



Lloyds TSB

## **Lloyds TSB Bank plc**

*(incorporated with limited liability in England and Wales with registered number 2065)*

**€500,000,000**

**6.35 per cent. Step-up Perpetual Capital Securities**

**Issue price: 100 per cent.**

The €500,000,000 6.35 per cent. Step-up Perpetual Capital Securities (the "Capital Securities") of Lloyds TSB Bank plc (the "Bank") will bear interest from (and including) 25 October 2002 at a rate of 6.35 per cent. per annum, payable annually in arrear on 25 February in each year with the first interest payment due on 25 February 2003 in respect of the period from (and including) 25 October 2002 to (but excluding) 25 February 2003 amounting to €21.40 per Capital Security. From (and including) 25 February 2013, the Capital Securities will bear interest at a rate equal to 2.50 per cent. per annum above the Euro-zone interbank offered rate for three month euro deposits, payable quarterly in arrear on 25 May, 25 August, 25 November and 25 February in each year commencing 25 May 2013, all as more particularly described in "Terms and Conditions of the Capital Securities – 5. Coupon Payments". Payments (not including principal) may be deferred as described in "Terms and Conditions of the Capital Securities – 4. Deferrals", but neither the Bank nor Lloyds TSB Group plc (the "Parent") may declare, pay or distribute dividends on or redeem, purchase or otherwise acquire any of its ordinary shares, preference shares or other types of Tier 1 securities whilst any payments are deferred.

The Capital Securities are redeemable in whole, but not in part, at the option of the Bank on 25 February 2013 or on any Coupon Payment Date (as defined herein) thereafter. In addition, the Capital Securities may be redeemed at the option of the Bank in the event that the Bank is required to pay additional amounts as provided in "Terms and Conditions of the Capital Securities – 11. Taxation". Upon the occurrence of certain tax or regulatory events, the Capital Securities may be exchanged or their terms varied so that they become Upper Tier 2 Securities (as defined in the Terms and Conditions), provided that if such tax or regulatory events do or would persist after such exchange or variation or certain other provisions apply, the Capital Securities may be redeemed, as more particularly described in "Terms and Conditions of the Capital Securities – 7. Exchange for Upper Tier 2 Securities, Variation, Redemption and Purchases".

Under existing Financial Services Authority ("FSA") requirements, the Bank may not redeem or purchase any Capital Securities unless the Financial Services Authority has given its prior consent.

The Capital Securities will be unsecured securities of the Bank and will be subordinated to the claims of all creditors in that no payment of principal or interest in respect of the Capital Securities shall be due and payable except to the extent that the Bank could make such payment and still be solvent immediately thereafter.

In the event of the winding-up of the Bank, holders of the Capital Securities will, for the purpose only of calculating the amounts payable by the Bank in respect of each Capital Security, be treated as if, on the day prior to the commencement of the winding-up and thereafter, they were the holders of the most senior class or classes of preference shares ranking *pari passu* with the holders of that class or classes of preference shares (if any) from time to time issued by the Bank which have a preferential right to a return of assets in the winding-up over and so rank ahead of the holders of all other classes of issued shares of the Bank. See "Terms and Conditions of the Capital Securities – 3. Winding-up".

**For a description of certain matters that prospective investors should consider, see "Investment Considerations".**

Application has been made to the FSA in its capacity as competent authority (the "UK Listing Authority") under the Financial Services and Markets Act 2000 (the "FSMA") for the Capital Securities to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Capital Securities to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a stock exchange. A copy of this Offering Circular, which comprises listing particulars approved by the UK Listing Authority, has been delivered to the Registrar of Companies in England and Wales for registration as required by Section 83 of the FSMA.

*Joint Bookrunners and Lead Managers*

**Lehman Brothers**

**Schroder Salomon Smith Barney**  
*(Structuring Adviser)*

Dated: 22 October 2002

*This Offering Circular comprises listing particulars given in compliance with the Listing Rules for the purposes of giving information with regard to the Bank and the Capital Securities.*

*The Bank accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Bank (which has taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*Any reference in this Offering Circular to listing particulars means this Offering Circular excluding all information incorporated by reference (if any). The Bank has confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the listing rules made under Section 74 of the FSMA by the UK Listing Authority. The Bank believes that none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars.*

*In connection with the issue and sale of the Capital Securities, no person is authorised to give any information or to make any representation not contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank or the Managers (as defined in "Subscription and Sale" below) or the Parent or the Trustee.*

*This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Bank or the Managers that any recipient of this Offering Circular should purchase any of the Capital Securities. Each investor contemplating purchasing Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank, the Bank and its subsidiaries as a whole (the "Lloyds TSB Bank Group"), the Parent and the Lloyds TSB group of companies (which includes the Bank as wholly owned subsidiary of the Parent) (the "Lloyds TSB Group" or the "Group").*

*The distribution of this Offering Circular and the offering or sale of the Capital Securities in certain jurisdictions may be restricted by law. The Bank and the Managers do not represent that this Offering Circular may be lawfully distributed, or that the Capital Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular no action has been taken by the Bank or the Managers which would permit a public offering of the Capital Securities or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Capital Securities may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or the Capital Securities may come must inform themselves about, and observe, any such restrictions. See "Subscription and Sale" below for a description, inter alia, of certain restrictions on offers, sales and deliveries of the Capital Securities in the United States or to U.S. persons. Neither the delivery of this Offering Circular nor any sale hereunder shall create, under any circumstances, any implication that there has been no change in the affairs of the Bank since the date hereof or that the information contained herein is correct as of any time subsequent to its date.*

*The Capital Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and comprise securities in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the Capital Securities may not be sold or delivered, directly or indirectly, within the United States or to U.S. persons.*

*In this Offering Circular, all references to "£" and "Sterling" refer to pounds sterling and to "euro" and "€" refer to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam.*

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**In connection with this issue, Salomon Brothers International Limited, or any person acting for it, may over-allot or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Salomon Brothers International Limited or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.**

## SUMMARY

*The following summary refers to certain provisions of the Terms and Conditions of the Capital Securities and the Trust Deed and insofar as it refers to the Terms and Conditions of the Capital Securities is qualified by the more detailed information contained elsewhere in this Offering Circular. Defined terms used herein have the meanings given to them in "Terms and Conditions of the Capital Securities".*

<b>Bank</b>	Lloyds TSB Bank plc.
<b>Parent</b>	Lloyds TSB Group plc.
<b>Trustee</b>	The Law Debenture Trust Corporation (Channel Islands) Limited.
<b>Issue Size</b>	€500,000,000 (denomination of €1,000).
<b>Redemption and Purchases</b>	<p>The Capital Securities are perpetual securities and have no maturity date. However, the Capital Securities may be redeemed in whole, but not in part, at the option of the Bank, subject to the prior consent of the Financial Services Authority, at their principal amount together with any Outstanding Payments on the Coupon Payment Date falling on 25 February 2013 or on any Coupon Payment Date thereafter.</p> <p>The Bank, the Parent and any other Subsidiary of the Parent may, subject to the prior consent of the Financial Services Authority, purchase the Capital Securities in any manner and at any price, together with all unmatured Coupons and Talons appertaining thereto.</p>
<b>Interest</b>	The Capital Securities bear interest at a rate of 6.35 per cent. per annum from (and including) 25 October 2002 to (but excluding) 25 February 2013 and thereafter at a rate equal to three month EURIBOR plus 2.50 per cent. per annum, reset quarterly.
<b>Coupon Payment Dates</b>	Subject as described below, Coupon Payments will be payable on 25 February in each year from (and including) 25 February 2003 (in respect of the period from (and including) 25 October 2002 to (but excluding) 25 February 2003) to (and including) 25 February 2013, and thereafter, subject to adjustment for non-business days, on 25 May, 25 August, 25 November and 25 February in each year commencing 25 May 2013. The first Coupon Payment due on 25 February 2003 shall amount to €21.40 per Capital Security.
<b>Subordination</b>	<p>The Capital Securities constitute direct, unsecured and subordinated securities of the Bank. The rights and claims of the Holders and the Couponholders under the Capital Securities are subordinated to the claims of creditors of the Bank:</p> <ul style="list-style-type: none"><li>• who are depositors or other unsubordinated creditors of the Bank; or</li><li>• whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Bank or otherwise) to the claims of depositors and other unsubordinated creditors of the Bank but not further or otherwise; or</li><li>• whose claims are in respect of Junior Subordinated Debt (eg. undated subordinated bonds) of the Bank; or</li><li>• who are subordinated creditors of the Bank other than those whose claims rank, or are expressed to rank, <i>pari passu</i> with, or junior to, the claims of the Holders.</li></ul> <p>No payment in respect of the Capital Securities shall be due and payable except to the extent that the Bank is solvent and could make such payment and still be solvent immediately thereafter.</p>
<b>Winding-up Claims</b>	In the event of the winding-up of the Bank, the Holders will, for the purpose only of calculating the amounts payable by the Bank in respect of each Capital Security, be treated as if, save as mentioned below, on

the day prior to the commencement of the winding-up and thereafter, they were the holders of the most senior class or classes of preference shares (if any) of the Bank in issue and in priority to all other classes of issued shares of the Bank. Such class would rank junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Bank by reference to which the amount payable in respect of any Junior Subordinated Debt in the winding-up of the Bank is determined.

**Exceptional Deferral of payments**

If the Bank determines, on the 20th Business Day prior to the date on which any Payment (which term does not include principal) would, in the absence of deferral in accordance with Condition 4, be due and payable that it is, or payment of the relevant Payment will result in the Bank being, in non-compliance with applicable Capital Regulations, the Bank may defer such Payment.

Such exceptionally deferred payment may be satisfied at any time (provided that at the time of satisfying such payment, the Bank is in compliance with applicable Capital Regulations) by the Bank giving not less than 16 Business Days notice of such satisfaction. Unless the Bank elects to defer such Payment pursuant to its general right to defer referred to below, such exceptionally deferred payment must be satisfied on the Coupon Payment Date next following the 19th Business Day after the Bank determines that it no longer is, and such Payment will not result in it being, in non-compliance with such applicable Capital Regulations.

No interest will accrue on an Exceptionally Deferred Coupon Payment.

**General Deferral of Payments**

The Bank may elect to defer any Payment (which term does not include principal) on the Capital Securities for any period of time. However, the deferred payment will bear interest at 2 per cent. per annum above the rate calculated in accordance with Condition 5(b) for such period of time.

**Dividend and Capital Restriction during Period of Deferral**

If the Bank defers a Payment for any reason as described above then, while any Payment is so deferred, no payments will be permitted on (and no purchases or redemptions will be permitted of) the ordinary share capital or directly or indirectly issued preference or preferred securities or other issued Tier 1 securities of the Bank or the Parent.

**Alternative Coupon Satisfaction Mechanism**

Investors will always receive payments made in respect of Capital Securities in cash. However, if the Bank defers a Coupon Payment, then any such Deferred Coupon Payment must be satisfied by the Bank by the issue of its ordinary shares. In that event, the Parent will issue its ordinary shares to the Trustee or its agent in exchange for the ordinary shares so issued by the Bank. When sold, the Parent's shares will provide a cash amount which, when converted into euro, the Principal Paying Agent on behalf of the Trustee, will pay to the Holders in respect of the relevant Payment. The Calculation Agent will calculate in advance the number of ordinary shares of the Bank or the Parent to be issued in order to enable the Trustee or its agent to raise the full amount of money due on the relevant payment date to Holders.

**Insufficiency**

Each of the Bank and the Parent is required to keep available for issue enough ordinary shares as it reasonably considers would be required to satisfy from time to time the next year's Coupon Payment or Payments (including any Deferred Coupon Payments) using the alternative coupon satisfaction mechanism.

**Market Disruption Event**

If, in the opinion of the Bank, a Market Disruption Event in respect of the Parent's shares exists on or after the 15th Business Day preceding any date upon which the Bank is due to satisfy a payment using the alternative coupon satisfaction mechanism, the payment to Holders may be deferred until the Market Disruption Event no longer exists.

