme under sections 895 to 899 of the Companies Act;
<b>“Preference Scheme Record Time”</b>	6.00 p.m. (London time) on the Business Day immediately prior to the hearing at which the Court’s confirmation of the reduction of capital provided for by the Preference Scheme will be sought;
<b>“Preference Scheme Shareholders”</b>	a holder of Preference Scheme Shares at the Preference Scheme Record Time;
<b>“Preference Scheme Shares”</b>	all of the HBOS Preference Shares in each class of HBOS Preference Shares in respect of which: (i) the Preference Scheme has been approved at the relevant Preference Court Meeting; and (ii) the Preference Reduction Special Resolution in relation to that



	class has been duly passed by the requisite majority, and shall include any A Preference Shares or B Preference Shares created on any reclassification made pursuant to Clause 1 of the Preference Scheme;
<b>“Preference Scheme Special Resolution”</b>	the special resolution to approve matters to give effect to and implement the Preference Scheme numbered 4 in the Notice of General Meeting in Part 10 (“Notice of General Meeting”) of the Preference Scheme Circular;
<b>“Preference Share Subscription Agreement”</b>	the preference share subscription agreement entered into with effect from 13 October 2008 between the Company and HM Treasury in connection with the New Preference Share Issue;
<b>“Preference Shares”</b>	the Lloyds TSB 9.25% Preference Shares, the Lloyds TSB 9.75% Preference Shares, the Lloyds TSB 6.475% Preference Shares, the Lloyds TSB 6.0884% Preference Shares, the Lloyds TSB 6.3673% Preference Shares, the Lloyds TSB 6.413% Preference Shares, the Lloyds TSB 5.92% Preference Shares, the Lloyds TSB 6.657% Preference Shares, the Lloyds TSB 12% Preference Shares and the New HM Treasury Preference Shares;
<b>“Proposed Government Funding”</b>	the proposed funding by the UK Government to be made available to the UK banking sector as part of a co-ordinated package of capital and funding measures as announced on 8 October 2008;
<b>“Preference Voting Record Time”</b>	the time fixed by the Court for determining the entitlement to vote at the Preference Court Meetings as set out in the notice thereof, which will be 6.00 p.m. on the day which is two days prior to the date of the Preference Court Meetings or, in the case of an adjournment of the Preference Court Meetings, 6.00 p.m. on the day two days before the date of the adjourned Preference Court Meetings;
<b>“Prospectus Rules”</b>	the prospectus rules made by the FSA pursuant to Part VI of FSMA;
<b>“Qualified Institutional Buyer” or “QIB”</b>	has the meaning given in Rule 144A under the Securities Act;
<b>“Qualifying Non-CREST Shareholders”</b>	Qualifying Shareholders holding Lloyds TSB Shares in certificated form and “Qualifying Non-CREST Shareholder” shall mean any one of them;
<b>“Qualifying Shareholders”</b>	holders of Lloyds TSB Shares on the register of members of Lloyds TSB at the Open Offer Record Date with the exclusion (subject to certain exceptions) of Lloyds TSB Shareholders with a registered address in the United States or any other Restricted Jurisdiction;
<b>“Reclassified Class”</b>	any class of Preference Scheme Shares in respect of which any one or more such shares is held by a Restricted Entity;
<b>“Redeemable Preference Shares”</b>	all classes of the Preference Shares, with the exception of the Lloyds TSB 9.25% Preference Shares and the Lloyds TSB 9.75% Preference Shares;
<b>“Reduction Court Hearing”</b>	the hearing by the Court of the petition to confirm the Capital Reduction under section 137 of the Companies Act 1985 (as amended or re-enacted) and authorising the re-registration of HBOS as a private company under section 139 of the Companies Act 1985 (as amended or re-enacted);
<b>“Reduction Court Order”</b>	the order of the Court confirming the Capital Reduction under section 137 of the Companies Act 1985 (as amended or re-enacted)

