



Lloyds Banking Group plc

(incorporated in Scotland with limited liability under the Companies Act 1985 with registered number 95000)

£1,480,784,000 7.000 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2019

£1,494,392,000 7.625 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2023

£750,009,000 7.875 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2029

€750,000,000 6.375 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2020

On 6 March 2014, Lloyds Banking Group plc (the “**Issuer**” or “**LBG**”) announced an offer to the holders of certain enhanced capital notes issued by LBG Capital No. 1 plc and LBG Capital No. 2 plc, to exchange their enhanced capital notes for “Additional Tier 1 Securities” (as defined below) to be issued by the Issuer (the “**Exchange Offer**”).

This document constitutes the listing particulars (the “**Listing Particulars**”) in respect of the admission of the Additional Tier 1 Securities to the Official List and to trading on the Global Exchange Market (“**GEM**”) of the Irish Stock Exchange (“**ISE**”). The Additional Tier 1 Securities are expected to be admitted to trading on GEM which is the exchange regulated market of the ISE from 9 April 2014. Application will be made to the ISE for listing of the Additional Tier 1 Securities. GEM is not a regulated market for the purposes of Directive 2004/39/EC.

The Additional Tier 1 Securities comprise £1,480,784,000 7.000 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2019 (the “**Sterling PNC5 Additional Tier 1 Securities**”), £1,494,392,000 7.625 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2023 (the “**Sterling PNC9 Additional Tier 1 Securities**”), £750,009,000 7.875 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2029 (the “**Sterling PNC15 Additional Tier 1 Securities**”), together with the Sterling PNC5 Additional Tier 1 Securities and the Sterling PNC9 Additional Tier 1 Securities, the “**Sterling denominated Additional Tier 1 Securities**”) and €750,000,000 6.375 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2020 (the “**Euro Additional Tier 1 Securities**”) and, together with the Sterling denominated Additional Tier 1 Securities, the “**Additional Tier 1 Securities**”). The terms and conditions of the Additional Tier 1 Securities are set out more fully in “Terms and Conditions of the Sterling PNC5 Additional Tier 1 Securities”, “Terms and Conditions of the Sterling PNC9 Additional Tier 1 Securities”, “Terms and Conditions of the Sterling PNC15 Additional Tier 1 Securities” and “Terms and Conditions of the Euro Additional Tier 1 Securities” (together, the “**Additional Tier 1 Securities Conditions**”).

The Additional Tier 1 Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves.

Subject to certain conditions, the Issuer may elect to redeem any Series of Additional Tier 1 Securities on the First Reset Date of the relevant Series or any subsequent Reset Date of such Series, or at any time if a Capital Disqualification Event or Tax Event has occurred and is continuing in respect of a Series of Additional Tier 1 Securities at their principal amount together with accrued interest.

The Additional Tier 1 Securities will bear interest on their nominal amount from (and including) the Issue Date at the applicable Interest Rates described below. Subject as set out in the relevant Additional Tier 1 Securities Conditions, interest shall be payable quarterly in arrear on each Interest Payment Date in equal instalments, except that the first payment of interest, scheduled to be made on 27 June 2014, will be in respect of the period from and including the Issue Date to but excluding 27 June 2014, all as more particularly described in the relevant Additional Tier 1 Securities Conditions – “5. Interest”.

In respect of the Sterling PNC5 Additional Tier 1 Securities, for each Interest Period which commences prior to 27 June 2019, the Interest Rate shall be 7.000 per cent. per annum. For each Interest Period which commences on or after 27 June 2019, the Interest Rate shall be the sum of: (a) the Reset Reference Rate calculated in accordance with the Additional Tier 1 Securities Conditions; and (b) the Margin of 5.06 per cent. per annum.

In respect of the Sterling PNC9 Additional Tier 1 Securities, for each Interest Period which commences prior to 27 June 2023, the Interest Rate shall be 7.625 per cent. per annum. For each Interest Period which commences on or after 27 June 2023, the Interest Rate shall be the sum of: (a) the Reset Reference Rate calculated in accordance with the Additional Tier 1 Securities Conditions; and (b) the Margin of 5.01 per cent. per annum.

In respect of the Sterling PNC15 Additional Tier 1 Securities, for each Interest Period which commences prior to 27 June 2029, the Interest Rate shall be 7.875 per cent. per annum. For each Interest Period which commences on or after 27 June 2029, the Interest Rate shall be the sum of: (a) the Reset Reference Rate calculated in accordance with the Additional Tier 1 Securities Conditions; and (b) the Margin of 4.83 per cent. per annum.

In respect of the Euro Additional Tier 1 Securities, for each Interest Period which commences prior to 27 June 2020, the Interest Rate shall be 6.375 per cent. per annum. For each Interest Period which commences on or after 27 June 2020, the Interest Rate shall be the sum of: (a) the Reset Reference Rate calculated in accordance with the Additional Tier 1 Securities Conditions; and (b) the Margin of 5.29 per cent. per annum.

Interest on the Additional Tier 1 Securities is due and payable only at the sole discretion of the Issuer subject to the Additional Tier 1 Securities Conditions. Accordingly, the Issuer may elect to cancel any interest payment (or any part thereof) which would otherwise be payable on any Interest Payment Date and in certain circumstances described herein interest payments will be cancelled mandatorily.

If the Issuer determines that the CET1 Ratio as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than 7.00 per cent. on such date (the “**Conversion Trigger**”), all amounts of principal in relation to each Series of Additional Tier 1 Securities shall be irrevocably discharged and satisfied by its Conversion into Ordinary Shares, credited as fully paid and the issuance and delivery of such Ordinary Shares to the Settlement Shares Depositary. The Additional Tier 1 Securities are not convertible at the option of the holders of the Additional Tier 1 Securities (each an “**AT1 Securityholder**” and together, the “**AT1 Securityholders**”) at any time.

The Prudential Regulation Authority (the “**PRA**”) or other relevant authority may also require the Additional Tier 1 Securities to be written off or converted to Ordinary Shares in certain circumstances, with a view to preserving or restoring the viability of LBG, pursuant to an applicable statutory loss absorption regime.

The Additional Tier 1 Securities are perpetual securities and have no fixed maturity date or fixed redemption date. The Issuer shall only have the right to repay them or purchase them in accordance with the Additional Tier 1 Securities Conditions.

The Additional Tier 1 Securities are in registered form. The Euro Additional Tier 1 Securities are issued in denominations of €200,000 and integral multiples of €1,000 in excess thereof and each Series of Sterling Additional Tier 1 Securities are issued in denominations of £200,000 and integral multiples of £1,000 in excess thereof.

The Additional Tier 1 Securities are rated BB, by Fitch Ratings Limited (“**Fitch**”) and BB- by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”), each of which are established in the European Union (the “**EU**”) and registered under Regulation (EC) No 1060/2009, as amended. A security rating is not a recommendation to buy, sell or hold Additional Tier 1 Securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Application has been made to the Irish Stock Exchange for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange for the Additional Tier 1 Securities to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

You should read the whole of this document and the documents incorporated herein by reference. In particular, your attention is drawn to the risk factors described in the section entitled “*Risk Factors*” set out on pages 15 to 64 of this document, which you should read in full.

Certain information in relation to the Issuer has been incorporated by reference into this document, as set out in the section entitled “Documents Incorporated by Reference” on page 5 of this document.

Capitalised terms used but not otherwise defined in these Listing Particulars shall have the meanings given to them in the section “Definitions” or in the Additional Tier 1 Securities Conditions.

IMPORTANT NOTICES

This document constitutes the Listing Particulars in respect of the admission of the Additional Tier 1 Securities to the Official List and to trading on GEM of the ISE and for the purpose of giving information with regard to the Lloyds Group (as defined below) and the Additional Tier 1 Securities which according to the particular nature of the Issuer and the Additional Tier 1 Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer (the “**Responsible Person**”) accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

The Additional Tier 1 Securities have not and will not be registered under the U.S. Securities Act of 1933, as amended, (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Additional Tier 1 Securities may not be offered, sold or delivered within the United States or to U.S. Persons.

No person is, or has been, authorised to give any information or to make any representation other than as contained in these Listing Particulars in their entirety in connection with the Exchange Offer or the issue or offering of the Additional Tier 1 Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer. The delivery of these Listing Particulars shall not, under any circumstances, create any implication that there has been no change in the affairs of the Issuer and its subsidiary and associated undertakings (the “**Group**”) since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Exchange Offer is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither these Listing Particulars nor any other information supplied in connection with the Exchange Offer (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer that any recipient of these Listing Particulars or any other information supplied in connection with the Exchange Offer should purchase any Additional Tier 1 Securities. Each investor contemplating participating in the Exchange Offer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the credit-worthiness, of the Issuer. Neither these Listing Particulars nor any other information supplied in connection with the Exchange Offer constitutes an offer of, or an invitation by or on behalf of the Issuer to any person to subscribe for or purchase, any Additional Tier 1 Securities. These Listing Particulars do not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or a solicitation of any offer to buy or subscribe for, the Additional Tier 1 Securities. The distribution of this document may nonetheless be restricted by law in certain jurisdictions. Persons into whose possession this document comes are required by the Issuer to inform themselves about, and to observe, any such restrictions. These Listing Particulars do not constitute an offering in any circumstances in which such offering is unlawful. The Issuer will not incur any liability for its own failure or the failure of any other person or persons to comply with the provisions of any such restrictions.

Each potential investor in the Additional Tier 1 Securities should determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Additional Tier 1 Securities, the merits and risks of investing in the Additional Tier 1 Securities and the information contained or incorporated by reference in these Listing Particulars;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Additional Tier 1 Securities and the impact the Additional Tier 1 Securities will have on its overall investment portfolio;
- (iii) understand thoroughly the terms of the Additional Tier 1 Securities, such as the provisions governing a Conversion (including, in particular, the circumstances under which a Conversion Trigger may occur) and the situations in which interest payments may be cancelled or deemed cancelled; and
- (iv) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in these Listing Particulars or incorporated by reference herein.

In these Listing Particulars, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "€", "**euro**" and "**EUR**" are 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, references to "£" and "**pounds sterling**" are to the lawful currency for the time being of the United Kingdom and Northern Ireland, and references to "**Euroclear**" and "**Clearstream, Luxembourg**" shall include any successor clearing systems. For the purposes of these Listing Particulars, the terms "**Group**", "**Lloyds**" or "**Lloyds Banking Group**" shall mean Lloyds Banking Group plc and its subsidiary and associated undertakings, unless the context indicates otherwise. The term "**PRA**" shall mean the Prudential Regulation Authority of the United Kingdom (which is the successor of the Financial Services Authority (the "**FSA**") as of 1 April 2013) or such other governmental authority in the United Kingdom (or if Lloyds Banking Group plc becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction) having primary responsibility for the prudential supervision of Lloyds Banking Group plc.

Forward-Looking Statements

These Listing Particulars and the information incorporated by reference herein include certain "forward-looking statements". Statements that are not historical facts, including statements about the Issuer or its directors' and or management's beliefs and expectations are forward-looking statements. Words such as "believes", "anticipates", "estimates", "expects", "intends", "plans", "aims", "potential", "will", "would", "could", "considered", "likely", "estimate" and variations of these words and similar future or conditional expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond the Issuer's control and all of which are based on the Issuer's current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Issuer or the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's and the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of these Listing Particulars.

Investors should specifically consider all of the information set out in, and incorporated by reference into, these Listing Particulars before making any investment decision. In particular, investors should consider the risks, uncertainties and other factors as set out in the section entitled “*Risk Factors*” of these Listing Particulars, which include general risks relating to the Group and risks relating to the Additional Tier 1 Securities.

Except as required by the FCA, PRA, and/or the Irish Stock Exchange or any other applicable law or regulation, the Issuer expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained in these Listing Particulars or incorporated by reference herein to reflect any change in the Issuer’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Any forward-looking statements are made subject to the reservations specified under “Forward-Looking Statements” in the Issuer’s Annual Report on Form 20-F for the year ended 31 December 2013.

DOCUMENTS INCORPORATED BY REFERENCE

The following information has been previously published or are published simultaneously with these Listing Particulars and which have been filed with the ISE and shall be deemed to be incorporated in, and to form part of, these Listing Particulars:

- (i) Lloyds Banking Group plc's Annual Report for the year ended 31 December 2013 on Form 20-F filed with the U.S. Securities and Exchange Commission (the "**SEC**") on 5 March 2014, including the audited consolidated annual financial statements of the Group, together with the audit report thereon;
- (ii) Form 6-K dated 5 March 2014 containing the Group's ratio of earnings to fixed charges as at 31 December 2013 and for the years ended 31 December 2012, 2011, 2010 and 2009;
- (iii) Form 6-K dated 5 March 2014 containing the Group's capitalisation and indebtedness on a consolidated basis in accordance with International Financial Reporting Standards ("**IFRS**") as at 31 December 2013; and
- (iv) the announcement made by the Issuer on 6 March 2014 entitled "Lloyds Banking Group: Exchange Offers and Retail Tender Offers for Enhanced Capital Notes",

all of which shall be deemed to be incorporated in, and form part of, these Listing Particulars, save that any statements contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of these Listing Particulars to the extent that a statement contained, or incorporated by reference, herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of these Listing Particulars.