<b>Suspension</b>	<p>If, following any take-over offer or any reorganisation, restructuring or scheme of arrangement, the Parent or any subsequent New Owner ceases to be the ultimate holding company of the Lloyds TSB group of companies, the Bank shall give notice thereof and any changes to the documentation relating to the Capital Securities determined by an independent investment bank to be appropriate in order to preserve substantially the economic effect for the Holders of a holding of the Capital Securities prior to the Suspension will be made by the Bank and the Trustee. Pending such changes the Bank will be unable to satisfy Payments using the alternative coupon satisfaction mechanism. If the investment bank is unable to determine appropriate amendments, as notified to the Bank and the Trustee, the Capital Securities will (subject to the prior consent of the FSA) be redeemed at the Suspension Redemption Price, together with any Outstanding Payments, not later than the 60th Business Day following the giving of such notice by the Bank to the Holders.</p>
<b>Additional Amounts</b>	<p>The Bank will pay additional amounts to Holders of the Capital Securities to gross up Payments upon the imposition of UK withholding tax, subject to customary exceptions.</p>
<b>Exchange, Variation or Redemption for Taxation Reasons</b>	<p>The Bank may, subject to the prior consent of the FSA, redeem all, but not some only, of the Capital Securities at their principal amount together with any Outstanding Payments in the event that for reasons outside its control it is required to pay additional amounts in respect of United Kingdom withholding taxation as provided in Condition 11 of the Terms and Conditions of the Capital Securities, subject to Condition 2. Upon the occurrence of certain other changes in the treatment of the Capital Securities for taxation purposes, which changes affect payments of interest falling due on or prior to 25 February 2013 the Bank may, subject to the prior consent of the FSA, exchange the Capital Securities for, or vary the terms of the Capital Securities so that they become, Upper Tier 2 Securities or, if such change in tax treatment also affects or would affect the Upper Tier 2 Securities and subject to Condition 2, redeem all, but not some only, of the Capital Securities at their principal amount together with any Outstanding Payments.</p>
<b>Exchange, Variation or Redemption for Regulatory Reasons</b>	<p>The Capital Securities will qualify as Tier 1 Capital for the purposes of the FSA's capital adequacy regulations. If at any time the FSA has determined that securities of the nature of the Capital Securities cease to qualify as Tier 1 Capital, the Bank may, subject to the prior consent of the FSA, exchange the Capital Securities for, or vary the terms of the Capital Securities so that they become, Upper Tier 2 Securities or, if such exchange or varied securities do not or would not qualify as Upper Tier 2 Capital or certain other provisions apply, and subject to Condition 2, redeem all, but not some only, of the Capital Securities at their principal amount together with any Outstanding Payments.</p>
<b>Remedy for Non-Payment</b>	<p>The sole remedy against the Bank available to the Trustee or any Holder of Capital Securities for recovery of amounts owing in respect of the Capital Securities will be the institution of proceedings for the winding-up of the Bank and/or proving in such winding-up.</p>
<b>Form</b>	<p><i>Bearer.</i> The Capital Securities will be represented initially by the Temporary Global Capital Security, which will be deposited outside the United States with a Common Depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 25 October 2002. Interests in the Temporary Global Capital Security will be exchangeable for interests in the Permanent Global Capital Security on or after a date which is expected to be 4 December 2002 upon certification as to non-US beneficial ownership as required by</p>

US Treasury regulations and as described in the Temporary Global Capital Security. Capital Securities in definitive bearer form with coupons and a talon attached on issue will be issued in exchange for interests in the Permanent Global Capital Security (a) upon non-payment of sums when due as set out in Condition 10, (b) at any time at the option of the Bank, or (c) in other limited circumstances.

**Listing**

Application has been made to admit the Capital Securities to the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

**Rating**

The Capital Securities are expected to be assigned, on issue, a rating of 'A+' by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc., a rating of 'Aa2' by Moody's Investors Service, Inc and a rating of 'AA' by Fitch Ratings Ltd. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

**Governing Law**

English.

## INVESTMENT CONSIDERATIONS

*The following is a summary of certain aspects of the Capital Securities of which prospective investors should be aware. This summary is not intended to be exhaustive and prospective investors should carefully consider this summary in conjunction with the other information contained in this document.*

### **Deferral**

The Bank may elect to defer any Payment (such term does not include principal) on the Capital Securities for any period of time, as more particularly described in “Terms and Conditions of the Capital Securities – 4. Deferrals”. Any such deferred payment will, unless it is an exceptional deferral as described under “Terms and Conditions of the Capital Securities – 4. Deferrals – (a) Exceptional Deferral of Payments”, bear interest determined in accordance with Condition 5 plus 2 per cent. During the period of such deferral, the Bank and the Parent will be prohibited from making or allowing payments on or redeeming, purchasing or otherwise acquiring, its ordinary share capital or directly or indirectly issued preference or preferred securities or other issued Tier 1 securities.

### **Perpetual securities**

The Bank is under no obligation to redeem the Capital Securities at any time (save in the particular circumstances referred to in “Terms and Conditions of the Capital Securities – 8. Payments – (d) Suspension”) and the Holders have no right to call for their redemption.

### **Redemption and Exchange risk**

The Capital Securities may, subject to the prior consent of the FSA, be redeemed in whole, but not in part, at their principal amount together with accrued Outstanding Payments at the option of the Bank in the event that it is required to pay additional amounts as provided in “Terms and Conditions of the Capital Securities – 11. Taxation”. In addition, upon the occurrence of certain specified tax and regulatory events, the Capital Securities may be exchanged or their terms varied so that they become Upper Tier 2 Securities (bearing interest at a rate of 0.25 per cent. per annum below the Coupon Rate on the Capital Securities, subject to any step up applicable to the coupon rate of such Upper Tier 2 Securities), or, if that or any other such specified tax or regulatory event or any such requirement to pay additional amounts applies or would apply to the Upper Tier 2 Securities, the Capital Securities may, subject to the consent of the FSA, be redeemed at their outstanding principal amount together with any Outstanding Payments all as more particularly described in “Terms and Conditions of the Capital Securities – 7. Exchange for Upper Tier 2 Securities, Variation or Redemption”.

### **No limitation on issuing debt**

Save as provided in “Terms and Conditions of the Capital Securities – 2. Status – (b)(iii) Senior Tier 1 Securities”, there is no restriction on the amount of debt which the Bank may issue which ranks senior to the Capital Securities or on the amount of securities which the Bank may issue which ranks *pari passu* with the Capital Securities. The issue of any such debt or securities may reduce the amount recoverable by Holders on a winding-up of the Bank or may increase the likelihood of a deferral of Payments under the Capital Securities.

### **Availability of shares**

If the Bank is to make a payment using the alternative coupon satisfaction mechanism and insufficient ordinary shares in the Bank or the Parent are available, then the Bank’s payment obligation shall be suspended to the extent of such insufficiency and, except in the case of Exceptionally Deferred Coupon Payments, shall bear interest at 2 per cent. per annum above the rate applicable to the Capital Securities, until such time as sufficient shares are available to satisfy all or part of the suspended payment obligation, as more particularly described in “Terms and Conditions of the Capital Securities – 6. Alternative Coupon Satisfaction Mechanism – (d) Insufficiency”.

### **Market Disruption Event**

If, following a decision by the Bank to satisfy a payment using the alternative coupon satisfaction mechanism, in the opinion of the Bank a Market Disruption Event in respect of the Parent’s ordinary shares exists, the payment to Holders may be deferred until the cessation of such market disruption, as more particularly described in “Terms and Conditions of the Capital Securities – 6. Alternative Coupon Satisfaction Mechanism – (e) Market Disruption”. Any such deferred payments shall bear interest at the rate applicable to the Capital Securities if the Market Disruption Event continues for 14 days or more.



**Restricted remedy for non-payment**

In accordance with the FSA's requirements for subordinated capital, the sole remedy against the Bank available to the Trustee or any Holder for recovery of amounts owing in respect of any Payment or principal in respect of the Capital Securities will be the institution of proceedings for the winding-up of the Bank and/or proving in such winding-up.

**Set-off**

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

**Absence of prior public markets**

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

## TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

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

The Capital Securities are constituted by the Trust Deed. The issue of the Capital Securities was authorised pursuant to resolutions of the Chairman's Committee of the Board of Directors of the Bank passed on 17 October 2002. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement are available for inspection during normal business hours by the Holders and the Couponholders at the registered office of the Trustee, being at 22 October 2002 at Whiteley Chambers, Don Street, St Helier, Jersey, JE4 9WG, Channel Islands, and at the specified office of each of the Paying Agents. The Holders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement applicable to them.

### 1. Form, Denomination and Title

#### (a) *Form and Denomination*

The Capital Securities are serially numbered and in bearer form each in the denomination of €1,000, with Coupons and one Talon attached on issue.

#### (b) *Title*

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

### 2. Status

#### (a) *Status and Subordination of the Capital Securities*

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

- (b) (i) *Condition of Payment by the Bank:* The rights and claims of the Holders and the Couponholders under the Capital Securities are subordinated to the claims of Senior Creditors, in that payments in respect of the Capital Securities (and the issue of Bank Shares in accordance with Condition 6) are conditional upon the Bank being solvent at the time of payment (or at the time of issue of such Bank Shares) by the Bank and in that no principal or Payments shall be due and payable in respect of the Capital Securities (including the issue of Bank Shares in accordance with Condition 6) except to the extent that the Bank could make such payment (or make such issue of Bank Shares) and still be solvent immediately thereafter.

For the purposes of these Terms and Conditions, the Bank shall be solvent if (a) it is able to pay its debts to Senior Creditors as they fall due and (b) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). For the purposes of this Condition 2(b)(i) any reference to a payment by the Bank in respect of a Capital Security shall be deemed to include a purchase of such Capital Security by the Bank.

- (ii) *Winding-Up Claims of the Bank:* Amounts in respect of principal or Payments in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable ("Winding-Up Claims") will be payable by the Bank in a winding-up of the Bank as provided in Condition 3 and on any redemption pursuant to Condition 7(b), 7(c), 7(d) or 8(d). A Winding-Up Claim shall not bear interest.
- (iii) *Senior Tier 1 Securities:* So long as any of the Capital Securities remains outstanding (as defined in the Trust Deed), the Bank will not issue any preference shares or other securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of the Parent or any other entity which in each case constitutes (whether on a solo, or a solo-consolidated or a consolidated basis) issued Tier 1

Capital of the Bank if such preference shares, securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Capital Securities. This prohibition will not apply if the Trust Deed and the Capital Securities are amended to ensure that the Trustee and the Holders obtain such of those rights and entitlements as are contained in or attached to such preference shares or other securities or under such guarantee or contractual support arrangement as are required so as to ensure that the Capital Securities rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such preference shares or other securities or under such other guarantee or contractual support arrangement as the Trustee shall in its absolute discretion determine to be not materially less beneficial to the interests of the Holders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

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

(c) *Retained Funds to absorb losses*

For the avoidance of doubt, if the Bank is not solvent for the purposes of Condition 2(b), any sums which would otherwise be payable in respect of the Capital Securities by the Bank will instead be available to meet the losses of the Bank.

(d) *Reports as to solvency*

A report as to the solvency of the Bank by two directors of the Bank or, in certain circumstances as provided in the Trust Deed, the Auditors or, if the Bank is in winding-up, its liquidator, shall in the absence of proven error be treated and accepted by the Bank, the Parent, the Trustee, the Holders and the Couponholders as correct and sufficient evidence thereof.

### 3. **Winding-up**

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

### 4. **Deferrals**

The Bank must make each Coupon Payment on the relevant Coupon Payment Date subject to and in accordance with these Terms and Conditions. However, the Bank may defer a Coupon Payment and any other Payment in the following circumstances:

(a) *Exceptional Deferral of Payments*

- (i) If on the 20th Business Day preceding the date on which any Payment would, in the absence of deferral in accordance with this Condition 4, be due and payable, the Exceptional

Deferral Condition is met, any such Payment may (subject to Condition 6) be deferred by the Bank giving notice to the Trustee, the Holders, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to such date.

If, following the deferral of a Payment by the Bank under this Condition 4(a)(i), the Exceptional Deferral Condition is no longer met on the 20th Business Day preceding a Coupon Payment Date, then the Bank shall satisfy such Payment on the Relevant Deferred Coupon Payment Date having given, not less than 16 Business Days prior to the Relevant Deferred Coupon Payment Date, notice to the Trustee, the Holders and the Calculation Agent that it will satisfy such Payment on such date, except that the Bank shall not satisfy such Payment on the Relevant Deferred Coupon Payment Date if:

- (1) it has previously elected to satisfy such Payment earlier (provided that, at the time of satisfying such payment, the Exceptional Deferral Condition fails to be met) by delivering a notice to the Trustee, the Holders, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to the relevant Exceptionally Deferred Coupon Payment Date that it will satisfy such Payment on such date; or
  - (2) it elects to defer such Payment under Condition 4(b).
- (ii) If any Payment is deferred pursuant to this Condition 4(a) then:
- (1) the Dividend and Capital Restriction shall apply from the date of the first-mentioned notice in Condition 4(a)(i) until such time as that Exceptionally Deferred Coupon Payment is satisfied and the full amount of such Exceptionally Deferred Coupon Payment has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Holders; and
  - (2) no amount will be payable by way of interest on any such deferred Payment, save as provided in Condition 6(e).

The “Dividend and Capital Restriction” means that:

- (x) neither the Bank nor the Parent may declare, pay or distribute a dividend or make a payment (other than a dividend declared, paid or distributed or payment made by the Bank to the Parent, any holding company of the Parent or to another wholly-owned subsidiary of the Parent) on any of its ordinary share capital, its preference share capital, its Other Tier 1 Securities or its Junior Tier 1 Securities or make any payment on a Tier 1 Guarantee;
- (y) neither the Bank nor the Parent may redeem, purchase or otherwise acquire any of its ordinary shares, its preference shares, its Other Tier 1 Securities or its Junior Tier 1 Securities or purchase or otherwise acquire any security benefiting from a Tier 1 Guarantee (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or in respect of a distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired); and
- (z) the Bank and the Parent will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any subsidiary undertaking on any security (howsoever named or designated) benefiting from a Tier 1 Guarantee.