<b>“Registrar” or “Equiniti”</b>	Equiniti Limited, a company incorporated under the laws of England and Wales, or, in certain circumstances, Equiniti Financial Services Limited, an affiliate of Equiniti Limited;
<b>“Regulatory Information Service”</b>	any of the services authorised from time to time by the Financial Services Authority for the purposes of disseminating regulatory announcements;
<b>“Reorganisation Record Time”</b>	the time at which a certified copy of the Preference Scheme Court Order is delivered to the Registrar of Companies;
<b>“Resolutions”</b>	the resolutions set out in the notice convening the Lloyds TSB General Meeting at the end of the Share Circular;
<b>“Restricted Entities” or “Restricted Entity”</b>	<ul style="list-style-type: none"> <li>(i) any body or bodies corporate which would be prohibited under section 23 of the Companies Act 1985 from being a shareholder of Lloyds TSB upon the Preference Scheme becoming effective provided that any such body or bodies corporate will only be a Restricted Entity to the extent of such prohibition; or</li> <li>(ii) who, being a member of the Lloyds TSB Group, holds HBOS Preference Shares beneficially or any other person who holds HBOS Preference Shares on behalf of such member of the Lloyds TSB Group, provided that any such member or person will only be a Restricted Entity in respect of such holding;</li> </ul>
<b>“Restricted Jurisdiction”</b>	Dubai International Financial Centre, Malaysia and the Institutional Investor Restricted Jurisdictions;
<b>“Scheme” or “Scheme of Arrangement”</b>	the proposed scheme of arrangement under sections 895 to 899 of the Companies Act between HBOS and the holders of the Scheme Shares, with or subject to any modification thereof or in addition thereto or condition agreed by HBOS and Lloyds TSB and which the Court may think fit to approve or impose;
<b>“Scheme Conditions”</b>	the conditions to the Scheme becoming Effective, set out in full in Appendix 1 of the Announcement;
<b>“Scheme Court Hearing”</b>	the hearing by the Court of the petition to sanction the Scheme under section 899 of the Companies Act;
<b>“Scheme Court Order”</b>	the order of the Court sanctioning the Scheme under section 899 of the Companies Act;
<b>“Scheme Document”</b>	the document dated 14 November 2008 containing, <i>inter alia</i> , the Scheme and the notice of the Court Meeting and the HBOS General Meeting;
<b>“Scheme Shareholders”</b>	the holders of Scheme Shares and <b>“Scheme Shareholder”</b> means any one of them;
<b>“Scheme Shares”</b>	<p>HBOS Shares:</p> <ul style="list-style-type: none"> <li>(i) in issue on the date of the Scheme Document;</li> <li>(ii) issued after the date of the Scheme Document and prior to the Voting Record Time;</li> <li>(iii) issued on or after the Voting Record Time but before the Hearing Record Time either on terms that the original or any subsequent holder thereof shall be bound by the Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the HBOS Articles to be adopted at the HBOS General Meeting, in respect of which the original or subsequent holder thereof is, or shall have agreed in writing to be, bound by the Scheme,</li> </ul>

and including, for the avoidance of doubt, the HBOS Open Offer Shares and, where the context requires, the A Ordinary Shares (as such term is defined in the Scheme Document) and (if any) the B Ordinary Shares (as defined in the Scheme Document) but excluding the Deferred Shares (as defined in the Circular) and “**Scheme Share**” means any one of them;

“ <b>Scottish Widows</b> ”	Scottish Widows plc registered in Scotland (no. 199549);
“ <b>SDRT</b> ”	stamp duty reserve tax;
“ <b>SEC</b> ”	United States Securities and Exchange Commission;
“ <b>Securities Act</b> ”	the United States Securities Act of 1933, as amended;
“ <b>Share Circular</b> ”	the document sent, with certain exceptions, to Lloyds TSB Shareholders dated 3 November 2008 in relation to the Acquisition and the Placing and Open Offer;
“ <b>Share Warrants</b> ”	a global share warrant to bearer issued by HBOS in respect of the HBOS 6.413% Preference Shares, the HBOS 5.92% Preference Shares and the HBOS 6.657% Preference Shares and “ <b>Share Warrant</b> ” means any one of them;
“ <b>SME</b> ”	small and medium sized entities;
“ <b>State Aid Approval</b> ”	the decision of the European Commission of 13 October 2008 issued in connection with the state aid aspects of HM Treasury’s recapitalisation scheme and guarantee scheme for short- and medium-term debt issuance and the Bank of England’s short-term liquidity scheme;
“ <b>Tier 1</b> ”	has the meaning given to the term from time to time by the FSA;
“ <b>UBS</b> ”	UBS Limited;
“ <b>UK Listing Authority</b> ”	the UK Financial Services Authority in its capacity as the competent authority for listing under Part VI of the Financial Services and Markets Act 2000;
“ <b>United Kingdom</b> ” or “ <b>UK</b> ”	the United Kingdom of Great Britain and Northern Ireland and its dependent territories;
“ <b>United States</b> ” or “ <b>US</b> ”	the United States of America (including the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction; and
“ <b>Voting Record Time</b> ”	the time fixed by the Court for determining the entitlement to vote at the Court Meeting as set out in notice thereof, which will be 6.00 p.m. on the day which is two days prior to the date of the Court Meeting and the HBOS General Meeting or, if the Court Meeting and/or the HBOS General Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting.

For the purposes of this document, “**subsidiary**”, “**subsidiary undertaking**”, “**undertaking**” and “**associated undertaking**” have the meanings given by the Companies Act.

Unless otherwise stated, all times referred to in this document are references to London time.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

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