The Issuer will provide, without charge, to each person to whom a copy of these Listing Particulars has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to the Issuer at its principal office set out at the end of these Listing Particulars. Documents incorporated by reference in these Listing Particulars will be made available on the website of LBG at <http://www.lloydsbankinggroup.com/investors>.

Neither the content of the Issuer's website nor any other website nor the content of any website accessible from hyperlinks on Issuer's website nor any other website is incorporated into, or forms part of, these Listing Particulars.

The Issuer has applied IFRS as issued by the International Accounting Standards Board and as adopted by the EU in the financial statements incorporated by reference above. A summary of the significant accounting policies for the Issuer is included in each of the Annual Reports.

TABLE OF CONTENTS

	Page
DOCUMENTS INCORPORATED BY REFERENCE	5
OVERVIEW	7
RISK FACTORS	15
FORMS OF ADDITIONAL TIER 1 SECURITIES CONDITIONS	65
SUMMARY OF THE ADDITIONAL TIER 1 SECURITIES WHILE IN GLOBAL FORM	152
LLOYDS BANKING GROUP	157
TAXATION	179
GENERAL INFORMATION	181
DEFINITIONS	185

OVERVIEW

The following does not purport to be complete and is qualified in its entirety by the more detailed information provided elsewhere in these Listing Particulars. Capitalised terms shall, unless the context otherwise requires, have the meanings set out under “Definitions” or in the Additional Tier 1 Securities Conditions below.

Issuer	Lloyds Banking Group plc.
Status of the Additional Tier 1 Securities	The Additional Tier 1 Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> and without any preference among themselves.
Subordination of the Additional Tier 1 Securities in a winding-up or administration	<u>Winding-up prior to the Conversion Trigger</u> If, at any time prior to the date on which a Conversion Trigger occurs, the Issuer is in a winding-up or an administrator is appointed and such administrator declares, or gives notice that it intends to declare and distribute a dividend, there shall be payable by the Issuer in respect of each Additional Tier 1 Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the AT1 Securityholder if, throughout such winding-up or administration, such AT1 Securityholder were the holder of one of a class of notional preference shares having an equal right to a return of assets in the winding-up or administration to, and so ranking <i>pari passu</i> with, the holders of the most senior class or classes of issued preference shares in the capital of the Issuer from time to time (if any) and which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer and such claim shall rank junior to the claims of Senior Creditors, and on the assumption that the amount that such holder was entitled to receive in respect of each notional preference share on a return of assets in such winding-up or administration were an amount equal to the principal amount of the relevant Additional Tier 1 Security together with, to the extent not otherwise included within the foregoing, any other amounts attributable to the AT1 Security, including any accrued but unpaid interest thereon (to the extent not cancelled in accordance with the Conditions) and any damages awarded for breach of any obligations, whether or not the conditions referred to in Condition 4(a) are satisfied on the date upon which the same would otherwise be due and payable. “Senior Creditors” means creditors of the Issuer (a) who are unsubordinated creditors, (b) whose claims are, or are expressed to be, subordinated to the claims of unsubordinated creditors of the Issuer but not further or otherwise or (c) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated,

	other than those whose claims rank, or are expressed to rank, <i>pari passu</i> with, or junior to, the claims of the holders of the Additional Tier 1 Securities in a winding-up occurring prior to the Conversion Trigger. <u>On or after the Conversion Trigger</u> If at any time on or after the date on which a Conversion Trigger occurs, the Issuer is in a winding-up or an administrator is appointed and such administrator declares, or gives notice that it intends to declare and distribute a dividend, but the relevant Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on Conversion have not been so delivered, there shall be payable by the Issuer in respect of each Additional Tier 1 Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the AT1 Securityholder if, throughout such winding-up or administration, such AT1 Securityholder were the holder of such number of Ordinary Shares as that AT1 Securityholder would have been entitled to receive on Conversion (ignoring for these purposes the Issuer's right to make an election for a Conversion Shares Offer to be effected), whether or not the conditions referred to in Condition 4(a) are satisfied on the date upon which the same would otherwise be due and payable.
No set-off	Subject to applicable law, no AT1 Securityholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Additional Tier 1 Securities and each AT1 Securityholder shall, by virtue of its holding of any Additional Tier 1 Security be deemed to have waived all such rights of set-off, compensation or retention.
Interest Payment Dates / Business Day Conventions	As indicated in the relevant Additional Tier 1 Securities Conditions.
Conditions to Payment	Other than in a winding-up or administration of the Issuer or in relation to the payment of any cash component of any Alternative Consideration, all payments in respect of or arising from (including any damages for breach of any obligations under) the Additional Tier 1 Securities are conditional upon the Issuer being solvent (within the meaning given in Condition 4(a)) at the time of payment by the Issuer and no principal, interest or other amount shall be due and payable in respect of or arising from the Additional Tier 1 Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter.
Interest Cancellation	<u>Optional cancellation of interest</u> The Issuer may at any time elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date.

Mandatory cancellation of interest

Further, the Issuer shall cancel any Interest Payment (or, as appropriate, part thereof) on the Additional Tier 1 Securities in respect of any Interest Payment Date to the extent that the Issuer has an amount of Distributable Items on such Interest Payment Date that is less than the sum of (i) all payments (other than redemption payments) made or declared by the Issuer since the end of the last financial year of the Issuer and prior to such Interest Payment Date on or in respect of any Parity Securities, the Additional Tier 1 Securities and any Junior Securities and (ii) all payments (other than redemption payments) payable by the Issuer on such Interest Payment Date (x) on the Additional Tier 1 Securities and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items of the Issuer.

“Distributable Items” has the meaning assigned to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Applicable Regulations then applicable to the Issuer but amended so that any reference therein to “before distributions to holders of own funds instruments” shall be read as a reference to “before distributions by the Issuer to holders of Parity Securities, the Additional Tier 1 Securities or any Junior Securities”.

“Junior Securities” means (i) any Ordinary Share or other securities of the Issuer ranking, or expressed to rank, junior to the Additional Tier 1 Securities in a winding-up or administration of the Issuer occurring prior to the Conversion Trigger and/or (ii) any securities issued by any other member of the Group where the terms of such securities benefit from a guarantee or support agreement entered into by the Issuer which ranks, or is expressed to rank, junior to the Additional Tier 1 Securities in a winding-up or administration of the Issuer occurring prior to the Conversion Trigger.

“Parity Securities” means (i) the most senior ranking class or classes of preference shares in the capital of the Issuer from time to time and any other securities of the Issuer ranking, or expressed to rank, *pari passu* with the Additional Tier 1 Securities and/or such preference shares in a winding-up or administration of the Issuer occurring prior to the Conversion Trigger and/or (ii) any securities issued by any other member of the Group where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank *pari passu* with the Additional Tier 1 Securities and/or such preference shares in a winding-up or administration of the Issuer occurring prior to

the Conversion Trigger.

In addition, the Issuer shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Group to be exceeded.

See also “Conditions to Payment” above.

Consequences of interest cancellation

Any Interest Payment (or relevant part thereof) which is cancelled shall not become due and shall not accumulate or be payable at any time thereafter, and AT1 Securityholders shall have no rights in respect thereof and any such non-payment shall not constitute a default for any purpose on the part of the Issuer.

Mandatory Conversion

If the Conversion Trigger occurs, each Series of Additional Tier 1 Securities shall be irrevocably discharged and satisfied by its Conversion into Ordinary Shares, credited as fully paid and the issuance and delivery of such Ordinary Shares to the Settlement Shares Depositary. The Additional Tier 1 Securities are not convertible at the option of AT1 Securityholders at any time.

The “Conversion Trigger” shall occur if the Issuer determines that its CET1 Ratio as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than 7.00 per cent. on such date.

Conversion Shares Offer

Not later than the tenth London business day following the Conversion Date, the Issuer may, in its sole and absolute discretion, make an election that the Settlement Shares Depositary (or an agent on its behalf) will make an offer, in the Issuer’s sole and absolute discretion, of all or some of the Ordinary Shares to be delivered on Conversion to, in the Issuer’s sole and absolute discretion, all or some of the Issuer’s shareholders at such time, such offer to be at a cash price per Ordinary Share being no less than the Conversion Price (translated, in the case of the Euro Additional Tier 1 Securities, from euro into pounds sterling at the then prevailing rate as determined by the Issuer in its sole discretion).

Upon expiry of the Conversion Shares Offer, the Settlement Shares Depositary will provide notice to the AT1 Securityholders of the composition of the Alternative Consideration per Calculation Amount. The cash component of any Alternative Consideration shall be payable by the Settlement Shares Depositary to the AT1 Securityholders

whether or not the conditions referred to under “Conditions to Payment” above are met.

“Alternative Consideration” means in respect of each Additional Tier 1 Security and as determined by the Issuer (i) if all of the Ordinary Shares to be issued and delivered on Conversion are sold in the Conversion Shares Offer, the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such Additional Tier 1 Security translated (in the case of the Euro Additional Tier 1 Securities only) from pounds sterling into euro at a then-prevailing exchange rate as determined by the Settlement Shares Depositary (less the *pro rata* share of any foreign exchange transaction costs (in the case of the Euro Additional Tier 1 Securities only) and an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary pursuant to the Conversion Shares Offer.), (ii) if some but not all of such Ordinary Shares to be issued and delivered upon Conversion are sold in the Conversion Shares Offer, (x) the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such Additional Tier 1 Security translated (in the case of the Euro Additional Tier 1 Securities only) from pounds sterling into euro at a then-prevailing exchange rate as determined by the Settlement Shares Depositary (less the *pro rata* share of any foreign exchange transaction costs (in the case of the Euro Additional Tier 1 Securities only) and an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid in connection with the delivery of Ordinary Shares to the Settlement Shares Depositary pursuant to the Conversion Shares Offer) and (y) the *pro rata* share of such Ordinary Shares not sold pursuant to the Conversion Shares Offer attributable to such Additional Tier 1 Security rounded down to the nearest whole number of Ordinary Shares and (iii) if no Ordinary Shares are sold in the Conversion Shares Offer, the relevant number of Ordinary Shares that would have been received had the Issuer not elected that the Settlement Shares Depositary should carry out a Conversion Shares Offer.

Conversion Price

The Conversion Price for each Series of Sterling Additional Tier 1 Securities shall be £0.643, subject to certain anti-dilution adjustments.

The Conversion Price for the Euro Additional Tier 1 Securities shall be €0.780, subject to certain anti-dilution adjustments. This is equivalent to a price of £0.643 translated into euro at an

	exchange rate of €1.00 = £0.82421 and rounded to 3 decimal places.
Maturity Date	None. The Additional Tier 1 Securities are perpetual instruments.
Optional Redemption	Subject to certain conditions, the Issuer may elect to redeem any Series of Additional Tier 1 Securities on the First Reset Date of the relevant Series or any subsequent Reset Date of such Series, at their principal amount together with accrued interest.
Purchase	Subject to certain conditions, the Issuer (or any subsidiary of the Issuer) may at any time purchase or procure others to purchase beneficially for its account Additional Tier 1 Securities in any manner and at any price.
Early Redemption for Regulatory Reasons	Subject to certain conditions, if at any time a Capital Disqualification Event has occurred and is continuing in respect of a Series of Additional Tier 1 Securities, then the Issuer may redeem all, but not some only, of such Series of Additional Tier 1 Securities at their principal amount, together with any accrued interest.
Early Redemption due to a Tax Event	Subject to certain conditions, if at any time a Tax Event has occurred and is continuing in respect of a Series of Additional Tier 1 Securities, then the Issuer may redeem all, but not some only, of such Series of Additional Tier 1 Securities at their principal amount, together with any accrued interest.
Conditions to redemption and purchase	Any redemption or purchase (other than a purchase in the ordinary course of a business dealing in securities) of the relevant Series of Additional Tier 1 Securities by or on behalf of the Issuer or its subsidiaries is subject to (i) the Issuer giving notice to the Relevant Regulator and the Relevant Regulator granting permission to the Issuer to redeem or purchase the relevant Additional Tier 1 Securities; (ii) in respect of any redemption proposed to be made prior to the fifth anniversary of the Issue Date, if and to the extent then required under the Applicable Regulations (A) in the case of redemption following the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that the relevant change or event is material and was not reasonably foreseeable by the Issuer as at the Issue Date or (B) in the case of redemption following the occurrence of a Capital Disqualification Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that the relevant change was not reasonably foreseeable by the Issuer as at the Issue Date; (iii) in the case of any redemption of the Additional Tier 1 Securities, the Issuer being solvent (within the meaning given in Condition 4(a)) both immediately prior to and immediately following such redemption; (iv) in the case of any redemption

Enforcement	of the Additional Tier 1 Securities, a Conversion Trigger Notice not having been given and (v) compliance by the Issuer with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the relevant Applicable Regulations for the time being. If the Issuer does not make payment of principal on the relevant Series of Additional Tier 1 Securities for a period of seven days or more after the date on which such payment is due, the Issuer shall be deemed to be in default and the Trustee may institute proceedings for the winding-up of the Issuer. In the event of a winding-up or liquidation of the Issuer (whether or not instituted by the Trustee), the Trustee may prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer. See also “Subordination of the Additional Tier 1 Securities in a winding-up or administration” above.
Form	Registered form.
Denominations	The Euro Additional Tier 1 Securities are in registered form in denominations of €200,000 and integral multiples of €1,000 in excess thereof, and will initially be issued in global form. Sterling Additional Tier 1 Securities of each Series are in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof, and will initially be issued in global form.
Ordinary Shares	The Ordinary Shares to be delivered following conversion of the Additional Tier 1 Securities will be delivered credited as fully paid and will rank <i>pari passu</i> in all respects with all fully paid Ordinary Shares in issue on the relevant Conversion Date, save as provided in the Additional Tier 1 Securities Conditions.
Additional Amounts	Payments in respect of the Additional Tier 1 Securities will be made without withholding or deduction for or on account of United Kingdom taxes, unless the withholding or deduction is required by law, in which event there shall be a gross up, subject to customary exceptions.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying and Conversion Agent	The Bank of New York Mellon.
Settlement Shares Depositary	To be determined by the Issuer prior to the time of any Conversion.
Governing Law	Each Series of Additional Tier 1 Securities and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save that the provisions relating to subordination and waiver of set off shall be governed by, and construed in accordance with, Scots law.
Expected ratings	S&P: BB-

Clearing

Fitch: BB

Fitch and S&P (each as defined herein) are established in the European Union and registered under Regulation (EC) No 1060/2009.