Any such deferred Payment shall be satisfied by means (and only by means) of the issue of Bank Shares in accordance with Condition 6.

(b) *Election to defer Payment*

- (i) The Bank may in respect of any Payment which would, in the absence of deferral in accordance with this Condition 4, be due and payable, defer such Payment by giving a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and the Holders not less than 16 Business Days prior to the relevant due date. The Bank may then satisfy any such Payment at any time by means (and only by means) of an issue of Bank Shares and the subsequent issue of Ordinary Shares in accordance with Condition 6 upon delivery of a notice to the Trustee, the Principal Paying Agent and the Calculation Agent not less

than 16 Business Days prior to the relevant Deferred Coupon Satisfaction Date informing them of its election to so satisfy such Payment.

- (ii) If any Payment is deferred pursuant to this Condition 4(b) then:
  - (1) the Dividend and Capital Restriction shall apply from the date of the first-mentioned notice in Condition 4(b)(i) until such time as that Deferred Coupon Payment (and any other Deferred Coupon Payment or Accrued Coupon Payment) is satisfied and the full amount of such Deferred Coupon Payment has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Holders; and
  - (2) such deferred Payment shall bear interest at a rate equal to the aggregate of the rate determined in accordance with Condition 5 and 2 per cent. per annum from (and including) the date on which (but for such deferral) the Deferred Coupon Payment would otherwise have been due to be made to (but excluding) the relevant Deferred Coupon Satisfaction Date.

## **5. Coupon Payments**

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

The Capital Securities bear interest at the Coupon Rate from (and including) the Issue Date. Such interest will (subject to Conditions 2(b)(i), 4(a), 4(b), 6(d), 6(e) and 8(d)) be payable in arrear on each Coupon Payment Date. Each Capital Security will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest in accordance with this Condition (both before and after judgment) as provided in the Trust Deed.

### **(b) *Coupon Rate***

- (i) The Coupon Rate in respect of the period from (and including) the Issue Date to (but excluding) the First Reset Date is 6.35 per cent. per annum. The first Coupon Payment due on 25 February 2003 shall amount to €21.40 per Capital Security.
- (ii) The Coupon Rate in respect of the Coupon Period commencing on the First Reset Date and each Coupon Period thereafter shall be the aggregate of 2.50 per cent. per annum and:
  - (aa) the offered rate (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) for three-month euro deposits as at 11.00 a.m. (Brussels time) on the Coupon Determination Date in question as appears on the display designated as page “248-249” on the Moneyline Telerate Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Principal Paying Agent;
  - (bb) if such offered rate does not appear, the arithmetic mean (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of offered quotations to prime banks in the Euro-zone interbank market for three-month euro deposits as at 11.00 a.m. (Brussels time) on the Coupon Determination Date in question obtained by the Principal Paying Agent from the principal Euro-zone offices of the Reference Banks, provided at least two of the Reference Banks provide the Principal Paying Agent with such offered quotations; and
  - (cc) if, on any Coupon Determination Date to which the provisions of sub-paragraph (bb) above apply, one only or none of the Reference Banks provides the Principal Paying Agent with such a quotation, the arithmetic mean (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the euro lending rates which major banks in the Euro-zone selected by the Principal Paying Agent are quoting at approximately 11.00 a.m. (Brussels time) on the relevant Coupon Determination Date to leading European banks for a period of three months,

except that, if the banks so selected by the Principal Paying Agent are not quoting as mentioned above, the Coupon Rate in respect of that Coupon Period shall be either (i) the Coupon Rate in effect for the last preceding Coupon Period to which one of the preceding sub-paragraphs of this paragraph shall have applied or (ii) if none, 6.35 per cent. per annum.

(c) *Determination and Publication of Coupon Rate and Coupon Amounts*

The Principal Paying Agent will, upon the determination of each Coupon Rate pursuant to Condition 5(b)(ii), calculate the Coupon Amount in respect of each Capital Security and cause the Coupon Rate and Coupon Amount payable in respect of a Coupon Period to be notified as soon as possible after their determination but in no event later than the first day of a Coupon Period, to the Trustee, the Bank, the Calculation Agent, the London Stock Exchange and the Holders.

The Coupon Amount in respect of any Accrual Period shall be calculated by multiplying the product of the Coupon Rate and the principal amount of one Capital Security by the applicable Day Count Fraction and rounding the resultant figure to the nearest cent. (half a cent. being rounded up).

(d) *Determination or Calculation by Trustee*

If the Principal Paying Agent does not at any time for any reason so determine the Coupon Rate or calculate each Coupon Amount in accordance with Conditions 5(b)(ii) and 5(c), the Trustee or an agent on its behalf shall do so and such determination or calculation shall be deemed to have been made by the Principal Paying Agent. In doing so, the Trustee or such agent shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that in its opinion, it or the Principal Paying Agent can do so, and in all other respects it or the Principal Paying Agent shall do so in such manner as it shall deem fair and reasonable in all the circumstances. All determinations or calculations made or obtained for the purposes of the provisions of this Condition 5(d) by the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Calculation Agent, the Paying Agents and all Holders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Bank, the Holders or the Couponholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(e) *Reference Banks*

The Bank will (with the prior written approval of the Trustee) not later than 20 business days before the First Reset Date appoint four leading financial institutions engaged in the Euro-zone interbank market (each acting through its principal Euro-zone office) to act as Reference Banks and will procure that, so long as any of the Capital Securities is outstanding, there shall thereafter at all times be four Reference Banks. If any such institution (acting through its relevant office) is unable to continue to act as a Reference Bank, the Bank shall (with the prior written approval of the Trustee) appoint some other leading financial institution engaged in the Euro-zone interbank market (acting through its principal Euro-zone office) to act as such in its place.

**6. Alternative Coupon Satisfaction Mechanism**

(a) *Alternative Coupon Satisfaction Mechanism*

The Bank may elect to satisfy any Payment in full or in part (in which case any reference in this Condition 6 to a "Payment" shall be construed accordingly) through the issue of Bank Shares to the Trustee in accordance with this Condition 6, in which case it shall notify the Parent, the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to the relevant Coupon Payment Date. In the absence of or save to the extent of such election and issue, subject to Conditions 4(a) and 4(b), Payments must be satisfied in accordance with Condition 8(a), provided that if under Condition 4(a) an Exceptional Deferral Condition is met the relevant Payment must be deferred unless the prior consent of the Financial Services Authority is obtained for the making of such Payment.

(b) *Issue of shares*

If any Payment is to be satisfied through the issue to the Trustee of Bank Shares by the Bank then, subject to Conditions 6(d), 6(e) and 8(d):

- (i) by close of business on or before the seventh Business Day prior to the relevant Coupon Payment Date, Deferred Coupon Satisfaction Date or Exceptionally Deferred Coupon Payment Date, the Bank will issue to the Trustee (or, if so agreed between the Bank and the Trustee, to an agent of the Trustee) such number of Bank Shares (the "Payment Bank Shares") as, in the determination of the Parent, have a market value (converted, where necessary, into euro) of not less than the relevant Payment to be satisfied in accordance with this Condition 6;

- (ii) by close of business on or before the sixth Business Day prior to the relevant Coupon Payment Date, Deferred Coupon Satisfaction Date or Exceptionally Deferred Coupon Payment Date, the Trustee has agreed to transfer or instruct its agent to transfer the Payment Bank Shares to the Parent in consideration for which the Parent has agreed to issue to the Trustee (or, if so agreed between the Bank and the Trustee, to an agent of the Trustee) within one Business Day of the Parent receiving the Payment Bank Shares such number of Ordinary Shares (the "Payment Ordinary Shares") as, in the determination of the Calculation Agent, have a market value (converted, where necessary, into euro) of not less than the relevant Payment to be satisfied in accordance with this Condition 6;
- (iii) the Trustee will use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case not later than by close of business on the fifth Business Day prior to the date on which the relevant Payment is due and the Calculation Agent has agreed to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. If necessary, the Calculation Agent has further agreed to exchange, as agent of the Trustee, the proceeds of such sale into euro at prevailing market exchange rates and deliver such exchanged proceeds to, or hold such exchanged proceeds to the order of, the Trustee who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c); and
- (iv) if, after the operation of the above procedures, there would in the opinion of the Calculation Agent be a shortfall on the date on which the relevant Payment is due, the Bank and the Parent shall issue and/or sell (as the case may be) further Bank Shares and Ordinary Shares in accordance with the provisions of the Trust Deed to ensure that a sum, when converted into euro, at least equal to the relevant Payment is available to make the Payment in full on the relevant due date provided that if, despite the operation of the aforementioned provisions, such a shortfall exists on the relevant due date the Bank may, in accordance with the provisions of the Trust Deed either pay an amount equal to such shortfall as soon as practicable to the Trustee or continue, together with the Parent, to issue and/or sell Bank Shares and Ordinary Shares until the Principal Paying Agent shall have received funds equal to the full amount of such shortfall.

(c) *Issue satisfies Payment*

Where the Bank either elects or is required to make a Payment hereunder by issuing Bank Shares to the Trustee (with the subsequent issue by the Parent to the Trustee of Ordinary Shares in exchange therefor) and in accordance with its obligations under the Trust Deed issues such shares, such issue by the Bank shall, subject to Condition 6(b)(iv) and 6(e), satisfy the relevant Payment or, as the case may be, in the circumstances referred to in (d) below, the relevant part of such Payment. The proceeds of sale of Ordinary Shares resulting from the mandatory exchange of Bank Shares in accordance with this Condition 6 shall be paid by the Principal Paying Agent to the Holders in respect of the relevant Payment.

(d) *Insufficiency*

- (i) If the Bank is to satisfy a Payment in accordance with this Condition 6 and either the Bank or the Parent does not, on the date when the number of Bank Shares or Ordinary Shares (as the case may be) required to be issued is determined in accordance with this Condition 6, have a sufficient number of, respectively, Bank Shares or Ordinary Shares available for issue, then the Bank or the Parent (as the case may be) shall notify the Bank or the Parent (as the case may be), the Trustee, the Principal Paying Agent, the Calculation Agent and the Holders that all or part, as the case may be, of the relevant Payment cannot be so satisfied due to the events described in this paragraph. In this case the Payment or part thereof shall be satisfied following the date of the next annual general meeting or extraordinary general meeting of shareholders of the Bank or the Parent (as the case may be) at which a resolution is passed authorising a sufficient number of Bank Shares or Ordinary Shares available to satisfy all or such part of the relevant Payment provided that if the number of Bank Shares or Ordinary Shares (as the case may be) authorised to be issued at any such meeting is insufficient to satisfy all or such part of the relevant Payment then those Bank Shares or Ordinary Shares so issued shall (to the extent that the relevant number of Bank Shares or Ordinary Shares (as the case may be) are also available) be applied by the Bank

in part satisfaction of all or such part of the relevant Payment. Following the passage of any such resolution, the Bank or the Parent (as the case may be) shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the Holders of the date upon which the relevant Payment or, as the case may be, the part thereof is to be made in accordance herewith on not less than 16 Business Days' notice. The relevant Payment or, as the case may be, the part thereof which is not so satisfied shall, unless it is an Exceptionally Deferred Coupon Payment, continue to accrue interest at the rate determined in accordance with Condition 4(b)(ii) from (and including) the date on which Payment would otherwise have been due to (but excluding) the date on which such Payment or part thereof is satisfied or, in the event of a Market Disruption Event, the date on which such Payment or part thereof would, but for the occurrence of such Market Disruption Event, have been satisfied (from which date interest (if any) will accrue on such Payment as provided in Condition 6(e)).

- (ii) In the case of an insufficiency of Bank Shares, the Parent shall procure that the Bank holds an annual or extraordinary general meeting at which a resolution to make a sufficient number of Bank Shares so available is passed within ten Business Days of the Bank giving the first-mentioned notice in paragraph (i) above. If, in the case of an insufficiency of Ordinary Shares, the Parent does not hold an annual general meeting within six months of giving the above first-mentioned notice at which a resolution to make a sufficient number of Ordinary Shares so available is passed, the Trustee shall by notice require the Parent to convene an extraordinary general meeting at which such a resolution shall be proposed on a date falling within 10 weeks of such notice from the Trustee.
- (iii) In the event that any such resolution proposed at any such annual general meeting or extraordinary general meeting of the Parent is rejected, such resolution will be proposed at each annual general meeting or any extraordinary general meeting of the Parent thereafter and the Dividend and Capital Restriction shall apply from the date of the first mentioned notice in paragraph (i) above until such time as such resolution has been passed by the shareholders of the Parent or, if the Dividend and Capital Restriction is already in place pursuant to Condition 4(a) or 4(b), until such time (if later) as such restriction ceases to apply.

(e) *Market Disruption*

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Bank (subject, where necessary, to determinations made by the Calculation Agent), a Market Disruption Event on or after the 15th Business Day preceding any date upon which a Payment or, in the case of an insufficiency as provided in paragraph (d) above, part thereof is due to be made or satisfied in accordance with this Condition 6, then the Bank may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and the Holders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant Payment shall be deferred until such time as (in the opinion of the Bank) the Market Disruption Event no longer exists.

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

**7. Exchange for Upper Tier 2 Securities, Variation, Redemption and Purchases**

(a) *No Fixed Redemption Date*

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Bank shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 12) only have the right to repay them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).



Any redemption or purchase of the Capital Securities is subject to the prior consent of the Financial Services Authority.

(b) *Bank's Call Option*

Subject to Condition 2(b)(i), the Bank may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 and to the Principal Paying Agent and the Trustee, which notice shall be irrevocable, elect to redeem all, but not some only, of the Capital Securities on the Coupon Payment Date falling on 25 February 2013 or on any Coupon Payment Date thereafter at their principal amount together with any Outstanding Payments. Each notice of redemption shall specify the date fixed for redemption.

(c) *Exchange for Upper Tier 2 Securities, Variation or Redemption due to Taxation*

If the Bank satisfies the Trustee immediately prior to the giving of the notice referred to below that, on the next due date for a Coupon Payment:

- (i) the Bank would, for reasons outside its control, be unable to make such payment without being required to pay additional amounts as provided or referred to in Condition 11; or
- (ii) payments of amounts in respect of interest on the Capital Securities including, for the avoidance of doubt, the issue of Bank Shares pursuant to Condition 6, may be treated as "distributions" within the meaning of Section 832(1) of the Income and Corporation Taxes Act 1988 (or such other Section and/or Act as may from time to time supersede or replace Section 832(1) of the Income and Corporation Taxes Act 1988 for the purposes of such definition) and such requirement or circumstance cannot be avoided by the Bank taking such measures as it (acting in good faith) deems appropriate; or
- (iii) as a result of any change in or proposed change in, or amendment to or proposed amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, or any change in or proposed change in the application of official or generally published interpretation of such laws, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such law or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the Capital Securities, which change or amendment becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by Act of Parliament or made by Statutory Instrument on or after 22 October 2002, there is more than an insubstantial risk that the Bank will not obtain full or substantially full relief for the purposes of United Kingdom corporation tax for any payment of interest including, for the avoidance of doubt, where the payment of interest is to be satisfied by the issue of Bank Shares and Ordinary Shares pursuant to Condition 6 or, as a result of the Capital Securities being in issue, the Bank may be unable to claim or surrender losses as group relief, and such requirement or circumstance cannot be avoided by the Bank taking such measures as it (acting in good faith) deems appropriate,

then

- (aa) in any case where (i) applies, the Bank may (subject to the prior consent of the Financial Services Authority and Condition 2(b)(i)), having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable), redeem, in accordance with these Terms and Conditions, at any time all, but not some only, of the Capital Securities at their principal amount together with any Outstanding Payments on any Coupon Payment Date;
- (bb) in any case where either paragraph (ii) or (iii) above applies, the Bank may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the Holders or, save as specified below, the Trustee) having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders (which notice shall be irrevocable) exchange the Capital Securities for, or vary the terms of the Capital Securities so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to

Outstanding Payments. Notice of any such exchange or variation shall be published in accordance with Condition 16 and shall set out, *inter alia*, details of the manner in which such exchange or variation shall be effected. If any of the conditions listed in paragraphs (i), (ii) or (iii) above apply or continue to apply to the Upper Tier 2 Securities for or into which the Capital Securities have been exchanged or varied, or if the Bank shows to the satisfaction of the Trustee that any of these conditions would apply if such exchange or variation were to take place, or if the consent of the Financial Services Authority is not given, the Bank may, subject to Condition 2(b)(i), having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16, the Trustee and the Principal Paying Agent (which notice shall be irrevocable) redeem, in accordance with these Terms and Conditions, at any time all, but not some only, of the Capital Securities or any such Upper Tier 2 Securities for or into which they have been exchanged or varied at their principal amount together with any Outstanding Payments on any Coupon Payment Date. The Trustee shall use its reasonable endeavours to assist the Bank in the exchange or variation of the Capital Securities for or into Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such exchange or variation if, in its opinion, the terms of the securities into which the Capital Securities are to be exchanged or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Bank may, subject as provided above, redeem the Capital Securities as provided above.

Prior to the publication of any notice of exchange, variation or redemption pursuant to this Condition 7(c), the Bank shall deliver to the Trustee a certificate signed by a director of the Bank stating that the relevant requirement or circumstance referred to in paragraph (i), (ii) or (iii) above is satisfied and the Trustee shall accept such certificate as sufficient evidence of the satisfaction of the relevant condition precedent set out above, in which event it shall be conclusive and binding on the Holders.

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

If the Bank notifies the Trustee immediately prior to the giving of the notice referred to below that the Financial Services Authority has determined that securities of the nature of the Capital Securities can no longer qualify as Tier 1 Capital then the Bank may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the Holders or, save as specified below, the Trustee), having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16, the Trustee and the Principal Paying Agent (which notice shall be irrevocable) exchange the Capital Securities for, or vary the terms of the Capital Securities so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to Outstanding Payments. Notice of any such exchange or variation shall be published in accordance with Condition 16 and shall set out, *inter alia*, details of the manner in which such exchange or variation shall be effected.

If: (a) the consent of the Financial Services Authority is not given or, (b) the Capital Securities, as so exchanged or varied for or into Upper Tier 2 Securities, do not (or would not, if so exchanged or varied) qualify as Upper Tier 2 Capital or, (c) any of the conditions listed in paragraphs (c)(i), (ii) or (iii) above apply, or would apply, to such Upper Tier 2 Securities, the Bank may, subject to Condition 2(b)(i), having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16, the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem, in accordance with these Terms and Conditions, at any time all, but not some only, of the Capital Securities or any such Upper Tier 2 Securities for or into which they have been exchanged or varied at their principal amount together with any Outstanding Payments. The Trustee shall use its reasonable endeavours to assist the Bank in the exchange or variation of the Capital Securities for or into Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such exchange or variation if, in its opinion, the terms of the securities into which the Capital Securities are to be exchanged or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Bank may, subject as provided above, redeem the Capital Securities as provided above. Upon the expiry of such notice the Bank shall either redeem, vary or exchange the Capital Securities, as the case may be.

(e) *Purchases*

The Bank, the Parent or any other Subsidiary of the Parent may (subject to the prior consent of the Financial Services Authority and Condition 2(b)(i)) at any time purchase Capital Securities in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and Talons (if any) appertaining thereto.

(f) *Cancellation*

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

**8. Payments**

(a) *Method of Payment*

- (i) Payments of principal and Coupon Amounts will be made by or on behalf of the Bank against presentation and surrender of Capital Securities or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relative Capital Security. Such payments will be made, at the option of the payee by euro cheque drawn, or by transfer to a euro account maintained by the payee with, a bank in the Euro-zone.
- (ii) Upon the due date for redemption of any Capital Security, any unexchanged Talon relating to such Capital Security (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such Capital Security (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Capital Security is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Bank may require.
- (iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Capital Security, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 12).
- (iv) The names of the initial Paying Agents and their initial specified offices are set out below. The Bank reserves the right, subject to the prior written approval of the Trustee at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain (aa) a Paying Agent having a specified office outside the United Kingdom, (bb) for so long as the Capital Securities are listed on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange and the rules of such exchange or authority so require, a Paying Agent having a specified office in London and (cc) if a European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 comes into force, a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to the Directive provided that under no circumstances will the Bank be obliged to maintain a Paying Agent with a specified office in such Member State unless at least one Member State of the European Union does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 16.

(b) *Payments subject to Fiscal Laws*

All payments made in accordance with these Terms and Conditions are subject in all cases to any fiscal or other laws, regulations, directives and orders of any court of competent jurisdiction

applicable in the place of payment, but without prejudice to the provisions of Condition 11. No commissions or expenses shall be charged to the Holders or Couponholders in respect of such payments.

(c) *Payments on Payment Business Days*

A Capital Security or a Coupon may only be presented for payment on a day (other than a Saturday or a Sunday) (i) on which commercial banks are open for general business in London and, if different, in the place of the specified office of the relevant Paying Agent to whom the Capital Security or Coupon is presented for payment and (ii) which is a TARGET Business Day. No further interest or other payment will be made as a consequence of the day on which the relevant Capital Security or Coupon may be presented for payment under this paragraph falling after the due date.

(d) *Suspension*

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement, the Parent or any subsequent New Owner ceases to be the ultimate holding company of the Lloyds TSB group of companies, then the Bank shall as soon as practicable give notice to the Trustee, the Calculation Agent and the Holders, whereupon the Bank's right or obligation to satisfy a Payment by the method contemplated by Condition 6 shall be suspended (such event being a "Suspension"). In such event an independent investment bank appointed by the Bank (at the Bank's expense) and approved by the Trustee shall determine, subject to the requirements that (i) the Bank shall not be obliged to reduce its net assets, (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the Capital Securities for banking capital adequacy purposes without the prior consent of the Financial Services Authority, and (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on the Trustee without its consent, what amendments (if any) to these Terms and Conditions, the Trust Deed and any other relevant documents are appropriate in order to preserve substantially the economic effect for the Holders of a holding of the Capital Securities prior to the Suspension. Upon any such determination being reached and notified to the Trustee, the Bank and the Parent by such investment bank, the Trustee, the Bank and the Parent shall, pursuant to the terms of the Trust Deed and without the consent of the Holders or Couponholders, effect any necessary consequential changes to these Terms and Conditions and the Trust Deed and any other relevant documents, whereupon the Bank's right or obligation to satisfy a Payment by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall so notify the Bank, the Parent, the New Owner, the Trustee, the Principal Paying Agent and the Calculation Agent and each Capital Security shall (subject to the prior consent of the Financial Services Authority) be redeemed by the Bank, following notice to the Holders by the Bank of such redemption as soon as practicable after receipt of the consent of the Financial Services Authority, at the Suspension Redemption Price, together with any Outstanding Payments, not later than the 60th Business Day following the giving of such notice by the Bank to the Holders. Such redemption will, unless otherwise agreed by the Bank, the Parent and the Trustee, be effected through the issue of Bank Shares, such Bank Shares to be transferred to the New Owner in consideration for which the New Owner issues and transfers its ordinary shares (or share capital of an equivalent class) in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent share capital of the New Owner which, when sold, provide a net cash amount (converted into euro if necessary) of not less than the redemption amount so payable by the Bank).

**9. Pre-emption**

The Bank shall, from time to time, keep available for issue such number of Bank Shares as it reasonably considers would be required to be issued in order to satisfy the requirement to issue Payment Bank Shares in accordance with Condition 6 in respect of any Deferred Coupon Payments, Exceptionally Deferred Coupon Payments and the Coupon Payments for the next year.

The Parent shall, from time to time, keep available for issue such number of Ordinary Shares as it reasonably considers would be required to be issued in order to satisfy the requirement to issue Payment

Ordinary Shares in accordance with Condition 6 in respect of any Deferred Coupon Payments, Exceptionally Deferred Coupon Payments and the Coupon Payments for the next year.

No damages will be payable for breach of this covenant but, in the event of breach by the Bank or the Parent of this Condition 9, the Trustee may require the Parent, as applicable, (i) to procure that the Bank holds as soon as practicable an extraordinary general meeting of the shareholders of the Bank at which a resolution is passed to remedy the breach or (ii) to put before the next general meeting of the shareholders of the Parent a resolution to remedy the breach.