The Additional Tier 1 Securities have each been accepted for clearing by Euroclear and Clearstream, Luxembourg.

ISINs and Common Codes

Euro Additional Tier 1 Securities

ISIN: XS1043545059

Common Code: 104354505

Sterling PNC5 Additional Tier 1 Securities

ISIN: XS1043550307

Common Code: 104355030

Sterling PNC9 Additional Tier 1 Securities

ISIN: XS1043552188

Common Code: 104355218

Sterling PNC15 Additional Tier 1 Securities

ISIN: XS1043552261

Common Code: 104355226

RISK FACTORS

The Group's operating results, financial condition and prospects could be materially and adversely affected by any of the risks referred to below. In that event, the value of the Additional Tier 1 Securities could decline and investors could lose all or part of their investment in the Additional Tier 1 Securities.

This section describes the risk factors which are considered by the Issuer to be material in relation to the Additional Tier 1 Securities.

These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Issuer, or which they currently deem immaterial, may also have an adverse effect on the Issuer or Group operating results, financial condition and prospects. The information given is as at the date of this document and, except as required by applicable law or regulation, will not be updated. Any forward-looking statements are made subject to the reservations specified under "Forward-Looking Statements" in LBG's Annual Report on Form 20-F for the year ended 31 December 2013.

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

RISK FACTORS RELATING TO THE GROUP

Terms defined in this section "Risk factors relating to the Group" shall have the meanings set out in the section entitled "Definitions" or in the Additional Tier 1 Securities Conditions below.

1 Credit-related risks

1.1 *The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and are expected to continue to affect the recoverability and value of assets on the Group's balance sheet.* ^{A11.7.2}

The Group has exposures to many different products, counterparties and obligors and the credit quality of its exposures can have a significant impact on the Group's earnings. Credit risk exposures are categorised as "retail", arising primarily in the Retail and Wealth, Asset Finance and International divisions, and small and medium size enterprises ("SME") and "corporate" (including banks, financial institutions and sovereigns), arising in the Commercial Banking Division. This reflects the risks inherent in the Group's lending and lending related activities and in the Insurance division primarily in respect of investment holdings and exposures to reinsurers. Adverse changes in the credit quality of the Group's UK and/or international borrowers and counterparties or collateral, or in their behaviour or businesses, may reduce the value of the Group's assets, and materially increase the Group's write-downs and allowances for impairment losses. Credit risk can be affected by a range of factors, including an adverse economic environment (in the UK and/or in countries the Group operates in and does not operate in), reduced UK consumer and/or government spending (in light of the Group's concentration in the UK), global economic slowdown, changes in the rating of individual counterparties, the debt levels of individual contractual counterparties and the economic environment they operate in, increased unemployment, reduced asset values, increased personal or corporate insolvency levels, reduced corporate profits, changes (and the timing, quantum and pace of these changes) in interest rates, higher tenant defaults, counterparty challenges to the interpretation or validity of contractual arrangements and any external factors of a legislative or regulatory nature. In

recent years, the global economic crisis has driven cyclically high bad debt charges. There are many other factors that could impact credit risk, such as fraud, natural disasters and flooding for example.

The Group has credit exposure in both the UK and internationally, including Europe, the Republic of Ireland, particularly in commercial real estate lending, where it has a high level of lending secured on secondary and tertiary non-prime assets and in the United States. In particular, the Group has significant credit exposure to certain individual counterparties in cyclically weak sectors and weakened geographic markets (such as the Republic of Ireland). In addition, the Group has concentrated country exposure in the UK and within certain industry sectors, namely real estate and real estate-related sectors. Retail customer portfolios (including those in Wealth, Asset Finance and International divisions) will remain strongly linked to the economic environment, with house price deterioration, unemployment increases, consumer over-indebtedness and rising interest rates among the factors that may impact secured and unsecured retail credit exposures.

The continuing Eurozone instability (risk of economic stagnation), the deterioration of capital market conditions, the global economic slowdown and measures adopted by the governments of individual countries have reduced and could further reduce households' disposable income and businesses' profitability and/or have a negative impact on customers' ability to honour their obligations, which in turn would result in deterioration of the Group's credit quality. If uncertainty over the Eurozone, or the UK Government and Eurozone austerity measures and public spending cuts result in the UK or Eurozone economic recovery slowing, faltering, or the UK or the Eurozone entering a period of stagnation, it may lead to further weakening of counterparty credit quality and subsequent higher impairment charges or fair value reductions in the Group's lending and derivative portfolios. This could have a material adverse effect on the Group's results of operations, financial condition or prospects. The possibility of economic stagnation in the Eurozone could impact the UK's own economic recovery and given the extensive economic and financial linkages between the UK and the Eurozone could impact upon the Group's performance. The Group has credit exposure to SMEs and corporates, financial institutions, and securities which may have material direct and indirect exposures in the Eurozone countries. Any default on the sovereign debt of these countries and the resulting impact on other Eurozone countries, including the potential that some countries could leave the Eurozone, could have a material adverse effect on the Group's business.

At present, default rates are partly cushioned by low rates of interest which have improved customer affordability, but the risk remains of increased default rates as interest rates start to rise. The timing, quantum and pace of any rise are key risk factors.

All new lending is dependent on the Group's assessment of each customer's ability to pay and there is an inherent risk that the Group has incorrectly assessed the credit quality or willingness of borrowers to pay possibly as a result of incomplete or inaccurate disclosure by those borrowers, or as a result of the inherent uncertainty that is involved in the exercise of constructing models to estimate the true risk of lending to counterparties. The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to the Group's results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how macro-economic conditions might impair the ability of borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the Group will fail to adequately identify the relevant factors or that it will fail to estimate accurately the impact of these identified factors.

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

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

The Group has large sectorial concentrations (for example, in real estate and real estate-related lending, leveraged lending, certain asset-based lending products (for example, shipping), asset-backed securities and floating rate notes issued by financial institutions)), as well as significant global credit exposure. Additionally, the Group also has significant exposure to the UK residential mortgage market. Whilst some progress has been made in mitigating concentration risk in certain portfolios (for example, real estate and real estate related lending, leveraged lending, asset-backed securities and floating rate notes issued by financial institutions), market conditions at present mean that it is difficult to achieve the required level of sales to ameliorate these concentrations.

The Group has significant real estate and real estate-related exposure, especially in secondary and tertiary assets, meaning that decreases in residential or commercial property values and/or increases in tenant defaults are likely to lead to higher impairment charges, which could materially affect the Group's results of operations, financial condition or prospects.

In common with other banks, the Issuer has migrated its property investment and development portfolios to the Foundation Internal Rating Based ("**FIRB**") slotting approach in accordance with the requirements of the regulator. As portions of the Group's property portfolio (such as UK and Ireland) have material concentration in secondary and tertiary non-prime assets, including hotels and residential property developers, which have been particularly adversely affected by the recessionary environment, provisions are currently held. The move to FIRB slotting, where the expected loss is set by the regulatory rules, will have an impact on the Group's capital position.

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

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

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

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

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

Although CVA, DVA and FVA are actively managed within the Group, in stressed market conditions, adverse movements in these would result in a material charge to the Group's profit and loss account.

2 Regulatory and legal risks

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

The Group's businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK, the European Union, the U.S. and the other markets where it operates.

These laws and regulations include (i) prudential regulatory developments, (ii) increased regulatory oversight, particularly in respect of conduct issues and (iii) industry-wide initiatives, each of which significantly affect the way that the Group does business and can restrict the scope of its existing businesses, limit its ability to expand its product offerings or make its products and services more expensive for clients and customers.

Unfavourable developments across any of these three regulatory areas, discussed in greater detail below, could materially affect the Group's ability to maintain appropriate liquidity, increase its funding costs, constrain the operation of its business and/or have a material adverse effect on the Group's business, results of operations and financial condition. Areas where regulatory changes could have an adverse effect on the Group include, but are not limited to:

- (i) general changes in government, central bank or regulatory policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which the Group operates, in particular any change in the UK Government, any of which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- (ii) external bodies applying or interpreting standards or laws differently to those applied by the Group;

- (iii) an uncertain and rapidly evolving prudential regulatory environment which could materially adversely affect the Group's ability to maintain liquidity and increase its funding costs;
- (iv) changes in competitive and pricing environments or one or more of the Group's regulators intervening to mandate the pricing of certain of the Group's products, as a consumer protection measure;
- (v) one or more of the Group's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- (vi) further requirements relating to financial reporting, corporate governance, corporate structure and conduct of business and employee compensation;
- (vii) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
- (viii) changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- (ix) influencing business strategy, particularly the rate of growth of the business; and
- (x) imposing conditions on the sales and servicing of products, which has the effect of making such products unprofitable or unattractive to sell.

2.2 ***The Group faces risks associated with an uncertain and rapidly evolving prudential and international legal and regulatory environment.***

The Group's borrowing costs and access to capital markets, as well as its ability to lend, could be affected by prudential regulatory developments, including (i) the Banking Reform Act, (ii) amendments to the legislative package comprising the CRD IV and the Capital Requirements Regulation ("CRR") effective from 1 January 2014 and (iii) the RRD. Unfavourable developments could materially adversely affect the Group's ability to maintain appropriate levels of liquidity, and/or increase its funding costs and, hence, have a material adverse effect on the Group's business, results of operations and financial condition.

The Banking Reform Act received Royal Assent on 18 December 2013. It is a key part of the UK Government's plan to create a banking system that supports the economy, consumers and small businesses. It implements the recommendations of the Independent Commission on Banking (the "ICB"), set up by the Government in 2010 to consider structural reform of the banking sector. It also implements key recommendations of the Parliamentary Commission on Banking Standards (the "PCBS"), which was asked by the Government to urgently review professional standards and culture in the banking industry following revelations of attempted manipulation of the BBA London Interbank Offered Rate ("LIBOR") last year. Measures contained in the Banking Reform Act include (i) ring-fencing domestic retail banking services of UK banks, (ii) HM Treasury increasing UK banks' and building societies' loss-absorbing capacity (including by way of bail-in bonds) and (iii) elevating the ranking of deposits covered by the UK Financial Services Compensation Scheme (the "FSCS") on a winding-up to rank ahead of the claims of all other unsecured creditors.

In addition, the Group is responsible for contributing to compensation schemes such as the FSCS in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered

into by the FSCS, remains uncertain but may be significant and may have a material effect on the Group's business, results of operations and financial condition.

In Europe, Directive 94/19/EC on Deposit Guarantee Schemes (the "EU DGSD") required EU member states to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD has been reviewed and a new legislative proposal was published by the European Commission in July 2010. The main changes proposed included: a tightened definition of deposits; a requirement that the deposit guarantee scheme repay customers within one week; and that banks must be able to provide information at any time. On 12 June 2013, the European Commission announced that the negotiations on revisions to the EU DGSD were on hold pending further developments on the RRD.

Given the early stages of these proposed reform measures, it is difficult to predict the financial obligations that may be imposed by the EU in relation to the RRD or the EU DGSD or the effect that these proposed changes will have on the Group's operations, business or prospects or how any of the above proposals will be implemented. However, depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and/or capital requirements.

At the European level, following the report of the Liikanen Group, which was published in October 2012, structural reforms measures that are similar to some of those contained in the Banking Reform Act are also under consideration. In January 2014, the European Commission announced proposals to ban certain of the largest, most systemically important banks within the EU from proprietary trading and to grant national regulators the power to require the transfer of certain trading activities of these banks from the deposit-taking business to a separate legal entity.