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

#### **10. Non-Payment when Due**

*Notwithstanding any of the provisions below in this Condition 10, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(b) and subject as provided in the next sentence no principal or Payment will be due by the Bank if the Bank is not solvent or would not be solvent if payment of such principal or Payment was made. Also, in the case of any Payment, such Payment will not be due if the Bank has elected to defer that Payment pursuant to Condition 4(a) or 4(b) or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Bank, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.*

- (a) If the Bank shall not make payment in respect of the Capital Securities (in the case of payment of principal) for a period of 14 days or more after the due date for the same or (in the case of any Coupon Amount, Deferred Coupon Payment, Exceptionally Deferred Coupon Payment or Accrued Coupon Payment or any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Bank shall be deemed to be in default under the Trust Deed, the Capital Securities and the Coupons and the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 10, institute proceedings in England (but not elsewhere) for the winding-up of the Bank provided that it shall not have the right to institute such proceedings if the Bank withholds or refuses any such payment (i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, the Bank, the relevant Paying Agent or the holder of the Capital Security or Coupon or (ii) (subject as provided in the Trust Deed) in case of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice as to such validity or applicability given at any time during the said period of 14 days by independent legal advisers acceptable to the Trustee.
- (b) Subject as provided in Condition 9, the Trustee may at its discretion and without further notice institute such proceedings against the Bank as it may think fit to enforce any term or condition binding on the Bank under the Trust Deed, the Capital Securities or the Coupons (other than for the payment of any principal or satisfaction of any Payments in respect of the Capital Securities or the Coupons, including any payment under Clause 2.6 of the Trust Deed) provided that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in paragraph (a) or (b) above against the Bank to enforce the terms of the Trust Deed, the Capital Securities or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution or in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding and (ii) it shall have been indemnified to its satisfaction.
- (d) No Holder or Couponholder shall be entitled to proceed directly against the Bank, or to institute proceedings for the winding-up of the Bank or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Bank as those which the Trustee is entitled to exercise. No remedy against the Bank shall be available to the Trustee or any Holder or Couponholder (i) for the recovery of amounts owing in respect of the Capital Securities or the Coupons (including any payment under Clause 2.6 of the Trust Deed), other than the institution

of proceedings in England (but not elsewhere) for the winding-up of the Bank and/or proving in such winding-up and (ii) for the breach of any other term under the Trust Deed, the Capital Securities or the Coupons, other than as provided in paragraph (b) above. The Bank has undertaken in the Trust Deed to pay English and Jersey stamp and other duties (if any) on or in connection with the execution of the Trust Deed and English, Belgian and Luxembourg stamp and other duties or taxes (if any) on the constitution and issue of the Capital Securities in temporary global, permanent global or definitive form (provided such stamp and other duties or taxes result from laws applicable on or prior to the date 40 days after the Issue Date and, in the case of exchange of a global Capital Security for Capital Securities in definitive form, such tax results from laws applicable on or prior to the date of such exchange) and stamp and other duties or taxes (if any) payable in England (but not elsewhere) solely by virtue of and in connection with any permissible proceedings under the Trust Deed or the Capital Securities, save that the Bank shall not be liable to pay any such stamp duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the Holder or, as the case may be, Couponholder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Bank will not be otherwise responsible for stamp or other duties or taxes otherwise imposed and in particular (but without prejudice to the generality of the foregoing) for any penalties arising on account of late payment where due by the Holder or Couponholder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Capital Securities in temporary global, permanent global or definitive form or the Coupons (in each case other than as aforesaid) are the liability of the holders thereof.

- (e) If payment to any Holder of any amount due in respect of the Capital Securities (other than interest) is improperly withheld or refused (any withholding or refusal effected in reliance upon the proviso to paragraph (a) of this Condition where the relevant law, regulation or order proves subsequently not to be valid or applicable shall be treated, for the purpose of ascertaining entitlement to accrued interest but not for any other purpose, as if it had been at all times an improper withholding or refusal), interest shall accrue at the rate determined in accordance with Condition 5 from the date of such withholding or refusal, as the case may be, until (but excluding) the date on which notice is given in accordance with Condition 16 that the full amount in euro payable in respect of such Capital Securities is available for payment or the date of payment, whichever first occurs and shall be calculated in accordance with Condition 5(b).
- (f) If, in reliance upon the proviso to paragraph (a) above, payment of any amount (each a “withheld amount”) in respect of the whole or any part of the principal and/or any Payment due in respect of the Capital Securities, or any of them, is not paid or provided by the Bank to the Trustee or to the account of or with the Principal Paying Agent, or is withheld or refused by any of the Paying Agents, in each case other than improperly within the meaning of paragraph (e) above, or which is paid or provided after the due date for payment thereof, such withheld amount shall, where not already on interest bearing deposit, if lawful, promptly be so placed, all as more particularly described in the Trust Deed. If subsequently it shall be or become lawful to make payment of such withheld amount in euro, notice shall be given in accordance with Condition 16, specifying the date (which shall be no later than seven days after the earliest date thereafter upon which such interest bearing deposit falls or may (without penalty) be called due for repayment) on and after which payment in full of such withheld amount (or that part thereof which it is lawful to pay) will be made. In such event (but subject in all cases to any applicable fiscal or other law or regulation or the order of any court of competent jurisdiction), the withheld amount or the relevant part thereof, together with interest accrued thereon from (and including) the date the same was placed on deposit to (but excluding) the date upon which such interest bearing deposit was repaid, shall be paid to (or released) by the Principal Paying Agent for payment to the relevant holders of Capital Securities and/or Coupons, as the case may be (or, if the Principal Paying Agent advises the Bank of its inability to effect such payment, shall be paid to (or released by) such other Paying Agent as there then may be or, if none, to the Trustee, in any such case for payment as aforesaid). For purposes of paragraph (a) above, the date specified in the said notice shall become the due date for payment in respect of such withheld amount or the relevant part thereof. The obligations under this paragraph (f) shall be in lieu of any other remedy otherwise available under these Terms and Conditions, the Trust Deed or otherwise in respect of such withheld amount or the relevant part thereof.
- (g) Any interest payable as provided in paragraph (f) above shall be paid net of any taxes applicable thereto and Condition 11 shall not apply in respect of the payment of any such interest.

## 11. Taxation

All payments by the Bank of principal, Coupon Amounts, Deferred Coupon Payments, Exceptionally Deferred Coupon Payments, Accrued Coupon Payments and Winding-Up Claims in respect of the Capital Securities will be made without withholding of or deduction for, or on any account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Bank will pay such additional amounts as may be necessary in order that the net amounts receivable by Holders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Capital Securities or, as the case may be, Coupons in the absence of such withholding or deduction, except that no such additional amounts shall be payable in relation to any payment with respect to any Capital Security or Coupon:

- (a) presented for payment by or on behalf of a Holder or, as the case may be, Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Capital Security or Coupon by reason of such Holder or, as the case may be, Couponholder having some connection with the United Kingdom other than the mere holding of such Capital Security or Coupon; or
- (b) to, or to a third party on behalf of, a Holder or, as the case may be, Couponholder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such Holder, or as the case may be, Couponholder proves that he is not entitled so as to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a Holder, or as the case may be, Couponholder that is a partnership, or a Holder, or as the case may be, Couponholder that is not the sole beneficial owner of the Capital Security or Coupon, or which holds the Capital Security or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (d) presented for payment in the United Kingdom; or
- (e) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or, as the case may be, Couponholder would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (f) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to confirm such Directive; or
- (g) presented for payment by or on behalf of a Holder, or as the case may be, Couponholder who would be able to avoid such withholding or deduction by presenting the relevant Coupon to another Paying Agent in a Member State of the European Union.

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

In the event that any payment is satisfied through the issue of Bank Shares pursuant to Condition 6, then any additional amounts which are payable shall also be satisfied through the issue of Bank Shares.

## 12. Prescription

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

### **13. Meetings of Holders, Modification, Waiver and Substitution**

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

The Trustee may agree, without the consent of the Holders or the Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error; and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Holders. Any such modification, authorisation or waiver shall be binding on the Holders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Holders as soon as practicable thereafter in accordance with Condition 16.

No material modification to these Terms and Conditions or any other provisions of the Trust Deed shall become effective unless the prior consent thereto of the Financial Services Authority shall have been obtained.

Subject to the prior consent of the Financial Services Authority and as provided in the Trust Deed, the Trustee shall agree, if requested by the Bank and subject to such amendment of the Trust Deed and such other conditions as the Trustee may reasonably require, but without the consent of the Holders or the Couponholders, to the substitution, subject to the Capital Securities and the Coupons being irrevocably guaranteed by the Bank on a subordinated basis equivalent to that mentioned in Condition 2(b) of the Parent, any New Owner, any other Subsidiary of the Parent or any New Owner, any successor in business of the Bank or any Subsidiary of any successor in business of the Parent in place of the Bank as a new issuing party under the Trust Deed, the Capital Securities and the Coupons and as a party to the Agency Agreement and the Calculation Agency Agreement and so that the claims of the Holders and the Couponholders may, in the case of the substitution of the Parent, any New Owner or a banking company (as defined in the Trust Deed) in the place of the Bank, also be subordinated to the rights of Senior Creditors (as defined in Condition 21, but with the substitution of references to “the Parent”, any such “New Owner” or to “that subsidiary” in place of references to “the Bank” together with such consequential amendments as are appropriate).

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Holders as a class and shall not have regard to any interests arising from circumstances particular to individual Holders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Holders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Holder or Couponholder be entitled to claim, from the Bank, the Parent, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders or Couponholders except to the extent already provided for in Condition 11 and/or any undertaking given in addition thereto or in substitution therefor under the Trust Deed.

### **14. Replacement of the Capital Securities, Coupons and Talons**

Should any Capital Security, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (or such other place of which notice shall have been given in accordance with Condition 16) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity and/or as the Bank may reasonably require. Mutilated or defaced Capital Securities, Coupons or Talons must be surrendered before any replacement Capital Securities, Coupons or Talons will be issued. In addition the Bank may require the person requesting delivery of a replacement Capital Security or Coupon to pay, prior to delivery of such replacement Capital Security or Coupon, any stamp or other tax or governmental charges required to be paid in connection with such replacement.



## **15. The Trustee**

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

## **16. Notices**

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

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

## **17. Further Issues**

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

## **18. Agents**

The Bank and the Parent will procure that there shall at all times be a Calculation Agent and a Principal Paying Agent so long as any Capital Security is outstanding. If either the Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Terms and Conditions or the Calculation Agency Agreement or the Agency Agreement, as appropriate, the Bank and the Parent shall appoint, on terms acceptable to the Trustee, an independent investment bank acceptable to the Trustee to act as such in its place. Neither the termination of the appointment of a Calculation Agent or the Principal Paying Agent nor the resignation of either will be effective without a successor having been appointed.

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

None of the Bank, the Parent, the Trustee and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation by the Calculation Agent.

## **19. Governing Law and Jurisdiction**

- (a) The Trust Deed, the Capital Securities, the Coupons and the Talons are governed by, and shall be construed in accordance with, the laws of England.
- (b) The Courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Capital Securities, the Coupons or the Talons ("Proceedings") may be brought in such courts. The Parent has in the Trust Deed irrevocably submitted to the jurisdiction of such courts. Service of process in any Proceedings in England may be effected on the Parent by delivery to the Parent's principal place of business in England currently at 71 Lombard Street, London EC3P 3BS or such other address as may be notified to Holders in accordance with Condition 16.

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

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

## **21. Definitions**

In these Terms and Conditions:

“*Accrual Period*” means the relevant period for which interest is to be calculated from (and including) the first such date to (but excluding) the last;

“*Accrued Coupon Payment*” means, as at any time, where these Terms and Conditions provide that interest shall continue to accrue after a Coupon Payment Date in respect of a Capital Security, the amount of interest accrued thereon in accordance with Conditions 4(b), 5, 6(d) and 6(e);

“*Agency Agreement*” means the agency agreement dated 25 October 2002 between the Bank, the Parent, the Trustee and the Paying Agents relating to the Capital Securities under which each Paying Agent agrees to perform the duties required of it under these Terms and Conditions;

“*Assets*” means the non-consolidated gross assets of the Bank as shown by the then latest published audited balance sheet of the Bank, but adjusted for contingencies and for subsequent events and to such extent as the directors, the Auditors or, as the case may be, the liquidator may determine to be appropriate;

“*Auditors*” means the statutory auditors to the Bank or such other reporting accountant as may be appointed by the Bank with the approval of the Trustee from time to time;

“*Bank*” means Lloyds TSB Bank plc;

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

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

“*Calculation Agency Agreement*” means the calculation agency agreement dated 25 October 2002 between the Bank, the Parent, the Trustee and the Calculation Agent, relating to the Capital Securities under which the Calculation Agent agrees to perform the duties required of it under these Terms and Conditions;

“*Calculation Agent*” means Hoare Govett Limited, as calculation agent in relation to the Capital Securities, or its successor or successors for the time being appointed under the Calculation Agency Agreement;

“*Capital Regulations*” means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Financial Services Authority or such other governmental authority in the United Kingdom (or, if the Bank becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary bank supervisory authority with respect to the Bank;

“*Capital Securities*” means the €500,000,000 6.35 per cent. Step-up Perpetual Capital Securities, and such expression shall include, unless the context otherwise requires, any further capital securities issued pursuant to Condition 17 and forming a single series with the Capital Securities;

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

“*Coupon Amount*” means (i) in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Coupon Period in accordance with Condition 5 and (ii) for the purposes of Conditions 7(c), 7(d) and 8(d), any interest accrued from (and including) the preceding Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the due date for redemption if not a Coupon Payment Date as provided for in Condition 5(b);

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

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

“*Coupon Payment Date*” means (i) in respect of the period from the Issue Date to (and including) the First Reset Date, 25 February in each year, starting 25 February 2003 (in respect of the period from (and including) the Issue Date to (but excluding) 25 February 2003), and (ii) after the First Reset Date, 25 May, 25 August, 25 November and 25 February in each year, starting 25 May 2013, provided that if any Coupon Payment Date after the First Reset Date will otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day;

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

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

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

“*Day Count Fraction*” means:

- (a) in respect of each accrual period from the Issue Date to the First Reset Date, the actual number of days in the relevant accrual period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the date on which it falls due, divided by the product of (1) the number of days in the Coupon Period in which the relevant period falls (including the first such date but excluding the last) and (2) the number of Coupon Periods normally ending in a year; and
- (b) in respect of each accrual period from and after the First Reset Date, the actual number of days in the accrual period in respect of which payment is being made divided by 360;