CRD IV introduces significant changes in the prudential regulatory regime applicable to banks including: increased minimum capital ratios; changes to the definition of capital and the calculation of risk-weighted assets; and the introduction of new measures relating to leverage, liquidity and funding. CRD IV has been adopted by European legislators and the requirements predominantly became effective in the UK and other EU member states on 1 January 2014. CRD IV permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as a minimum leverage ratio, which are not expected to be finally implemented until 2018.

In December 2013, the PRA published the final statement of policy (PS 7/13, Strengthening capital standards: implementing CRD IV feedback and final rules), which sets out the PRA rules in order to implement CRD IV in the UK. In November 2013, the PRA communicated that it expects major UK banks, including the Group, to meet a common equity tier 1 ("CET1") ratio of 7 per cent. and a leverage ratio of 3 per cent. on an adjusted CRD IV fully loaded basis from 1 January 2014. The Group notes the final statements from the PRA on the implementation of capital requirements in the UK and will continue to work with the regulator to ensure that the Group meets the regulator's capital expectations.

The regulatory regime is expected to evolve as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the EBA and changes to the way in which the PRA interprets and applies these requirements to UK banks. The CRD IV reforms also include the introduction of a leverage ratio framework designed to reinforce risk based capital requirements with a simple, transparent, non-risk based "backstop" measure. The leverage ratio is defined as tier 1 capital divided by the exposure measure. The Basel Committee will test the proposed 3 per cent. minimum requirement for the leverage ratio and have proposed that final calibrations, and any further adjustments to the definition of the leverage ratio, will be completed by 2017, with a view to migrating to a pillar 1 treatment on 1 January 2018. Other ongoing reforms being considered by the

regulatory authorities concern the calculation of risk-weighted assets for credit risk (IRB Models), market risk and operational risk. The existing and evolving prudential regulatory rules and how they are applied by the regulatory authorities may result in a need for further management actions to meet the changed requirements, such as: changes to how the Group and its businesses are capitalised and funded, distribution of capital, reducing weighted assets, modifying legal entity structure and changing the Group's business mix to strengthen the Group's capital position.

European Regulation 648/2012, known as the European Market Infrastructure Regulation ("**EMIR**"), introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. EMIR came into force on 16 August 2012, although the main requirements will be progressively implemented from 2013 to 2015. When it enters fully into force, EMIR will require entities that enter into any form of derivative contract, including interest rate, foreign exchange, equity, credit and commodity derivatives, to report every derivative contract entered into to a trade repository, implement new risk management standards (including operational processes and margining) for all bilateral over-the-counter derivative trades that are not cleared by a central counterparty, and clear, through a central counterparty, over-the-counter derivatives that are subject to a mandatory clearing obligation. CRD IV aims to complement EMIR by applying higher capital requirements for bilateral, over-the-counter derivative trades. Lower capital requirements for cleared trades are only available if the central counterparty is recognised as a "qualifying central counterparty", which has been authorised or recognised under EMIR (in accordance with related binding technical standards).

Significant regulatory initiatives from the United States impacting the Group include the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") which provides a broad framework for significant regulatory changes that extend to almost every area of U.S. financial regulation. Although uncertainty remains about some of the final details, impact and timing of the Dodd-Frank Act's implementing regulations, the Group expects that there may be additional costs and limitations on its business resulting from certain regulatory initiatives, including the final regulations implementing the Volcker Rule and the rules imposing registration and other requirements on entities that engage in derivatives activities.

The impact of the new derivative market regulations on the Group remains unclear, and could have a materially adverse effect on the Group's results of operations, financial condition or prospects. In particular, the costs of complying with the regulations could be burdensome, giving rise to additional expenses that may have an adverse impact on the Group's financial condition and results of operations. Additionally, such regulations could make it more difficult and expensive to conduct hedging and trading activities. As a result of these increased costs, the new regulation of the derivative markets may also result in the Group deciding to reduce its activity in these markets.

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

2.3 *The Group may become subject to the provisions of the Banking Act 2009, as amended, in certain significant stress situations. The potential impact on the Group is inherently uncertain.*

Under the Banking Act 2009 (the “**Banking Act**”), substantial powers have been granted to HM Treasury, the Bank of England and the PRA and FCA as successors to the FSA (together, the “**Authorities**”) as part of the special resolution regime (the “**SRR**”). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part 4A of the FSMA that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 55B of the FSMA). The SRR presently consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a “bridge bank” wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The SRR also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances.

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

There is considerable uncertainty about the scope of the powers afforded to the Authorities under the Banking Act and how the Authorities may choose to exercise them or the powers that may be granted to the Authorities under future legislation. The Banking Reform Act, alongside anticipated changes arising from UK implementation of the RRD during 2014 provides some clarity in this regard. In particular, the introduction of statutory “write-down and conversion” and “bail-in” powers will give the relevant UK resolution authority the power to cancel existing shares and/or dilute existing shareholders by converting relevant capital instruments or eligible liabilities into shares of the surviving entity, or to separate “critical functions” from other functions. For further information, see “Risks relating to the Additional Tier 1 Securities”.

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

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

- (i) certain aspects of the Group’s business may be determined by the relevant authorities, the Financial Ombudsman Service (the “**FOS**”) or the courts not to have been conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman’s opinion;
- (ii) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of the Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;

- (iii) the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians;
 - the FCA in particular continues to drive focus on conduct of business activities through its supervision activities, including its current probe into pricing and selling practices in annuity markets, its study on cash savings and its establishment of a new Payment Systems Regulator;
 - other efforts include the implementation of the UK Mortgage Market Review which intends to ensure that customers are offered, and are able to take out, mortgages that they can afford. Borrowers will be required to provide lenders with evidence of their income so as to ensure that they can afford a mortgage, with forecasted interest rate rises. The reforms come into effect on 26 April 2014; and
 - the OFT's study into defined contribution workplace pension schemes which found that many schemes charge too much, and are too complex to deliver sufficient value for money;
- (iv) future conduct of business changes underpinned by the combination of the size of the Group's retail and SME backbooks and the increased focus on conduct by the Group and the FCA;
- (v) contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- (vi) the intellectual property of the Group (such as trade names) may not be adequately protected;
- (vii) the Group may be liable for damages to third parties harmed by the conduct of its business;
- (viii) the risk of regulatory proceedings and private litigation, arising out of regulatory investigations or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions; and
- (ix) the transfer of responsibility for regulating consumer credit from the OFT to the FCA. The FCA's approach will focus on higher-risk firms, and will have its own enforcement actions. The FCA's consumer credit sourcebook will be its basis for compliance and enforcement. Additionally, the Group is subject to the Consumer Credit Act 1974 (the "CCA"), which regulates a wide range of credit agreements and which since 1 April 2014, is enforced by the FCA. If requirements under the CCA as to licensing of lenders or brokers or entering into and documenting a credit agreement are not, or have not been met, the relevant agreement may not be enforceable against the borrower.

Regulatory and legal actions pose a number of risks to the Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, including as a result of regulatory actions, the Group may be subject to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation or otherwise, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the Group's business, all of which can have a negative effect on the Group's reputation. Any of these risks could have an adverse impact on the Group's operations, financial results and condition and prospects and the confidence of customers in the Group, as well as taking a significant amount of management time and resources away from the implementation of the Group's strategy.

The Group's operations also expose it to various forms of reputational impacts. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, the level of direct and indirect government support, actual or perceived practices in the banking and financial industry or allegations of misconduct. Negative public opinion may adversely affect the Group's ability to keep and attract customers, which may result in a material adverse effect on the Group's financial condition, results of operations and prospects. Negative public opinion referenced in the media as "lack of trust" in banking can be impacted by actions of competitors across the industry as well as actions by the Group. Regaining the trust of customers and the public is a key objective of the Group.

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. The Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Group believes that it has no liability. The Group may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for their losses even in situations where the Group does not believe that it is legally compelled to do so. Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable. Failure to manage these risks adequately could materially affect the Group, both financially and reputationally. Resolution of actions or disputes involving the Group may be protracted, and the impact of such matters may be uncertain for long periods of time.

2.5 *The financial impact of legal proceedings and regulatory risks might be material, but is difficult to quantify. Amounts eventually paid may materially exceed the amount of provisions set aside to cover such risks, or existing provisions may need to be materially increased in response to changing circumstances, as has been the case recently in respect of payment protection insurance ("PPI") redress payments.*

Where provisions have already been taken in published financial statements or results announcements for ongoing legal or regulatory matters, these have been recognised, in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as the best estimate of the expenditure required to settle the obligation as at the reporting date. Such estimates are inherently uncertain and it is possible that the eventual outcomes may differ materially from current estimates, resulting in future increases or decreases to the required provisions, or actual losses that exceed or fall short of the provisions taken.

For example, the Group made provisions totalling £6,775 million in 2011 and 2012 against the costs of paying redress to customers in respect of past sales of PPI policies, including the related administrative expenses. However, over the course of 2013, a further £3,050 million has been added to the provision, of which £500 million was added at the half-year, and £750 million in the third quarter and £1,800 million in the final quarter, bringing the total provision as at 31 December 2013 to £9,825 million, of which £2,807 million remained unutilised as of that date. While the revised provision represents management's best estimate of the likely overall cost of making redress to PPI customers, a number of material risks and uncertainties remain. The actual cost could differ materially from management's estimate and could result in further, potentially significant, provisions being required. Such an increase could have an adverse impact on the Group's financial condition and results of operations.

Provisions have not been taken where no obligation (as defined in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets") has been established, whether associated with a known or potential future litigation or regulatory matter. Accordingly, an adverse decision in any such matters could result in significant losses to the Group which have not been provided for. Such losses would have an adverse impact on the Group's financial condition and results of operations.

3 Business and economic risks

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

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

In addition to the possibility of further macro-economic deterioration, any increase of financial market instability may represent further risk to the Group's business. The Group has significant exposures, particularly by way of loans, in a number of overseas jurisdictions, notably the Republic of Ireland and the United States, and is therefore subject to various risks relating to the stability of these financial markets. The global financial system has suffered considerable turbulence and uncertainty in recent years and the outlook for the global economy over the near to medium term remains challenging.

In Europe, the economic deterioration of several countries over the past few years, including Greece, Italy, the Republic of Ireland, Spain and Portugal, together with the risk of contagion to other, more stable, countries, has exacerbated the global economic crisis. In particular, the risk of default on the sovereign debt of those countries and the impact this would have on the Eurozone countries, including the potential that some countries (albeit those with a relatively small GDP) could leave the Eurozone (either voluntarily or involuntarily) has raised concerns about the ongoing viability of the euro currency and the European Monetary Union (the "EMU"). Despite the various rescue packages adopted throughout Europe to deal with the Eurozone sovereign debt crisis and other stabilising measures worldwide, global markets have recorded high levels of volatility and uncertainty as well as a prolonged period of below-trend growth in recent years. Continued political divergence over the best way forward for the highly indebted Eurozone, as well as developing macro-economic uncertainty in markets where the Group does and does not operate, including China and throughout Asia, persist and pose threats to global economic recovery. Financial markets may experience renewed periods of volatility, with a return of a risk of contagion, which may place new strains on funding markets.

The Group has credit exposure to SMEs and corporates, financial institutions and securities which may have material direct and indirect exposures in the Eurozone countries. With the exception of the Group's lending exposures in the Republic of Ireland, its direct credit exposure to the Eurozone through sovereign and private sector exposure is relatively small and has been managed steadily downward since 2008.

Nonetheless, any default on the sovereign debt of these countries and the resulting impact on other Eurozone countries, including the possibility that some countries could leave the Eurozone, could have a material adverse effect on the Group's business. A wide-scale break-up of the Eurozone would most likely be associated with a significant deterioration in the economic and financial environment in the UK and Eurozone that would materially affect the capital and the funding position of participants in the banking industry, including the Group. This could also give rise to operational disruptions to the business.

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

3.2 *The Group's businesses are subject to inherent risks of general macro-economic conditions of the Eurozone, a deterioration of which, could have a material adverse effect on the Group's results of operations, financial condition or prospects.*

The strength of any recovery in economic activity in the Eurozone remains uncertain, as demand in the core countries has failed to pick up sufficiently to offset the deflationary adjustment in the periphery and global demand remains weak. The possibility of prolonged stagnation in the Eurozone could stall the UK's own economic recovery, given the extensive economic and financial linkages between the UK and the Eurozone. The UK's trade and current account balances with the Eurozone would be likely to deteriorate further, negatively affecting UK growth. For more information on the effects of weaker-than-expected economic growth in the UK see "The Group's businesses are subject to inherent risks arising from general macro-economic conditions in the UK, the Eurozone and other markets, the instability of the financial markets and the sovereign debt crisis". Such effects may have a material adverse effect on the Group's results of operations, financial condition or prospects.