“*Deferred Coupon Payment*” means any Payment, or part thereof, which, pursuant to Condition 4(b), the Bank has elected to defer and which has not been satisfied;

“*Deferred Coupon Satisfaction Date*” means the date on which the Bank has resolved to satisfy a Deferred Coupon Payment, as notified by the Bank to the Trustee, the Holders, the Principal Paying Agent and the Calculation Agent in accordance with Condition 4(b);

“*Dividend and Capital Restriction*” has the meaning ascribed to it in Condition 4(a)(ii);

“*Euro-zone*” means the region comprised of member states of the European Union that have adopted the single currency in accordance with the Treaty;

the “*Exceptional Deferral Condition*” will be met if, in the determination of the Bank, on the relevant date, the Bank is, or payment of the relevant Payment by the Bank will result in the Bank being, in non-compliance with the applicable Capital Regulations;

“*Exceptionally Deferred Coupon Payment*” means a Payment, or part thereof, which has been deferred in accordance with Condition 4(a) and has not subsequently been either (i) satisfied or (ii) deferred in accordance with Condition 4(b);

“*Exceptionally Deferred Coupon Payment Date*” means the date on which the Bank has resolved to satisfy an Exceptionally Deferred Coupon Payment, as notified by the Bank to the Trustee, the Holders, the Principal Paying Agent and the Calculation Agent in accordance with Condition 4(a);

“*First Reset Date*” means 25 February 2013;

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

“*holding company*” has the meaning ascribed to it under Section 736 of the Companies Act 1985;

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

“*Issue Date*” means 25 October 2002, being the date of issue of the Capital Securities;

“*Junior Subordinated Debt*” means the Bank’s outstanding Primary Capital Undated Floating Rate Notes (Series 1), Primary Capital Undated Floating Rate Notes (Series 2), Primary Capital Undated Floating Rate Notes (Series 3), 11<sup>3</sup>/<sub>4</sub>% Perpetual Subordinated Bonds, 5<sup>5</sup>/<sub>8</sub>% Undated Subordinated Step-up Notes callable 2009, Undated Step-up Floating Rate Notes callable 2009, 6<sup>5</sup>/<sub>8</sub>% Undated Subordinated Step-up Notes callable 2010, 5.57% Undated Subordinated Step-up Coupon Notes callable 2015, 6<sup>1</sup>/<sub>2</sub>% Undated Subordinated Step-up Notes callable 2019, 8% Undated Subordinated Step-up Notes callable 2023 and 6<sup>1</sup>/<sub>2</sub>% Undated Subordinated Step-up Notes callable 2029 and any other obligations of the Bank which rank or are expressed to rank *pari passu* with the aforesaid obligations;

“*Junior Tier 1 Securities*” means, in respect of the Bank or the Parent (as the case may be), any securities ranking junior, whether contractually or structurally, (in the case of the Bank) to the Capital Securities or (in the case of the Parent) to the most senior preference share capital of the Parent on a return of assets on its winding-up or in respect of a distribution or payment of dividends and/or any other amounts thereunder;

“*Liabilities*” means the non-consolidated gross liabilities of the Bank as shown by the then latest published audited balance sheet of the Bank, but adjusted for contingencies and for subsequent events and to such extent as the directors, the Auditors or, as the case may be, the liquidator may determine;

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

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

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

“*Ordinary Shares*” means ordinary shares of the Parent, having on the Issue Date a par value of 25 pence each;

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

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

“*Parent*” means Lloyds TSB Group plc;

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

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

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

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

“*Principal Paying Agent*” means the principal paying agent appointed pursuant to the Agency Agreement;

“*Recognised Stock Exchange*” means a recognised stock exchange as defined in Section 841 of the Income and Corporation Taxes Act 1988 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time;

“*Reference Bond*” means the 5 per cent. Bundesobligationen due July 2012, or if such Bond is no longer in issue, such other European government bonds as the Calculation Agent may, with the advice of three brokers of, and/or market makers in, European government bonds selected by the Calculation Agent, determine to be appropriate for determining the Suspension Redemption Price;

“*Relevant Date*” means (i) in respect of any payment other than a Winding-Up Claim, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the “*Relevant Date*” means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 16, and (ii) in respect of a Winding-Up Claim, the date which is one day prior to the commencement of the winding-up;

“*Relevant Deferred Coupon Payment Date*” means with respect to a deferral under Condition 4(a)(i), the Coupon Payment Date next following the 19th Business Day after such Exceptional Deferral Condition is no longer met;

“*Reset Date*” means the First Reset Date and thereafter the first day of a Coupon Period;

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

“*Subsidiary*” has the meaning ascribed to it under Section 736 of the Companies Act 1985;

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

“*Suspension Redemption Price*” means, in respect of each Capital Security, (a) €1,000 or, if higher, (b) the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield (as calculated by the Calculation Agent) on the Capital Securities, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, would be equal to the gross redemption yield on such dealing day on the Reference Bond plus 0.50 per cent., on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (Central European Time) on such dealing day;

“*Talon*” means a talon for further Coupons;

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

“*TARGET System*” means the Trans-European Real-Time Gross Settlement Express Transfer (TARGET) System;

“*Tier 1 Capital*” has the meaning ascribed to it in the Financial Services Authority’s Interim Prudential Sourcebook for Banks (as amended from time to time) or any successor publication replacing such publication or is capital which is otherwise treated as issued tier 1 capital by the Financial Services Authority;

“*Tier 1 Guarantee*” means any guarantee, indemnity or other contractual support arrangement entered into by the Bank or the Parent in respect of securities (regardless of name or designation) issued by a subsidiary undertaking which constitutes Tier 1 Capital of the Bank or the Parent (as the case may be);

“*Treaty*” means the Treaty establishing the European Community, as amended from time to time;

“*Trust Deed*” means the trust deed dated 25 October 2002 between the Bank, the Parent and the Trustee;

“*Trustee*” means The Law Debenture Trust Corporation (Channel Islands) Limited as trustee for the Holders and includes its successor(s);

“*Upper Tier 2 Capital*” has the meaning ascribed to it in the Financial Services Authority’s Interim Prudential Sourcebook for Banks (as amended from time to time) or any successor publication replacing such publication or is capital which is otherwise treated as upper tier 2 capital by the Financial Services Authority;

“*Upper Tier 2 Securities*” means securities of the Bank that:

- (a) have substantially similar terms to the Capital Securities save that (1) they shall contain terms no less favourable to an investor than the then current minimum requirements of the Financial Services Authority in relation to Upper Tier 2 Capital and (2) the Coupon Rate of such securities shall be determined in such manner as shall result in it being 0.25 per cent. per annum below the Coupon Rate from time to time applying to the Capital Securities provided that the Coupon Rate of such securities shall be the subject of a step-up, which shall apply to each Coupon Period commencing on or after 25 February 2013, of the then maximum percentage permitted by applicable Financial Services Authority guidelines relating to Upper Tier 2 Capital; and
- (b) are listed on the London Stock Exchange at the time when they are issued (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at the time);

“*wholly-owned subsidiary*” has the meaning ascribed to it under Section 736 of the Companies Act 1985; and

“*Winding-Up Claim*” has the meaning ascribed to it in Condition 2(b)(ii).

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

### **1. Exchange**

The Capital Securities will be represented initially by a Temporary Global Capital Security in bearer form without Coupons or Talons which will be deposited outside the United States with a common depositary for Clearstream, Luxembourg and Euroclear on or about 25 October 2002. The Temporary Global Capital Security will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global Capital Security in bearer form without Coupons or Talons on or after a date which is expected to be 4 December 2002 (the "Exchange Date") upon certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the Temporary Global Capital Security. Upon deposit of the Temporary Global Capital Security or the Permanent Global Capital Security (each a "Global Capital Security") with a common depositary for Clearstream, Luxembourg and Euroclear will credit each subscriber with a principal amount of Capital Securities equal to the principal amount thereof for which it has subscribed and paid.

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

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

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

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

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

Interests in the Permanent Global Capital Security will be exchangeable in whole but not in part (free of charge to the holder) for definitive bearer Capital Securities (a) upon the happening of non-payment of sums when due as set out in "Terms and Conditions of the Capital Securities – 10. Non-Payment when Due (a)", (b) if the Permanent Global Capital Security is held on behalf of Clearstream, Luxembourg or Euroclear or an Alternative Clearing System (as defined below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (c) at any time at the option of the Bank, by the Bank or, in the case of (a) or (b) above, the Holder of the Permanent Global Capital Security giving notice to the Principal Paying Agent and, if applicable, the Bank or the Holders of its intention to exchange interests in the Permanent Capital Security for definitive Capital Securities on or after the Permanent Global Exchange Date (as defined below) specified in the notice.

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

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

“Permanent Global Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the cities in which Clearstream, Luxembourg and Euroclear or, if relevant, the Alternative Clearing System are located.

## **2. Payments**

Principal and interest in respect of the Permanent Global Capital Security shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of any Paying Agent which shall endorse such payment or cause payment to be endorsed in the appropriate schedule to the Permanent Global Capital Security. No person shall however be entitled to receive any payment on the Permanent Global Capital Security falling due after the Permanent Global Exchange Date, unless exchange of the Permanent Global Capital Security for definitive Capital Securities is improperly withheld or refused by or on behalf of the Bank.

## **3. Notices**

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

## **4. Meetings**

The holder of the Permanent Global Capital Security shall be treated at any meeting of Holders as having one vote in respect of each €1,000 principal amount of Capital Securities for which the Permanent Global Capital Security may be exchanged.

## **5. Purchase and cancellation**

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

## **6. Trustee's powers**

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

## **USE OF PROCEEDS**

The net proceeds from the issue of the Capital Securities are estimated to amount to €495,000,000 and will be used by the Bank to strengthen the capital base of the Group and to develop and expand the business.



## LLOYDS TSB

Lloyds TSB is one of the leading United Kingdom-based financial services groups, whose businesses provide a comprehensive range of banking and financial services in the United Kingdom and overseas. At the end of 2001 total group assets were £237 billion and there were over 8,000 employees. Market capitalisation was £41.5 billion.

The main businesses and activities of the Group's three segments are described below:

### **UK Retail Banking and Mortgages**

UK Retail Banking and Mortgages provided banking and financial services to 16 million customers during 2001. With approximately 2,300 branches of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham & Gloucester at the end of 2001, Lloyds TSB Bank Group provides comprehensive geographic branch coverage in England, Scotland and Wales. Lloyds TSB Bank Group has continued to develop alternative distribution channels, through the telephone (PhoneBank and PhoneBank Express, an interactive voice recognition service) and the internet (lloydstsb.com). This enables Lloyds TSB Bank Group to offer a broad range of access points for customers in order to improve service and to enhance revenue growth. During 2001, the Lloyds TSB Bank Group completed the implementation of an online real-time personal banking system enabling customers to get up-to-the minute information of their account balances and allowing immediate clearance of Lloyds TSB cheques and immediate transfer of funds between Lloyds TSB accounts.

#### *UK Retail Banking*

*Current accounts, savings and investment accounts, and customer lending.* The retail branches of Lloyds TSB Bank offer a broad range of branded products, and Cheltenham & Gloucester provides retail investments through its branch network and a postal investment centre. Lloyds TSB Bank Group's supermarket banking operation, branded "easibank", continues to expand and there were 22 branches in ASDA supermarkets or large shopping centres at the end of 2001. Lloyds TSB Bank Group has a relationship with the Post Office to allow Lloyds TSB Bank Group personal customers to undertake banking transactions in post offices in Scotland, England and Wales.

*Business banking.* Small businesses were served by dedicated business managers based in 448 locations throughout the UK at the end of 2001. Customers have access to a wide range of tailored business services including money transmission, lending and deposits and insurance and investments. In addition, customers have access to a range of non-financial solutions to their business problems such as Debtor Management service, providing legal support to help customers recover debts and Prospect Finder providing customers with a tailored list of potential customers for their business. Lloyds TSB Bank Group is a leading bank for new business start-ups with around one in five opening accounts with the Lloyds TSB Bank Group.

*Card services.* Provides a range of card-based products and services, including credit and debit cards and card transaction processing services for retailers. Lloyds TSB Bank Group is a member of both the VISA and MasterCard payment systems and is the third largest credit card issuer in the UK with a 10 per cent. share of cards in issue at 31 December 2001.

*Cash machines.* Lloyds TSB Bank Group has one of the largest cash machine networks of any leading banking group in the UK and personal customers of Lloyds TSB Bank are able to withdraw cash, check balances and obtain mini statements through 4,350 cashpoints at branches and external locations around the country. In addition, they have access to a further 32,400 cash machines via LINK in the UK and to cash machines worldwide through the VISA and MasterCard networks.

*Telephone banking.* Telephone Banking continues to grow and Lloyds TSB Bank Group provides one of the largest telephony services in Europe, in terms of customer numbers. At the end of 2001, 2.5 million customers had registered to use the services of PhoneBank and the automated voice response service PhoneBank Express. PhoneBank and PhoneBank Express handles some 25 million calls during the year.