3.3 *Any tightening of monetary policy in jurisdictions in which the Group operates could affect the financial condition of its customers, clients and counterparties, including governments and other financial institutions, which could in turn adversely affect the Group's results of operations.*

During the next few years, a combination of anticipated recovery in private sector demand and of a reduced pace of fiscal austerity in Europe and the United States is likely to result in a return by central banks towards more conventional monetary policies, following the recent period that has been characterised by highly accommodative policies, including the Bank of England and HM Treasury "Funding for Lending" scheme and the "Help to Buy" programme in the UK, which have helped to support demand at a time of very pronounced fiscal tightening and balance sheet repair. The possibility of a withdrawal of such programmes in the UK or slowing of monetary stimulus by one or more governments could lead to generally weaker than expected growth, or even contracting gross domestic

product (“GDP”), reduced business confidence, higher levels of unemployment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices in the markets in which the Group operates, and consequently to an increase in delinquency rates and default rates among customers. Any further slowing of monetary stimulus and the actions and commercial soundness of other financial institutions have the potential to impact market liquidity. The adverse impact on the credit quality of the Group’s customers and counterparties, coupled with a decline in collateral values, could lead to a reduction in recoverability and value of the Group’s assets and higher levels of impairment allowances, which could have an adverse effect on the Group’s operations, financial condition or prospects. The Group has credit exposure to SMEs and corporate financial institutions, and securities which may have material direct and indirect exposures in the Eurozone countries. Any default on the sovereign debt of these countries and the resulting impact on other Eurozone countries, including the potential that some countries could leave the Eurozone, could have a material adverse effect on the Group’s business.

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

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

Market movements will continue to have a significant impact on the Group in a number of key areas. For example, adverse market movements have had and would have an adverse effect, which could be material, upon the financial condition of the defined benefit pension schemes of the Group. The schemes’ main exposures are to real rate risk, credit spread risk and equity risk. These risks arise from two main sources: the “AA” corporate bond liability discount rate and asset holdings. Banking and trading activities that are undertaken by the Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, interbank margins over official rates, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. The potential for future volatility and margin changes remains. Competitive pressures on fixed rates or product terms in existing loans and deposits may restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

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

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

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

Although credit value adjustment ("CVA"), debit value adjustment ("DVA") and funding value adjustment ("FVA") is actively managed within the Group, in stressed market conditions, adverse movements in these would result in a material charge to the Group's profit and loss account.

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

The Group has material exposures to securities and other investments, including asset-backed securities, structured investments and private equity investments that are recorded by the Group at fair value. These have been and may be subject to further negative fair value adjustments, particularly in view of the volatile global markets and challenging economic environment. Although CVA/DVA/FVA is actively managed within the Group, in stressed market conditions adverse movements in these would result in a material charge to the Group's profit and loss account.

In addition, in volatile markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions, due in part to the decreasing credit quality of hedge counterparties. Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Group's financial assets and these may also translate into increased impairment charges.

In addition, the value ultimately realised by the Group for its securities and other investments may be lower than their current fair value. Any of these factors could require the Group to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects. Material losses from the fair value of financial assets will also have an adverse impact on the Group's capital ratios. The Group has, in prior years, made asset redesignations as permitted by amendments to IAS 39 (Financial Instruments: "Recognition and Measurement").

The effect of such redesignations has been, and would be, that any effect on the income statement of movements in the fair value of such redesignated assets that have occurred since 1 July 2008, in the case of assets redesignated prior to 1 November 2008, or which may occur in the future, may not be recognised until such time as the assets become impaired or are disposed of. No asset redesignations were made in 2013. In addition, in circumstances where fair values are determined using financial valuation models, the Group's valuation methodologies may require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain, particularly in light of the uncertainty as to the strength of any global economic recovery and continuing downside risks and during periods of market volatility and illiquidity, and any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, capital ratios, financial condition or prospects.

The International Accounting Standards Board (the "IASB") are developing a new accounting standard for financial instruments (IFRS 9) that will introduce a new model for recognising and measuring impairment based on expected credit losses, rather than an incurred loss model currently applied under IAS 39. The new standard is expected to become effective for annual periods beginning on or after 1 January 2018, however, the final standard covering the impairment methodology has not yet been issued by the IASB.

3.6 *The Group's businesses are conducted in competitive environments, with increased competition scrutiny, and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures.*

The markets for UK financial services, and the other markets within which the Group operates, are competitive, and management expects such competition to continue or intensify in response to competitor behaviour, including TSB as a new challenger on the high street, consumer demand, technological changes such as the growth of digital banking, and the impact of regulatory actions and other factors. The Group's financial performance and its ability to maintain or capture additional market share depend significantly upon the competitive environment and management's response thereto. Intervention by the UK Government and/or European regulatory bodies and/or governments of other countries in which the Group operates, including in response to any perceived lack of competition within these markets by such regulatory authorities, may significantly impact the competitive position of the Group relative to its international competitors, which may be subject to different forms of government intervention, thus potentially putting the Group at a competitive disadvantage.

In particular, a number of recent investigations and reviews, including the ICB and the Office of Fair Trading Personal Current Account Review, have identified a perceived lack of competition in the UK banking markets, and are expected to give rise to further studies and regulatory scrutiny of the UK banking industry. This, combined with recent political debate on the reform of the UK banking markets, potential competition reviews in coming years, and the new FCA statutory objective to promote competition, may lead to greater UK Government and regulatory scrutiny in the future and to proposals or initiatives to increase competition, ranging from enforced product and service developments and payment system changes to significant structural changes. Additionally, the Group may be affected by changes in regulatory oversight following the pension review recommended by the Department for Work and Pensions. There continues to be political and media interest in competition in banking. The increase in competition in banking could have a significant effect on the Group's operations, financial condition or business of the Group.

Additionally, as a result of the restructuring in the market and the required divestment of certain retail banking businesses under the Restructuring Plan, there may emerge one or more new viable competitors in the UK banking market or a material strengthening of one or more of the Group's existing competitors in that market. Any of these factors or a combination thereof could result in a significant reduction in the profit of the Group.

The implementation in the second half of 2013 of the Current Account Switching Service by the Payments Council, which seeks to ensure that a change in current account provider is completed within seven days, may result in a considerable number of customers moving to a competitor, thereby potentially increasing customer attrition rates. Increased competition, whether resulting from the switching service or otherwise, may lead to increased costs associated with acquiring new savings or current account customers.

The internet and mobile technology are changing customer behaviour and the competitive environment. There has been a steep rise in customer use of mobile banking over the last three years. The Group faces competition from established providers of financial services, as well as the threat of competition from banking business developed by non-financial companies with strong brand recognition in the technology market.

3.7 *The Group is exposed to risks related to the possibility of Scottish independence.*

The Group faces risks associated with the planned referendum on Scottish independence, to take place on 18 September 2014, and potential uncertainty preceding and post the referendum. The Issuer is registered in Scotland and through its subsidiaries has extensive operations there. The outcome of the referendum could have a material impact on the regulatory and tax regime to which the Group's results of operations are currently subject and could also result in the Group becoming subject to a new regulatory and tax regime in Scotland. The effect of this could be to increase compliance costs for the Group and may also materially impact the Group's tax position. In addition, the outcome of the referendum could contribute to prolonged uncertainty around certain aspects of the Scottish economy and Scottish companies, which could, among other things, increase the cost of the Group's funding. While the Group is monitoring and assessing the potential impacts on its business of a vote in favour of Scottish independence, the situation remains inherently uncertain.

4 Operational risks

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

The Group's success depends on its ability to attract, retain and develop high-calibre talent. Achievement of this aim cannot be guaranteed, particularly in light of ongoing regulatory and public interest in remuneration practices (the Group is subject to the FCA's Remuneration Code). In particular, the proposed limits on variable pay and applicable "clawback" requirements that will be introduced pursuant to the implementation of CRD IV in the UK may put the Group at a competitive disadvantage as compared to companies who are not subject to such restrictions. In addition, macro-economic conditions and negative media attention on the financial services industry may adversely impact employee retention, colleague sentiment and engagement.

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

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

Operational risks, through inadequate or failed internal processes, systems (including financial reporting and risk monitoring processes) or security, or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Group, are present in the Group's businesses. The Group's businesses are dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in these internal processes, systems or security could have an adverse effect on the Group's results, reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period which may lead to an increase in complaints.

Specifically, failure to develop, deliver or maintain effective IT solutions could have a material adverse impact on customer service. Any prolonged loss of service availability could damage the Group's ability to service its customers, could result in compensation costs and could cause long-term damage to the Group's business and brand. Furthermore, failure to protect the Group's operations from increasingly sophisticated cyber-attacks could result in the loss of consumer data or other sensitive information. Any breach or failure in security of the Group's systems could disrupt its business, result in the disclosure of confidential information, and create significant financial and legal exposure. The resilience of the Group's IT is of paramount importance to the Group; accordingly, significant

investment has been, and will continue to be, made in IT infrastructure and systems to ensure its resilience and to enhance the services it supports. The Group continues to invest in IT and information security control environments including user access management and records management to address evolving threats, and maintains contingency plans for a range of Group specific and industry wide IT and breach of security scenarios. Significant investment has been made in increasing the Group's cyber defence, for example through the IT security improvement programme, to protect customers and the Group's infrastructure.

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

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

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

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

4.4 *The sale of TSB, and future servicing requirements, may adversely impact the Group.*

The sale of TSB may result in disruption of senior management's ability to lead and manage the Group effectively in the event that they are required to overly focus on TSB at the expense of the Group. In addition, the Group is committed to providing services for TSB, which may result in reputational and financial exposure for the Group in the course of providing such services. The change activities involved in the sale of TSB are managed via robust change management governance and a consolidated strategic change plan. There are separate governance arrangements in place to oversee the impacts of the divestment on the retained business' customers, operations and controls. In particular, TSB will rely on the Group for the provision of a range of IT systems and infrastructure as well as related services. However, the ongoing provision of services to TSB under these plans may involve significant demands on the attention of the Group's senior management, in particular in respect of managing the conflict of interest, confidentiality of data, and competition issues as a part of providing services to a competitor bank, which fall under the regulatory remit of the FCA. If these arrangements do not operate as planned, there could be negative impacts on the operation of the Group's business.

The Group's financial condition may also be exposed to risk with respect to the control, management and results of operations of TSB. In particular, should the Group's divestment of TSB occur in multiple stages, there would be a period of time during which the Group would not control TSB's board, nor manage the operations of TSB or control its management, and yet retain partial ownership of TSB. Under such a scenario, the Group's financial condition would be partially reliant on TSB's results of operations during the period prior to full divestment. Although the Group has entered into governance arrangements related to the impact of the TSB disposal, the board of TSB may:

- have economic or business interests or goals that are inconsistent with or are opposed to those of the Group, in particular related to its retail banking activities in the UK;
- take action contrary to the Group's policies or objectives with respect to its investments or commercial arrangements; or
- fail to comply with applicable regulatory regimes, or to operate in compliance with other standards that the Group applies in its own operations.

For risks related to the Restructuring Plan and the Group's plans to divest TSB, or the failure of the divestment to occur, see "- Government related risks - The Group is subject to European state aid obligations following the approval of its Restructuring Plan in 2009. The implementation of this Restructuring Plan may have consequences that are materially adverse to the interests of the Group".

4.5 *The Group may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and could have a material adverse effect on the Group.*

The Group is required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in the jurisdictions in which it operates. These laws and regulations require the Group, amongst other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicions of money laundering and in some countries specific transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

While the Group has adopted policies and enhanced its procedures aimed at detecting and preventing the use of its banking network for money laundering and related activities, such enhanced procedures have in some cases only been recently adopted and may not completely eliminate instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent that the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on the Group, including the revocation of licenses. In addition, the Group's business and reputation could suffer if customers use its banking network for money laundering or illegal or improper purposes.

In addition, while the Group reviews its relevant counterparties' internal policies and procedures with respect to such matters, the Group, to a large degree, relies upon its relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the Group (and its relevant counterparties) as a conduit for money laundering (including illegal cash operations) without the Group's (and its relevant counterparties') knowledge. If the Group is associated with, or even accused of being associated with, or becomes a party to, money laundering, then the Group's reputation could suffer and/or it could become subject to fines, sanctions and/or legal

enforcement (including being added to any “black lists” that would prohibit certain parties from engaging in transactions with the Group), any one of which could have a material adverse effect on the Group’s results of operations, financial condition and prospects.

4.6 *The Group may fail to execute its ongoing strategic change initiatives, and the expected benefits of such initiatives may not be achieved at the time or to the extent expected, or at all.*

The Group has a number of strategic initiatives which it pursues on an ongoing basis. For example, the Group’s programme for reducing costs, improving efficiency and financial performance, and enhancing the overall customer experience by simplifying and reshaping the Group’s businesses. As the programme enters 2014, the Group’s focus continues to shift from cost reductions to overall improvement in its operations and processes, distribution channels and customer products, sourcing relationships, and organisational agility. Despite progress in run rate cost savings since 2011, there can be no assurance that the Group will meet additional run rate cost savings targets or that overall progress on additional programme initiatives will be achieved.

The successful completion of the programme and the Group’s other strategic initiatives requires ongoing subjective and complex judgements, including forecasts of economic conditions in various parts of the world, and can be subject to significant execution risks. For example, the Group’s ability to execute its strategic initiatives successfully may be adversely impacted by a significant global macroeconomic downturn, legacy issues, limitations in the Group’s management or operational capacity or significant and unexpected regulatory change in countries in which the Group operates.

Failure to execute the Group’s strategic initiatives successfully could have a material adverse effect on the Group’s ability to achieve the stated targets and other expected benefits of these initiatives, and there is also a risk that the costs associated with implementing such initiatives may be higher than the financial benefits expected to be achieved, which could materially adversely impact the Group’s operations, financial condition and prospects.

4.7 *The Group could be exposed to industrial action and increased labour costs resulting from employee membership in trade unions.*

Within the Group, there are currently four recognised unions for the purposes of collective bargaining. Combined, these collective bargaining arrangements apply to around 95 per cent. of the Group’s total workforce. The Group estimates that approximately 60 to 70 per cent. of its employees are members of one of the recognised trade unions.

Where the Group or its employees or their unions seek to change any of their contractual terms, a consultation and negotiation process is undertaken. Such a process could potentially lead to increased labour costs or, in the event that any such negotiations were to be unsuccessful and result in formal industrial action, the Group could experience a work stoppage that could materially adversely impact its business, financial condition and results of operations.

5 Financial soundness-related risks

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

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

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

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

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

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

If the wholesale funding markets were to suffer stress or central bank provision of liquidity to the financial markets is abruptly curtailed, or the Group's credit ratings are downgraded (for more information, see "Risk Factors - Financial soundness related risks - The Group's borrowing costs and access to the capital markets is dependent on a number of factors, including any reduction in the Group's longer-term credit rating, and increased costs or reduction in access could materially adversely

affect the Group's results of operations, financial condition or prospects.”), it is likely that wholesale funding will prove more difficult to obtain. Such increased refinancing risk, in isolation or in concert with the related liquidity risks noted above, could have a material adverse effect on the Group's profitability and, in the longer term under extreme and unforeseen circumstances, its ability to meet its financial obligations as they fall due.

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

A reduction in the credit rating of the Group or deterioration in the capital markets' perception of the Group's financial resilience could significantly increase its borrowing costs and limit its issuance capacity in the capital markets. As an indicator, during 2013, the spread between an index of “A” rated long-term senior unsecured bank debt and an index of similar “bbb” rated Bank debt, both of which are publicly available, has averaged 65 basis points. The applicability to and implications for the Group's funding cost would depend on the type of issuance and prevailing market conditions. The impact on the Group's funding cost is subject to a number of assumptions and uncertainties and is therefore impossible to quantify precisely.

On 26 March 2014, Fitch affirmed the Lloyds Bank “A” long-term rating, with the rating outlook being revised from “stable” to “negative” due to Fitch's belief that the probability that sovereign support would be provided is weakening. At the same time, Fitch upgraded the Lloyds Bank viability rating from “bbb+” to “a-”. A report from S&P published on 3 December 2013 affirmed the Lloyds Bank “A/A-1” long-/short-term rating and revised upwards the standalone rating from “BBB” to “BBB+”. The ratings action was reflective of, in the opinion of S&P, a strengthened capital position and stronger prospects for the Group's statutory earnings. However, as with Fitch, Lloyds Bank remains on negative outlook with S&P and Moody's Investors Service Ltd. (“**Moody's**”), reflecting a potential negative UK banking industry trend and the potential for lower systematic support in future.

Rating agencies regularly evaluate the Group and the Issuer, and their ratings of longer-term debt are based on a number of factors, including the Group's financial strength as well as factors not entirely within the Group's control, including conditions affecting the financial services industry generally. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the Group or the Issuer will maintain its current ratings. Downgrades of the Group's longer-term credit rating could lead to additional collateral posting and cash outflow. A hypothetical instantaneous two notch downgrade of the Group's current long-term credit rating and accompanying short-term downgrade implemented simultaneously by all major rating agencies, could result in an outflow of £6.6 billion of cash over a period of up to one year, £3.0 billion of collateral posting related to customer financial contracts and £11.8 billion of collateral posting associated with secured funding. Any reduction in the Group's longer-term credit rating may result in increased borrowing costs, a reduction in access to capital markets or a reduction in liquidity which could materially adversely affect the Group's results of operations, financial condition or prospects.

The Group's borrowing costs and access to capital markets could also be affected by various regulatory developments such as the Banking Reform Act 2013 (the “**Banking Reform Act**”), amendments to the Capital Requirements Directive (“**CRD IV**”) and the coming into force of the European Commission's proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the Recovery and Resolution Directive (the “**RRD**”).

The return required by AT1 Securityholders may also rise if the prospects of bail-in scenarios become more likely which would increase the Group's funding costs. Unfavourable developments could materially adversely affect the Group's access to liquidity, increase its funding costs and, hence, have a material adverse effect on the Group's results of operations, financial condition or prospects.

5.3 ***The Group is subject to the risk of having insufficient capital resources.***

If the Group has or is perceived to have a shortage of capital then it may be subject to regulatory sanctions and/or may suffer a loss of confidence in the market with the result that access to liquidity and funding may become constrained or made more expensive. Depending on the extent of any actions to improve the capital position there could be a material adverse effect on the Group's business, including its operating results, financial condition and its prospects. This, in turn, may affect the Group's capacity to continue its business operations, pay future dividends and make other distributions or pursue acquisitions or other strategic opportunities, impacting future growth potential. If, in response to such shortage, the Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders or holders of debt of a capital nature may experience a dilution of their holdings. If a capital or debt instrument is converted to share capital as a result of a trigger within the contractual terms of the instrument or through the exercise of statutory powers then depending upon the terms of the conversion, existing shareholders may experience a dilution of their holdings. A11.7.2

A shortage of capital could arise from:

- a depletion of the Group's capital resources through increased costs or liabilities and reduced asset values which could be incurred as a result of the crystallisation of the credit-related risks, the regulatory and legal risks, the business and economic risks, the operational risks, the financial soundness-related risks, the government related risks and other risks described in these Listing Particulars; and/or
- an increase in the amount of capital that is needed to be held. This might be driven by a change to the Group's internal target amount of capital taking account of, for example, the capital levels or capital targets of the Group's peer banks or through the changing views of rating agencies. Alternatively an increase may be driven by regulatory changes or pressures.

Risks associated with the capital regulatory framework are mentioned below:

- There are extensive reforms being implemented within the EU and the UK. There remains some uncertainty about the details of the implementation of these reforms and there is a risk that the final reforms may give rise to higher regulatory capital expectations than the Group has anticipated within its strategic plans.

Specifically, the CRD IV reforms have been implemented within the UK from 1 January 2014, albeit some of the reforms are phased in over a transitional period up to 2019. The UK implementation of CRD IV has accelerated certain of the CRD IV transitional arrangements. The CRD IV reforms include:

- increased minimum levels of capital and additional minimum capital buffers;
- enhanced quality standards for qualifying capital;
- increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and
- the calculation and reporting of a leverage ratio.

Certain detailed requirements are still to be set through binding regulatory technical standards being developed by the European Banking Authority (the “EBA”) and the minimum required level of the leverage ratio is not scheduled to be defined by the EBA until after 2016.

Other ongoing reforms being considered by the regulatory authorities concern the calculation of risk-weighted assets for credit risk (IRB Models), market risk and operational risk.

The Group notes the final statements from the PRA on the implementation of the CRD IV capital requirements in the UK and the PRA’s news release on capital standards stating that major UK banks are expected to meet specific targets on an adjusted basis for CET1 and leverage ratios. The Group will continue to work with the regulator to ensure that the Group continues to meet the regulator’s capital expectations.

The Group continuously evaluates the efficiency of its capital structure, management of which may result in significant one-off charges or gains, and its capital structure’s alignment with the regulatory framework.

In addition, the European Commission is expected to adopt formally the final compromise text of the RRD establishing a framework for the prevention, management and resolution of failing banks. Concurrently in the UK new secondary legislation introduced under the Banking Reform Act covering requirements for “ring-fencing” and “bail-in” is expected to be enacted during 2014. The outcome of these reforms is expected to impact the way the Group is structured and to introduce a minimum amount of capital and debt of a banking group that is capable of being bailed in in times of stress.

These reforms may result in a need for further action to meet any additional capital requirements, reducing leverage and risk weighted assets, modifying legal entity structure (including with regard to issuance and deployment of capital and funding for the Group) or exiting other businesses.

Within the UK regulatory capital framework, the Group is subject to extensive regulatory supervision in relation to the levels of capital in its business. New or revised minimum and buffer capital requirements (including specific sectoral and/or procyclical capital requirements) could be applied and/or the manner in which existing regulatory requirements are applied to the Group could be changed by the regulatory authorities. For example:

In October 2013 the Bank of England released a discussion paper proposing a new framework for annual, concurrent stress tests of participants in the UK banking system which will be used to set capital planning buffers. These will be in addition to the 2014 EU wide stress testing exercise being run by the EBA.

During 2014 the PRA intend to consult on proposals to reform the pillar 2 framework including the extent to which firms should disclose pillar 2A capital and the approach to the pillar 2B “PRA buffers”, which are likely to replace the existing capital planning buffers.

Some of the Group’s risk weighted assets are calculated from the Group’s approved models. These are subject to regular review on a rolling basis to ensure that they remain appropriate in prevailing economic and business conditions. These reviews and model implementation may lead to increased levels of risk-weighted assets and/or expected loss, and so to lower reported capital ratios.

The Group’s life assurance and general insurance businesses in the UK are subject to capital requirements prescribed by the PRA, and the Group’s life and general insurance companies outside the UK are subject to local regulatory capital requirements. Solvency II, is a fundamental revision of the current Solvency I capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent

upon the risk profile of the entities, together with revised risk management standards and market consistent principles. The European Commission recently confirmed a revised Solvency II implementation date of 1 January 2016, however, certain details of its implementation remain uncertain. Consequently, there is a risk that the final regime could increase the planned amount of regulatory capital which the Group's life assurance and general insurance businesses are required to hold, thus decreasing the amount of capital available for other uses.

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

The Group is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the UK. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This presents systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis, all of which could have a material adverse effect on the Group's ability to raise new funding.

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

5.5 *The Group's insurance business and employee defined benefit pension schemes are subject to insurance risks relating to insurance claim rates, changes in insurance customer behaviour and longevity risks, which could adversely affect the Group's results of operations, financial condition or prospects.*

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

Customer behaviour in the insurance business may result in increased propensity to cease contributing to or cancel insurance policies at a rate in excess of business assumptions. Consequent reduction in policy persistency and fee income would have an adverse impact upon the profitability of the insurance business of the Group.

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

UK banks can recognise an insurance asset in their balance sheets representing the VIF in respect of long-term life assurance contracts, being insurance contracts and investment contracts with

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

6 Government related risks

6.1 *The Solicitor for the Affairs of HM Treasury is the largest shareholder of the Issuer. Through its shareholding in, and other relationships with, the Issuer, HM Treasury is in a position to exert significant influence over the Group and its business.* A11.10.2

As at 31 March 2014, Her Majesty’s Treasury (“**HM Treasury**”) held approximately 24.9 per cent. of the ordinary share capital of the Issuer. In the longer term, it is possible that the shareholding of HM Treasury may be diluted upon any further equity capital raising by the Issuer, sale of HM Treasury shares or potential conversion of any of the Issuer’s convertible notes into ordinary shares pursuant to their terms, although, in such case, it is possible that HM Treasury would remain a significant shareholder in the Issuer. It is also possible that the Group may seek to raise further capital or to obtain other support from the UK Government, which could result in an increase in HM Treasury’s shareholding in the Issuer.

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

There is a risk that, through the interest of HM Treasury in the Issuer, the UK Government and HM Treasury may attempt to influence the Group in other ways that could affect the Group’s business, including, for example, through voting or shareholders resolutions generally, the election of directors, the appointment of senior management at the Issuer, senior management and staff remuneration policies, lending policies and commitments and management of the Group’s business (in particular, the management of the Group’s assets such as its existing retail and corporate loan portfolios, significant corporate transactions and the issue of new ordinary shares). Moreover, HM Treasury also has interests in other UK financial institutions, as well as an interest in the general health of the UK banking industry and the wider UK economy. The pursuit of those interests may not always be aligned with the commercial interests of the Group.

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

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

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

The asset reduction commitments under the Restructuring Plan have been satisfied. In line with an agreement reached under the Restructuring Plan, in July 2012 the Group announced that it had agreed non-binding heads of terms with The Co-operative Group plc (the “**Co-operative**”) for the disposal of certain retail banking businesses in a transaction referred to as “**Project Verde**”.

On 24 April 2013, the Group announced that, despite the commitment of both parties to the transaction, the Co-operative’s board of directors had decided that it could no longer proceed with the proposed acquisition in light of their view of “the impact of the current economic environment, the worsened outlook for economic growth and the increasing regulatory requirements on the financial services sector in general”.

The Group now intends to divest this retail banking business through an initial public offering (“**IPO**”). The IPO will be subject to regulatory and European Commission approval and continues to be targeted for mid-2014, subject to market conditions.

As a first stage, this retail banking business has been established as a subsidiary within the Group and successfully launched onto the high street in September 2013 under the “TSB” brand (“**TSB**”).