*Internet banking.* Internet Banking provides online banking facilities for personal and business customers and enables them to conduct their financial affairs without the need to use the branch network. Lloyds TSB Bank Group had 1.8 million online customers of lloydstsb.com at the end of 2001. lloydstsb.com was rated one of the most visited financial websites in Europe by Jupiter MMXI.

*UK Wealth Management.* Private Banking provided a range of tailor-made wealth management services and products to individuals from 40 offices throughout the UK in 2001. In addition to asset management, these services include tax and estate planning, executor and trustee services, deposit taking

and lending, insurance and personal equity plan and individual savings account (ISA) products. At 31 December 2001, total funds managed and administered totalled some £11,000 million. Lloyds TSB Stockbrokers undertakes retail stockbroking through its Sharedeal Direct telephone service.

#### *Mortgages*

Cheltenham & Gloucester is Lloyds TSB Bank Group's specialist residential mortgage provider, providing a range of mortgage products to personal customers through its own branches and those of Lloyds TSB Bank in England and Wales, as well as through the telephone, internet and postal service, C&G TeleDirect. Lloyds TSB Bank Group also provides mortgages through Lloyds TSB Scotland and Scottish Widows Bank. During 2001, the contribution from Mortgages was £955 million. Lloyds TSB Bank Group is the third largest residential mortgage lender in the UK on the basis of outstanding balances, with mortgages outstanding at 31 December 2001 of £56,578 million, representing a market share of 9.5 per cent. Lloyds TSB Bank Group believes that it is one of the most efficient mortgage providers in the UK; since Cheltenham & Gloucester's acquisition by Lloyds TSB Bank Group in 1995, it has consistently had one of the lowest efficiency ratios (total operating expenses expressed as a percentage of total income) compared to its competitors.

#### **Insurance and Investments**

*Life assurance, pensions and investment.* Scottish Widows is Lloyds TSB Bank Group's specialist provider of life assurance, pensions and investment products, which are distributed through Lloyds TSB Bank's branch network, through independent financial advisers and directly via the telephone and the internet. Before its acquisition in 2000, Scottish Widows was a leading provider of life assurance, pensions and long-term savings products mainly distributed through independent financial advisers. Following the acquisition, the Scottish Widows brand became the sole brand for Lloyds TSB Bank Group's life, pensions, unit trust and other long-term savings products, and Lloyds TSB Bank Group extended the brand's product range to Lloyds TSB Bank Group's retail banking branch network.

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

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

Other life and pensions products are generally written from the Non-Participating sub-fund. Examples include unit-linked policies, annuities, term assurances and health insurance (under which a pre-determined amount of benefit is payable in the event of an insured event such as death). The benefits provided by such linked policies are wholly or partly determined by reference to a specific portfolio of assets known as unit-linked funds.

*General Insurance.* Lloyds TSB General Insurance provides general insurance through the retail branches of Lloyds TSB Bank and Cheltenham & Gloucester, and through a direct telephone operation and the internet. Based on internal management estimates, Lloyds TSB General Insurance had a new business market share of 14 per cent. of the new household insurance market, selling more policies in the twelve months to December 2001 than any of the other leading distributors. The new household insurance market is defined as those customers switching supplier, taking out first ever policies and customers re-entering the household insurance market.

*Scottish Widows Investment Partnership* manages funds for Lloyds TSB Bank Group's retail life, pensions and investment products. Clients also include corporate pension schemes, local authorities and other institutions in the UK and overseas. At 31 December 2001 funds under management amounted to some £78,000 million, compared to £87,000 million a year earlier. The decline has been partly caused by the market volatility experienced in 2001; Lloyds TSB Bank Group remains a significant player in the asset management business.

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

##### *Wholesale Markets*

Lloyds TSB Bank Group's relationships with major UK and multinational companies, banks and institutions, and medium-sized UK businesses, together with its activities in financial markets, are managed through dedicated offices in the UK and a number of locations overseas, including New York.

*Treasury* is a leading participant in the sterling money market. It is also active in currency money markets, foreign exchange markets and also certain derivatives markets, to meet the needs of customers and as part of Lloyds TSB Bank Group's trading activities. It plays a central role in funding, cash and liquidity management of Lloyds TSB Bank Group.

*Lloyds TSB Corporate* provides a wide range of banking and related services, including electronic banking, large value lease finance, share registration, venture capital, correspondent banking and capital markets services to major UK and multinational companies and financial institutions, and, through a network of dedicated offices, to medium-sized businesses in the UK. The Agricultural Mortgage Corporation provides long-term finance for the agricultural sector.

*Asset Finance* enables companies to acquire the assets needed to run their businesses through the provision of leasing, hire purchase and contract hire packages. Hire purchase, or instalment credit, is a form of consumer financing where a customer takes possession of goods on payment of an initial deposit but the legal title to the goods does not pass to them until the agreed number of instalments have been paid and the option to purchase has been exercised. Through its invoice discounting and factoring subsidiary Lloyds TSB Commercial Finance, the Lloyds TSB Bank Group provides working capital finance for companies by releasing to the company up to 90 per cent. of the value of their unpaid invoices, with the balance payable, after deduction of a service fee, once the invoices have been settled. Invoice discounting differs to factoring in that the company retains control of the debt collection and the credit risk. At 31 December 2001, based on information maintained by the Factors and Discounters Association, Lloyds TSB Commercial Finance Limited (which is a subsidiary of Lloyds TSB Bank plc) was the second largest invoice discounting company in the UK with a market share of 19 per cent. and the largest factoring company in the UK with a market share of 22 per cent.

#### *International Banking*

*New Zealand.* The National Bank of New Zealand Limited ("NBNZ") was New Zealand's second largest bank measured by assets during 2001 and provides a wide range of banking services through some 159 retail branch outlets. NBNZ serves retail customers' needs for current and savings accounts, credit cards, consumer lending and home loans. NBNZ also has a substantial non-personal business providing working capital, term lending, trade finance and treasury services to the business and agricultural sector.

*Europe.* International Wealth Management provides services to wealthy individuals outside their country of residence. The business is conducted through branches of Lloyds TSB Bank located in Switzerland, Dubai, Luxembourg, Monaco and Gibraltar. There are also private and corporate banking operations in Spain and France.

*Offshore banking* comprises Lloyds TSB Bank Group's offices in the Channel Islands and Isle of Man, as well as its operations in Hong Kong, Singapore and Malaysia and representation in Belgium and in the US. It provides a wide range of retail banking, private banking and financial services to overseas residents and islanders, together with deposit services offshore for UK residents.

*The Americas.* Lloyds TSB Bank Group has operated in the Americas for over 130 years and has offices in Brazil, Argentina, Colombia, Ecuador, Guatemala, Honduras, Panama, Paraguay and Uruguay. In addition Lloyds TSB Bank Group has private banking and investment operations in the US and the Bahamas. In Brazil where Lloyds TSB Bank has 11 corporate banking offices Lloyds TSB Bank Group's most substantial business is Losango, a consumer lending operation providing three retail products: borrowing at the point of sale in stores, unsecured personal lending and borrowing to fund new and second-hand car purchases. The Losango business is conducted through Banco Lloyds TSB SA a locally incorporated subsidiary of Lloyds TSB Bank plc. Through its network of corporate banking offices, Lloyds TSB Bank also provides specialist banking and treasury products to corporate clients in Brazil. In Argentina where Lloyds TSB Bank has 40 branches and Colombia where Lloyds TSB Bank's subsidiary Lloyds TSB Bank SA has 20 branches, Lloyds TSB Bank Group provides corporate banking services, including trade finance, working capital loans, import finance, term deposits and money transmission. It also provides retail banking services through a network of branches, including current and savings accounts, credit cards, personal loans and mortgages.

#### **Recent Developments**

On 14 March 2002, the Competition Commission's report into the competitiveness of banking for small and medium sized enterprises (SME) was published by the Government. The Government has accepted in full the recommendations made by the Commission. One of the most significant proposals is that banks should offer any SME customer operating a current account in England and Wales, either:

a current account that pays interest of at least the Bank of England Base Rate, minus 2.5 per cent. or

a current account free of money transmission charges or

a choice between the two.

The other remedies also covered areas such as transparency of charging, easier, penalty-free switching and portable credit histories. The implications for the Lloyds TSB Bank Group and its SME customers have not yet been fully assessed, and, at this stage, the Lloyds TSB Bank Group is unable to quantify in detail the impact upon its SME banking business.

Lloyds TSB Bank Group has already introduced (or is currently introducing) initiatives to address a number of these remedies, such as ease of switching or transparency of charging, either on its own initiative or via the Business Banking Code. The SME market is important to the Lloyds TSB Bank Group, it has supported it for a long time and is committed to doing so in the future. In the last year alone, it has helped 100,000 small businesses get started.

### **Directors**

The directors of Lloyds TSB Group plc and of Lloyds TSB Bank plc, the business address of each of whom is 71 Lombard Street, London EC3P 3BS, England, and their respective principal outside activities, where significant to the Group, are as follows:

<b>Name</b>	<b>Principal Outside Activities</b>
<b>Maarten A. van den Bergh</b> Chairman	A director of Royal Dutch Petroleum Company, BT Group plc and British Airways plc
<b>Alan E. Moore CBE</b> Deputy Chairman	

### ***Executive Directors***

**Peter B Ellwood CBE**  
Group Chief Executive

**Michael E. Fairey**  
Deputy Group Chief Executive

<b>Michael D. Ross CBE</b> Deputy Group Chief Executive	Chairman of the Association of British Insurers
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<b>Philip R. Hampton</b> Group Finance Director	A director of RMC Group plc
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**J. Eric Daniels**  
Group Executive Director,  
UK Retail Banking

**Archie G. Kane**  
Group Executive Director,  
IT and Operations

**David P. Pritchard**  
Group Executive Director,  
Wholesale and International Banking

### ***Non-executive directors***

<b>M. Kent Atkinson</b>	A director of Coca-Cola HBC SA
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<b>Ewan Brown CBE FRSE</b>	A director of Stagecoach Holdings plc and Noble Grossart Limited
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<b>A. Clive Butler</b>	A director of Unilever plc
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**Sheila M. Forbes CBE**

**Gavin J.N. Gemmell CBE**

**Name****Principal Outside Activities*****Non-executive directors continued*****Christopher S. Gibson-Smith**

Chairman of National Air Traffic Services Limited and a director of Powergen plc

**DeAnne S. Julius CBE**

Member of the Court of the Bank of England and a director of BP plc, Serco Group plc and Roche Holdings SA

**Sir Tom McKillop**

Chief executive of AstraZeneca plc

**The Earl of Selborne KBE FRS**

Managing director of The Blackmoor Estate

## CAPITALISATION OF LLOYDS TSB BANK PLC

The following table presents on a consolidated basis, as at the date indicated, the shareholders' funds, minority interests, undated and dated loan capital of Lloyds TSB Bank Group. Undated loan capital is subordinated debt that has no mandatory repayment date. Dated loan capital is subordinated debt that is repayable on an agreed date that, at the time of issue of the loan capital, is at least five years and one day in the future.