The European Commission have issued HM Treasury with a service letter providing agreement in principle, subject to confirmation in 2014, that the Group can continue with its current timeline for disposal of TSB via an IPO with an extension to the timeline for full divestment of all the shares in TSB from 30 November 2013 to 31 December 2015. There are also provisions for a further date extension depending on market conditions.

The Group is subject to various risks as a result of the implementation of the Restructuring Plan. There can be no assurance that the price that the Group receives for any assets disposed of in accordance with the Restructuring Plan, including in connection with the sale of the TSB retail banking business, will be at a level which the Group considers adequate or which it could obtain if the Group was not disposing of such assets in accordance with the Restructuring Plan. In particular, should the Group fail

to complete the disposal of the retail banking business that it is required to divest by the end of December 2015, then in the absence of any further time extension being granted by the European Commission (should the appropriate market conditions not be present), a divestiture trustee would be appointed to conduct the sale, with a mandate to complete the disposal with no minimum price (including at a negative price). As a direct consequence of the implementation of the Restructuring Plan, the Group will lose existing customers, deposits and other assets (and may also lose additional customers, deposits and other assets indirectly through damage to the rest of the Group's business as a result of the implementation of the Restructuring Plan). It may also lose the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals. Moreover, implementation may result in disruption to the retained businesses, impacting customers and necessitating potentially significant separation costs. Implementation may also have a negative impact on the Group's competitive position, including through the emergence of a new competitor particularly since the creation and launch of TSB onto the high street in September 2013.

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

7 Other risks

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgements and estimates, which include impairment of financial assets, valuation of financial instruments, pensions, insurance and taxation are discussed in detail in the Issuer's 2013 Annual Report under the section entitled "Critical accounting estimates and judgements" as set out on pages 224 to 226 therein.

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

7.2 *The Issuer is a holding company and, as a result, depends on the receipt of dividends from its subsidiaries to meet its obligations, including its payment obligations with respect to its debt securities.* A11.6.2

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

UK-incorporated companies (including subsidiaries of the Issuer) need to have distributable reserves in order to make distributions. One of the Issuer's indirect principal subsidiaries, Bank of Scotland plc, does not have distributable reserves and so is currently unable to pay dividends. There is a risk that any profits earned by Bank of Scotland plc and its subsidiaries will not be capable of being distributed to its holding company, and ultimately to the Issuer, as dividends.

The ability of the Group's subsidiaries (including subsidiaries incorporated outside the United Kingdom) to pay dividends and the Issuer's ability to receive distributions from its investments in other entities will also be subject not only to their financial performance but also to applicable local laws and other restrictions. These restrictions could include, among others, any regulatory, capital and leverage requirements, any statutory reserve requirements, any local regulatory ring-fencing requirements and any applicable tax laws. These laws and restrictions could limit the payment of dividends and distributions to the Issuer by its subsidiaries and any other entities in which it holds an investment from time to time, which could restrict the Issuer's ability to meet its obligations.

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

Tax risk is the risk associated with changes in taxation rates, applicable tax laws, misinterpretation of such tax laws, disputes with relevant tax authorities in relation to historic transactions or conducting a challenge to a relevant tax authority. Failure to manage this risk adequately could cause the Group to suffer losses due to additional tax charges and other financial costs including penalties. Such failure could lead to adverse publicity, reputational damage and potentially costs materially exceeding current provisions, in each case to an extent which could have an adverse effect on the Group's results of operations, financial condition or prospects

8 RISKS RELATING TO THE ADDITIONAL TIER 1 SECURITIES

8.1 *The Additional Tier 1 Securities will be subject to Conversion following the occurrence of the Conversion Trigger, in which case the Additional Tier 1 Securities will be converted into Ordinary Shares.*

Upon Conversion following the Conversion Trigger (each as defined in the Additional Tier 1 Securities Conditions), the Additional Tier 1 Securities will be converted into Ordinary Shares on the Conversion Date; once the Ordinary Shares have been issued and delivered to the Settlement Shares Depositary, all of LBG's obligations under the Additional Tier 1 Securities shall be irrevocably discharged and satisfied and under no circumstances shall such released obligations be reinstated. As a result, AT1 Securityholders could lose all or part of the value of their investment in the Additional Tier 1 Securities, as, following Conversion, they will receive only (i) the Ordinary Shares (if LBG does not elect that a Conversion Shares Offer be made), or (ii) the Alternative Consideration, which shall be composed of Ordinary Shares and/or cash depending on the results of the Conversion Shares Offer (if LBG elects that a Conversion Shares Offer be made) and the value of any Ordinary Shares received upon Conversion may have a market value significantly below the principal amount of the Additional Tier 1 Securities they hold. Although the market value of the Ordinary Shares received could over time increase in value, at the time the Ordinary Shares are issued, the Conversion Price may not reflect the market price of LBG's Ordinary Shares, which could be significantly lower than the Conversion Price. Furthermore, upon Conversion, AT1 Securityholders will no longer have a debt claim in relation to

principal and any accrued but unpaid interest on the Additional Tier 1 Securities shall be cancelled and shall not become due and payable at any time.

Any such Conversion will be irrevocable and, upon Conversion, AT1 Securityholders will not be entitled to any form of compensation in the event of LBG's potential recovery or change in LBG's fully loaded CET1 Ratio. In addition, on or after the occurrence of the Conversion Trigger, if LBG does not deliver Ordinary Shares to the Settlement Shares Depositary, the only claims AT1 Securityholders will have against LBG will be for specific performance to have such Ordinary Shares issued and delivered to the Settlement Shares Depositary and to participate in the liquidation proceeds of LBG as if the Ordinary Shares had been issued. Once the Ordinary Shares to be delivered on Conversion have been issued and delivered to the Settlement Shares Depositary, the only claims AT1 Securityholders will have will be against the Settlement Shares Depositary for delivery of Ordinary Shares or Alternative Consideration, as applicable.

The Conversion Trigger shall occur if LBG determines that its CET1 Ratio (which will be calculated on a consolidated and fully-loaded basis) at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than 7.00 per cent. on such date.

For the purposes of this section, "CET1 Ratio" has the meaning as set out in the Additional Tier 1 Securities Conditions.

For a discussion of the risks associated with the calculation of LBG's CET1 Ratio see "For the purposes of the Conversion Trigger, the CET1 ratio will be calculated on a "fully loaded" basis. This will result in a lower calculated CET1 Ratio than one using CRD IV transitional provisions, increasing the potential for Conversion in the short term. Changes to the calculation of CET1 capital and/or risk weighted assets may negatively affect LBG's CET1 Ratio, thereby increasing the risk of the Conversion Trigger which will lead to Conversion, as a result of which the Additional Tier 1 Securities will automatically be converted into Ordinary Shares".

8.2 *The circumstances surrounding or triggering a Conversion are inherently unpredictable and may be caused by factors outside of LBG's control. LBG has no obligation to operate its business in such a way, or take any mitigating actions, to maintain or restore its CET1 Ratio to avoid the Conversion Trigger and actions LBG takes could result in its CET1 Ratio falling.*

The occurrence of the Conversion Trigger and, therefore, Conversion, is inherently unpredictable and depends on a number of factors, some of which may be outside of LBG's control. Although LBG currently publicly reports the Group's fully loaded CET1 Ratio only as of each quarterly period end, the Prudential Regulation Authority (the "PRA"), or the then relevant regulatory body with primary responsibility for the prudential supervision of LBG and the Group (the "**Relevant Regulator**"), as part of its supervisory activity, may instruct LBG to calculate such ratio as of any date, including if LBG is subject to recovery and resolution actions by the resolution authority to be specified for UK banks (the "**Relevant UK Resolution Authority**"), or LBG might otherwise determine to calculate such ratio in its own discretion. As such, Conversion could occur at any time. Moreover, it is likely that the Relevant UK Resolution Authority would allow the Conversion Trigger to occur rather than to resort to the use of public funds.

The Conversion Trigger could occur at any time if LBG determines that its fully loaded CET1 Ratio is below 7.00 per cent. as of any such calculation date. Such calculation could be affected by, among other things, the growth of LBG's business and LBG's future earnings, dividend payments, regulatory changes (including changes to definitions and calculations of regulatory capital, including CET1 Capital and Risk Weighted Assets (each of which shall be calculated by LBG on a fully loaded, consolidated basis and such calculation shall be binding on the Trustee and on the AT1

Securityholders), actions that LBG is required to take at the direction of the Relevant Regulator, and the Group's ability to manage Risk Weighted Assets in both its ongoing businesses and those which it may seek to exit. In addition, the Group has capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. Actions that LBG takes could also affect its CET1 Ratio, including causing it to decline. LBG has no obligation to increase its CET1 Capital, reduce its Risk Weighted Assets or otherwise operate its business in such a way, take mitigating actions in order to prevent its CET1 Ratio from falling below 7.00 per cent., to maintain or increase its CET1 Ratio or to otherwise consider the interests of the AT1 Securityholders in connection with any of its business decisions that might affect LBG's CET1 Ratio.

The calculation of LBG's CET1 Ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the Relevant Regulator could require LBG to reflect such changes in any particular calculation of its CET1 Ratio.

Because of the inherent uncertainty regarding whether the Conversion Trigger will occur and there being no obligation on LBG's part to prevent its occurrence, it will be difficult to predict when, if at all, Conversion could occur. Accordingly, the trading behaviour of the Additional Tier 1 Securities may not necessarily follow the trading behaviour of other types of subordinated securities, including LBG's other subordinated debt securities. Fluctuations in the CET1 Ratio may be caused by changes in the amount of CET1 Capital and Risk Weighted Assets as well as changes to their respective definitions under the capital adequacy standards and guidelines set by the Relevant Regulator. Any indication that the Group's CET1 Ratio is moving towards the level which would cause the occurrence of the Conversion Trigger may have an adverse effect on the market price and liquidity of the Additional Tier 1 Securities. Therefore, investors may not be able to sell their Additional Tier 1 Securities easily or at prices that will provide them with a yield comparable to other types of subordinated securities, including LBG's other subordinated debt securities. In addition, the risk of Conversion could drive down the price of the Ordinary Shares and have a material adverse effect on the market value of Ordinary Shares received upon Conversion.

8.3 *For the purposes of the Conversion Trigger, the CET1 ratio will be calculated on a “fully loaded” basis. This will result in a lower calculated CET1 Ratio than one using CRD IV transitional provisions, increasing the potential for Conversion in the short term. Changes to the calculation of CET1 capital and/or risk weighted assets may negatively affect LBG's CET1 Ratio, thereby increasing the risk of the Conversion Trigger which will lead to Conversion, as a result of which the Additional Tier 1 Securities will automatically be converted into Ordinary Shares.*

The Basel Committee on Banking Supervision (the “**Basel Committee**”) proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the “**Basel III Reforms**”). The implementation of the Basel III Reforms by relevant authorities in the EU consists of a legislative package including a fourth capital requirements Directive (the “**CRD IV Directive**”) and a new Capital Requirements Regulation (the “**CRR**”), collectively known as “**CRD IV**”. The CRD IV legislative package was published in the Official Journal of the European Union on 27 June 2013 and on 1 January 2014, the CRR became applicable in the United Kingdom (the “**CRD IV Implementation Date**”), subject to a series of transitional

arrangements described below which are expected to be phased in over a period of time and be fully effective by 2019.

As a result of the changes under CRD IV, LBG is required to calculate its capital resources for regulatory purposes on the basis of “common equity tier 1 capital” instead of “core tier 1 capital” which LBG has historically calculated and published. LBG is also required to calculate its “risk weighted assets”, which represent assets adjusted for their associated risks, on a different basis under CRD IV than LBG did prior to the CRD IV Implementation Date. Each of these definitions will be calculated in accordance with the capital adequacy standards and guidelines of the Relevant Regulator applicable to LBG on the relevant date. The main differences between the calculation of the common equity tier 1 capital base under CRD IV compared to LBG’s core tier 1 capital base under PRA rules and guidelines in effect prior to the CRD IV Implementation Date relate to (i) the treatment of significant investments in the equity of financial sector entities and (ii) the treatment of deferred tax assets which were previously not restricted in respect of what may be recognised for regulatory purposes.

The CRD IV legislation sets out a minimum pace of introduction of these enhanced capital requirements (the “**Transitional Provisions**”). The Transitional Provisions are designed to implement certain CRD IV requirements in stages over a prescribed period; however, each of the EU Member States has the discretion to accelerate that minimum pace of transition in certain respects. In the United Kingdom, the PRA has confirmed that it will accelerate the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA’s rules and supervisory statements published on 19 December 2013, the PRA will require the Group to meet certain capital targets within certain prescribed timeframes, without having regard to any Transitional Provisions in that respect. Therefore, for the purposes of the Additional Tier 1 Securities, LBG will calculate its CET1 Capital and Risk Weighted Assets without applying the Transitional Provisions and will instead calculate its CET1 Ratio on a so-called “fully loaded” basis, which is a more stringent basis than under the CRD IV regime and will lead to the CET1 Ratio as defined for purposes of the Additional Tier 1 Securities being lower than it would be were LBG to calculate the common equity tier 1 ratio applying the Transitional Provisions to its calculation of common equity tier 1 capital and risk weighted assets.