**31 December 2001**  
(£ millions)

### Shareholders' funds (equity and non-equity)

Authorised: 1,650,000,000 ordinary shares of £1 each and 1 cumulative floating rate preference share of £1.....	1,650
Issued and fully paid: ordinary shares.....	1,542
6.625% Perpetual Capital Securities (€750m) (Notes a, b and e).....	451
Reserves .....	10,404
<b>Total</b> .....	<b>12,397</b>

### Minority interests (Notes a and b)

Equity.....	37
Non-equity:	
7.375% Step-up Non-voting Non-cumulative Preferred Securities callable 2012 (€430 million) (Notes c and d).....	261
7.834% Step-up Non-voting Non-cumulative Preferred Securities callable 2015 (£250 million) (Notes c and d).....	248
<b>Total</b> .....	<b>546</b>

### Undated Loan Capital (Notes a, b, d and f)

Primary Capital Undated Floating Rate Notes (Series 1) (U.S.\$750 million) (Note g).....	516
Primary Capital Undated Floating Rate Notes (Series 2) (U.S.\$500 million) (Note g).....	344
Primary Capital Undated Floating Rate Notes (Series 3) (U.S.\$600 million) (Note g).....	412
11 <sup>3</sup> / <sub>4</sub> % Perpetual Subordinated Bonds .....	100
5 <sup>5</sup> / <sub>8</sub> % Undated Subordinated Step-up Notes callable 2009 (€1,250 million) (Note c).....	757
Undated Step-up Floating Rate Notes callable 2009 (€150 million) (Notes c and g).....	91
6 <sup>5</sup> / <sub>8</sub> % Undated Subordinated Step-up Notes callable 2010 (Note c).....	406
5.57% Undated Subordinated Step-up Coupon Notes callable 2015 (¥20,000 million) (Note c) .....	105
6 <sup>1</sup> / <sub>2</sub> % Undated Subordinated Step-up Notes callable 2019 (Note c).....	266
8% Undated Subordinated Step-up Notes callable 2023 (Note c).....	199
6 <sup>1</sup> / <sub>2</sub> % Undated Subordinated Step-up Notes callable 2029 (Note c).....	455
<b>Total</b> .....	<b>3,651</b>

**Dated Loan Capital (Notes a, b, d and h)**

Eurocurrency Zero Coupon Bonds 2003 (¥3,000 million) .....	15
Subordinated Fixed Rate Bonds 2003 (NZ\$151 million) (Note i).....	43
Subordinated Floating Rate Notes 2004 (Note g).....	15
7 <sup>3</sup> / <sub>8</sub> % Subordinated Bonds 2004.....	399
Subordinated Floating Rate Notes 2004 (Notes g and j).....	100
Subordinated Floating Rate Loan 2006 (Note g).....	150
Subordinated Floating Rate Notes 2007 (Note g) .....	200
7 <sup>3</sup> / <sub>4</sub> % Subordinated Bonds 2007.....	299
Subordinated Fixed Rate Bonds 2007 (NZ\$150 million) (Note i).....	43
5 <sup>1</sup> / <sub>4</sub> % Subordinated Notes 2008 (DM750 million) .....	234
Subordinated Floating Rate Notes 2008 (Note g).....	150
10 <sup>5</sup> / <sub>8</sub> % Guaranteed Subordinated Loan Stock 2008 .....	112
9 <sup>1</sup> / <sub>2</sub> % Subordinated Bonds 2009.....	99
Subordinated Step-up Floating Rate Notes 2009 callable 2004 (US\$500 million) (Notes c and g).....	343
Subordinated Fixed Rate Bonds 2010 (NZ\$100 million) (Note i).....	29
6 <sup>1</sup> / <sub>4</sub> % Subordinated Notes 2010 (€400 million).....	244
Subordinated Floating Rate Notes 2010 (US\$400 million) (Note g).....	274
12% Guaranteed Subordinated Bonds 2011 .....	121
4 <sup>3</sup> / <sub>4</sub> % Subordinated Notes 2011 (€850 million).....	498
Subordinated Fixed Rate Bonds 2011 (NZ\$100 million) (Note i).....	28
Subordinated Floating Rate Notes 2011 (notes g and j) .....	100
6 <sup>5</sup> / <sub>8</sub> % Subordinated Notes 2015.....	343
Subordinated Floating Rates Notes 2020 (€100 million) (Note g) .....	61
9 <sup>5</sup> / <sub>8</sub> % Subordinated Bonds 2023.....	341
Subordinated Non-Interest Bearing Loan on rolling 6 year notice.....	150
<b>Total</b> .....	<b>4,391</b>
<b>Total Capitalisation</b> .....	<b>20,985</b>

**Note:**

- Preferred securities, capital securities and loan capital denominated in currencies other than sterling have been translated at rates prevailing on 31 December 2001.
- In certain circumstances the amounts of preferred securities, capital securities and loan capital reflect issue expenses which are amortised over the shorter of the life of the issue and the period to the callable date.
- These preferred securities, bonds and notes will bear interest at an increased margin over the relevant reference benchmark if they are not called on the relevant callable date.
- In certain circumstances the preferred securities are subject to mandatory conversion into preference shares issued by Lloyds TSB Group plc. If they are not called at the relevant callable dates, investors have the right to seek redemption from the proceeds of issues of new ordinary shares in Lloyds TSB Group plc.
- Lloyds TSB Bank may elect at any time to satisfy its obligation to make payment in respect of the Perpetual Capital Securities by the issue of ordinary shares to the trustee for the holders of the Perpetual Capital Securities. In that event Lloyds TSB Group plc will issue ordinary shares to the trustee in exchange for the ordinary shares issued by Lloyds TSB Bank, and Lloyds TSB Group plc's shares will be sold to provide the cash to make the relevant payment.
- The undated loan capital notes were issued on a subordinated basis and, in certain circumstances, the notes would acquire the characteristics of preference share capital.
- These notes bear interest at rates fixed periodically in advance based on interbank rates.
- Much of the dated loan capital is prepayable at the option of the borrower, subject to prior consent of the Financial Services Authority.

- (i) These bonds bear interest, to be reset 5 years before redemption date, at a fixed margin over New Zealand Government stocks.
- (j) These notes are exchangeable at the election of the issuer for further subordinated floating rate notes.
- (k) As at 31 December 2001, the Bank had other borrowings of £170,892 million (including deposits by banks of £24,310 million, customer accounts of £109,302 million, debt securities in issue of £24,420 million and other liabilities of £12,860 million) and contingent liabilities (including guarantees) of £7,963 million.
- (l) None of the preferred securities, capital securities or loan capital is secured, or, except where otherwise stated, guaranteed.
- (m) As at 31 December 2001, the authorised share capital of Lloyds TSB Bank Group comprised 1,650,000,000 ordinary shares of £1 each and 1 cumulative floating rate preference share of £1.
- (n) Since 31 December 2001, the Lloyds TSB Bank Group has (i) issued NZ\$125 million 7.61 per cent. Subordinated Bonds 2012, £463.5 million Subordinated Floating Rate Notes 2014 and £150 million 5.875 per cent. Subordinated Notes 2014 and guaranteed £500 million 6% Undated Subordinated Guaranteed Bonds callable 2032 and €750 million 5.875 per cent. Subordinated Guaranteed Bonds due 2014, each issued by Lloyds TSB Group plc; and (ii) redeemed NZ\$150 million of Subordinated Fixed Rate Bonds 2006. There have been no other material changes to the Lloyds TSB Bank Group's capitalisation or indebtedness, contingent liabilities and guarantees since that date.



## TAXATION

*The following discussion is a summary of the current taxation treatment of the Capital Securities and certain tax matters arising under UK tax law. The discussion does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Capital Securities. The discussion is based on the tax laws of the United Kingdom as in effect on the date of this Offering Circular, which are subject to change, possibly with retroactive effect. The discussion does not consider any specific facts or circumstances that may apply to a particular Capital Security Holder. Capital Security Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than those discussed should consult their professional advisers.*

### **United Kingdom Taxation**

For so long as the Capital Securities continue to be listed on a “recognised stock exchange” within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (“ICTA”), payments of interest on the Capital Securities may be made without withholding or deduction for or on account of United Kingdom tax.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be provided to the tax authorities in other countries.

If the Capital Securities cease to be listed on a “recognised stock exchange”, interest will generally be paid under deduction of income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

The interest on the Capital Securities will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom income tax by direct assessment even if paid without withholding or deduction. The profit realised on any disposal (which includes redemption) of any Capital Security issued at an issue price of less than the amount payable on redemption is similarly chargeable but does not attract United Kingdom withholding. However, neither such profit nor interest received without deduction or withholding is chargeable to United Kingdom tax in the hands of a Capital Security Holder who is not resident for tax purposes in the United Kingdom unless the Capital Security Holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest or profit is received or to which the Capital Securities are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).

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

The provisions relating to additional payments referred to in Condition 11 of “Terms and Conditions of the Capital Securities” would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest or (where applicable) profit on any Capital Security directly to United Kingdom income tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

### **Proposed EU Directive on the taxation of savings income**

The council of the European Union has published a draft Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments. The proposed Directive is not yet final, and may be subject to further amendments.

## **SUBSCRIPTION AND SALE**

Under a subscription agreement entered into with the Bank and the Parent on 22 October 2002 (the “Subscription Agreement”), Lehman Brothers International (Europe) and Salomon Brothers International Limited (together, the “Managers”) have agreed to subscribe for the Capital Securities at the issue price of 100 per cent. The Bank has agreed to pay to the Managers a combined management, underwriting and selling commission of 1.00 per cent. The Subscription Agreement is subject to termination in certain circumstances prior to payment to the Bank.

### **United States**

The Capital Securities have not been and will not be registered under the US Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Capital Securities are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Capital Securities (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of Capital Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Capital Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### **United Kingdom**

Each Manager has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell any Capital Securities to persons in the United Kingdom prior to admission of the Capital Securities to listing in accordance with Part VI of the FSMA, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSMA;
- (2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Capital Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Capital Securities in, from or otherwise involving the United Kingdom.

No action has been or will be taken in any country or any jurisdiction by any Manager or the Bank that would permit a public offering of the Capital Securities, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Capital Securities, in any country or jurisdiction where action for that purpose is required. Each Manager has agreed to comply, to the best of its knowledge and belief, with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Capital Securities or has in its possession or distributes this Offering Circular or any such other material relating to the Capital Securities, in all cases at its own expense.

## GENERAL INFORMATION

- (1) It is expected that admission of the Capital Securities to the Official List and to trading on the London Stock Exchange's market for listed securities will be granted on or around 24 October 2002, subject only to the issue of the Temporary Global Capital Security. If the Temporary Global Capital Security is not issued as mentioned in this document, the issue of the Capital Securities may be cancelled. Prior to official listing, however, dealings in Capital Securities will be permitted by the London Stock Exchange in accordance with its rules.
- (2) The issue of the Capital Securities by the Bank has been duly authorised by resolutions of the Chairman's Committee of the Board of Directors of the Bank passed on 17 October 2002.
- (3) The Capital Securities have been accepted for clearance through Clearstream, Luxembourg and Euroclear.

Common Code: 015692391

ISIN: XS0156923913

- (4) All Capital Securities and Coupons will carry a legend to the following effect "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that United States persons, with certain exceptions, will not be entitled to deduct any loss, and will not be entitled to capital gains treatment with respect to any gain, realised on any sale, exchange or redemption of a Capital Security or Coupon.
- (5) Neither the Bank nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) which may have, or have had during the past 12 months, a significant effect on the financial position of the Lloyds TSB Bank Group.
- (6) There has been no significant change in the financial or trading position of the Parent or the Lloyds TSB Bank Group and no material adverse change in the financial position or prospects of the Parent or the Lloyds TSB Bank Group since 31 December 2001.
- (7) No redemption or purchase by the Bank, the Parent or any of the Parent's other subsidiaries, of the Capital Securities will be made by the Bank without the prior consent of the Financial Services Authority.
- (8) Copies of the following documents will be available free of charge at the specified office of each of the Paying Agents during normal business hours, so long as any of the Capital Securities is outstanding:
  - (a) the memorandum and articles of association of the Bank and the Parent;
  - (b) the Trust Deed;
  - (c) the Subscription Agreement;
  - (d) the Agency Agreement;
  - (e) the Calculation Agency Agreement; and
  - (f) the annual report and accounts of the Bank for the two years ending 31 December 2000 and 31 December 2001, the latest annual report and consolidated accounts of the Parent for the two years ending 31 December 2000 and 31 December 2001 and the latest interim accounts of the Parent.
- (9) The auditors of the Bank, PricewaterhouseCoopers, chartered accountants and registered auditors, have audited the accounts of the Bank in accordance with the laws of England and Wales and issued an unqualified audit opinion for each of the three financial years ending 31 December 2001.  
The auditors of the Parent, PricewaterhouseCoopers have audited the accounts of the Parent in accordance with the laws of England and Wales and issued an unqualified audit opinion for each of the three financial years ending 31 December 2001.
- (10) The Trust Deed provides that the Trustee may rely on certificates or reports from the auditors of the Bank and/or the Parent and/or any other expert in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and/or such auditors and/or expert in connection therewith contains any limit on liability (monetary or otherwise) of such auditors and/or expert.

**REGISTERED OFFICE OF THE BANK**

**Lloyds TSB Bank plc**  
 71 Lombard Street  
 London EC3P 3BS  
 England

**REGISTERED OFFICE OF THE PARENT**

**Lloyds TSB Group plc**  
 Henry Duncan House  
 120 George Street  
 Edinburgh EH2 4LH  
 Scotland

**TRUSTEE****The Law Debenture Trust Corporation (Channel Islands) Limited**

Whiteley Chambers  
 Don Street  
 St Helier, Jersey  
 JE4 9WG  
 Channel Islands

**PRINCIPAL PAYING AGENT**

**Citibank, N.A.**  
 5 Carmelite Street  
 London EC4Y 0PA  
 England

**PAYING AGENT****Dexia Banque Internationale à Luxembourg S.A.**

69 route d'Esch  
 L-2953 Luxembourg

**CALCULATION AGENT**

**Hoare Govett Limited**  
 250 Bishopsgate  
 London EC2M 4AA  
 England

**LEGAL ADVISERS**

*To the Bank and the Parent  
 as to English law*

**Linklaters**  
 One Silk Street  
 London EC2Y 8HQ  
 England

*To the Managers and the Trustee  
 as to English law*

**Allen & Overy**  
 One New Change  
 London EC4M 9QQ  
 England

**AUDITORS**

**PricewaterhouseCoopers**  
 The Quay  
 30 Channel Way  
 Ocean Village  
 Southampton SO14 3QG  
 England

**AUTHORISED ADVISER**

**Salomon Brothers International Limited**  
 Citigroup Centre  
 Canada Square  
 Canary Wharf  
 London E14 5LB  
 England