At 31 December 2013, LBG’s CET1 Ratio, giving full effect to CRD IV on a fully loaded basis, based on LBG’s interpretation of the current rules and assuming such rules were applied as of 31 December 2013, was estimated to be 10.3 per cent., adjusted to include the benefits of the announced sales of Heidelberger Leben, Scottish Widows Investment Partnership and Sainsbury’s Bank. LBG’s fully loaded CET1 Ratio is a non-IFRS measure, and LBG’s interpretation of CRD IV and the basis of LBG’s calculation of this financial measure may be different from those of other financial institutions. For further information, see the section entitled “Risk Management – Capital Management in 2013” of LBG’s Annual Report on Form 20-F for the year ended 31 December 2013. LBG’s estimates are based on a number of assumptions.

The actual impact of CRD IV on capital ratios may be materially different as the CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the European Banking Authority (the “**EBA**”) or changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III). The PRA’s supervisory statements SS 3/13 (released on 29 November 2013) and PS 7/13 (released on 19 December 2013) set out the PRA’s expectations in relation to capital and leverage ratios (in the case of SS 3/13) and the quality of capital (in the case of PS 7/13). The PRA’s policy statement PS 7/13 sets out, among other things, changes to the PRA rules in order to implement certain aspects of

CRD IV in the UK and PS 7/13, contrary to previous indications from the PRA, stated that UK banks will be able to meet any future Pillar 2A requirements with a blend of regulatory capital, including CET1 Capital, in addition to the minimum capital requirements under CRD IV. Nonetheless, if the PRA rules, guidance or expectations in relation to capital or leverage were to be amended in the future in a manner other than as set out in the statements, and depending on the content of final binding regulatory technical standards developed by the EBA, it could be materially more difficult for the Group to maintain compliance with prudential requirements. Any such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's capital and may result in a need for further management actions to meet the changed requirements, such as: increasing capital, reducing leverage and risk weighted assets, modifying legal entity structure (including with regard to issuance and deployment of capital and funding for the Group) and changing the Group's business mix or exiting other businesses and/or undertaking other actions to strengthen the Group's capital position.

Investors should be aware that the CRD IV rules and their implementation in the United Kingdom subsequent to the date hereof may individually and/or in the aggregate further negatively affect LBG's CET1 Ratio and thus increase the risk of the Conversion Trigger, which will lead to Conversion. Upon Conversion, provided that LBG issues and delivers the Ordinary Shares to the Settlement Shares Depositary in accordance with the terms described herein, investors will have no rights against LBG with respect to the repayment of the principal amount of the Additional Tier 1 Securities or the payment of any accrued and unpaid interest on such Additional Tier 1 Securities. In addition, the realisable value of the Ordinary Shares may be below the Conversion Price. Although the market value of the Ordinary Shares received could over time increase, at the time the Ordinary Shares are issued, the Conversion Price may not reflect the market price of LBG's Ordinary Shares, which could be significantly lower than the Conversion Price.

8.4 *The Additional Tier 1 Securities have no scheduled maturity and AT1 Securityholders only have a limited ability to cash in their investment in the Additional Tier 1 Securities.*

The Additional Tier 1 Securities are perpetual securities and have no fixed maturity date or fixed redemption date. Although under certain circumstances, as described under Condition 8 of the Additional Tier 1 Securities Conditions, LBG may redeem the Additional Tier 1 Securities, LBG is under no obligation to do so and AT1 Securityholders have no right to call for their redemption. Therefore, AT1 Securityholders have no ability to cash in their investment, except (i) if LBG exercises its rights to redeem the Additional Tier 1 Securities in accordance with their terms and applicable laws, (ii) by selling their Additional Tier 1 Securities or, following the occurrence of the Conversion Trigger and the issue and delivery of Ordinary Shares, their Ordinary Shares (if LBG does not elect that a Conversion Shares Offer be made or where the Ordinary Shares issued upon Conversion are not all sold pursuant to the Conversion Shares Offer), (iii) through the cash component of any Conversion Shares Offer, (iv) where the Trustee institutes proceedings for the winding-up of LBG where LBG has exercised its right to redeem the Additional Tier 1 Securities but fails to make payment in respect of such redemption when due, in which limited circumstances the AT1 Securityholders may receive some of any resulting liquidation proceeds following payment being made in full to all senior and more senior subordinated creditors, or (v) upon a winding-up or administration, in which limited circumstances the AT1 Securityholders may receive some of any resulting liquidation proceeds following payment being made in full to all senior and more senior subordinated creditors.

8.5 *Interest payments on the Additional Tier 1 Securities are discretionary and LBG may cancel interest payments, in whole or in part, at any time. Cancelled interest shall not be due and shall not accumulate or be payable at any time thereafter and investors shall have no rights thereto.*

Subject to Condition 4(a) in relation to the solvency of LBG at and following the time of payment and Condition 6(b) of the Additional Tier 1 Securities Conditions in relation to certain restrictions on the making of interest payments, interest on the Additional Tier 1 Securities will be due and payable only at the sole discretion of LBG and LBG shall have absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date. Interest will only be due and payable on an Interest Payment Date to the extent it is not cancelled in accordance with the terms of the Additional Tier 1 Securities. If LBG cancels any scheduled interest payment, such interest payment shall not be or become due and payable at any time thereafter and in no event will AT1 Securityholders have any right to or claim against LBG with respect to such interest amount or be able to accelerate the principal of the Additional Tier 1 Securities as a result of such interest cancellation. Furthermore, no cancellation of interest in accordance with the terms of the relevant Trust Deed shall constitute a default in payment or otherwise under the terms of the Additional Tier 1 Securities. There can, therefore, be no assurances that an AT1 Securityholder will receive interest payments in respect of the Additional Tier 1 Securities.

For further information on LBG's dividend policy, see LBG's Annual Report on Form 20-F for the year ended 31 December 2013 under the heading "Dividends". The Additional Tier 1 Securities will rank senior to the Ordinary Shares. It is the Board of Directors' current intention that, whenever exercising its discretion to declare Ordinary Share dividends, or its discretion to cancel interest on its Additional Tier 1 Securities, the Group's Board of Directors will take into account the relative ranking of these instruments in LBG's capital structure. However, the Board may at any time depart from this policy at its sole discretion.

Following cancellation of any Interest Payment LBG will not be in any way limited or restricted from making any distribution or equivalent payments in connection with any Parity Securities or Junior Securities, including any dividend payments on LBG's Ordinary Shares or preference shares. LBG may therefore cancel (in whole or in part) any interest payment on the Additional Tier 1 Securities at its discretion and may pay dividends on its ordinary or preference shares or on other additional tier 1 securities notwithstanding such cancellation. In addition, LBG may without restriction use funds that could have been applied to make such cancelled payments to meet its other obligations as they become due.

8.6 *In addition to LBG's right to cancel, in whole or in part, interest payments at any time, the terms of the Additional Tier 1 Securities also restrict LBG from making interest payments on the Additional Tier 1 Securities if LBG has insufficient distributable items (based on its individual accounts and not on its consolidated accounts), in which case such interest shall be deemed to have been cancelled.*

Subject to the extent permitted in the following paragraphs in respect of partial interest payments, LBG shall not make an interest payment on the Additional Tier 1 Securities on any Interest Payment Date (and such interest payment shall therefore be deemed to have been cancelled and thus shall not be due and payable on such Interest Payment Date) (a) to the extent that an amount of Distributable Items on any scheduled Interest Payment Date is less than the sum of (i) all payments (other than redemption payments) made or declared by LBG since the end of LBG's last financial year and prior to such Interest Payment Date on or in respect of any Parity Securities, the Additional Tier 1 Securities or any Junior Securities (as defined in the relevant Additional Tier 1 Securities Conditions below) and (ii) all payments (other than redemption payments) payable by LBG on such Interest Payment Date (x) on the

Additional Tier 1 Securities and (y) on or in respect of any Parity Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items or (b) if Condition 4(a) in relation to the solvency of LBG is not satisfied in respect of such interest payment.

Although LBG may, in its sole discretion, elect to make a partial interest payment on the Additional Tier 1 Securities on any Interest Payment Date, it may only do so to the extent that such partial interest payment may be made without breaching the restrictions in the preceding paragraphs.

Any interest deemed cancelled on any relevant Interest Payment Date shall not be due and shall not accumulate or be payable at any time thereafter, and AT1 Securityholders shall have no rights thereto or to receive any additional interest or compensation as a result of such deemed cancellation. Furthermore, no cancellation of interest in accordance with the terms of the relevant Trust Deed shall constitute a default in payment or otherwise under the terms of the Additional Tier 1 Securities.

See also “CRD IV introduces restrictions on distributions that will restrict LBG from making interest payments on the Additional Tier 1 Securities in certain circumstances, in which case LBG will cancel such interest payments”.

8.7 *As a holding company, the level of Distributable Items is affected by a number of factors, and insufficient Distributable Items may restrict LBG’s ability to make interest payments on the Additional Tier 1 Securities.*

As a holding company, the level of LBG’s Distributable Items is affected by a number of factors, principally its ability to receive funds, directly or indirectly, from LBG’s operating subsidiaries in a manner which creates Distributable Items. Consequently, LBG’s future Distributable Items, and therefore LBG’s ability to make interest payments, are a function of LBG’s existing Distributable Items, future Group profitability and performance and the ability to distribute or dividend profits from LBG’s operating subsidiaries up the Group structure to LBG. In addition, the LBG’s Distributable Items will also be reduced by the servicing of other debt and equity instruments.

The ability of the LBG’s subsidiaries to pay dividends and LBG’s ability to receive distributions and other payments from LBG’s investments in other entities is subject to applicable local laws and other restrictions, including their respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws, and any changes thereto. These laws and restrictions could limit the payment of dividends, distributions and other payments to LBG by LBG’s subsidiaries, which could in time restrict LBG’s ability to fund other operations or to maintain or increase its Distributable Items.

8.8 *CRD IV introduces restrictions on distributions that will restrict LBG from making interest payments on the Additional Tier 1 Securities in certain circumstances, in which case LBG will cancel such interest payments.*

Under CRD IV, LBG is required, on a consolidated basis, to hold a minimum amount of regulatory capital of 8 per cent. of risk weighted assets of which at least 4.5 per cent. (4 per cent. in 2014) must be CET1 capital and at least 6 per cent. (5.5 per cent. in 2014) must be Tier 1 Capital (together the Pillar 1 requirements). In addition, supervisors may add extra capital requirements to cover risks they believe are not covered or insufficiently covered by the Pillar 1 requirements (the Pillar 2A guidance).

CRD IV also introduces capital buffer requirements that are in addition to the Pillar 1 requirements and Pillar 2A guidance and are required to be met with common equity tier 1 capital. It will introduce five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to

the Group as determined by the PRA. The “combined buffer requirement” is, broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution), the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution.

Under Article 141 (Restrictions on distributions) of the CRD IV Directive, Member States of the EU must require that institutions that fail to meet the “combined buffer requirement” will be subject to restricted “discretionary payments” (which are defined broadly by CRD IV as payments relating to common equity tier 1, variable remuneration and payments on additional tier 1 instruments).

The maximum amount of discretionary payments that are permitted under CRD IV when an institution fails to meet the combined buffer (the “maximum distributable amount”) is calculated by multiplying the profits of the institution made since the last distribution or other discretionary payment by a scaling factor. In the bottom quartile of the combined buffer the scaling factor is 0, and all discretionary payments are prohibited. In the second quartile the scaling factor is 0.2, in the third it is 0.4 and in the top quartile it is 0.6. In the event of breach of the combined buffer requirement LBG will be required to calculate its maximum distributable amount, and as a consequence it may be necessary for LBG to reduce discretionary payments, including potentially exercising their discretion to cancel (in whole or in part) interest payments in respect of the Additional Tier 1 Securities.

LBG’s capital requirements, including Pillar 2A guidance, are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. Investors may not be able to predict accurately the proximity of the risk of discretionary payments on the Additional Tier 1 Securities being prohibited from time to time as a result of the operation of Article 141. The PRA implementation of Article 141 remains uncertain in certain respects and such uncertainty will remain at least until HM Treasury has designated the authority responsible for setting certain buffers and buffer rates in the United Kingdom and the PRA has published its final supervisory statement on buffer capital.

8.9 *The Additional Tier 1 Securities may be traded with accrued interest, but under certain circumstances described above, such interest may be cancelled and not paid on the relevant Interest Payment Date.*

The Additional Tier 1 Securities may trade, and/or the prices for the Additional Tier 1 Securities may appear, on the Global Exchange Market of the Irish Stock Exchange and in other trading systems with accrued interest. If this occurs, purchasers of Additional Tier 1 Securities in the secondary market will pay a price that reflects such accrued interest upon purchase of the Additional Tier 1 Securities. However, if a payment of interest on any Interest Payment Date is cancelled or deemed cancelled (in each case, in whole or in part) as described herein and thus is not due and payable, purchasers of such Additional Tier 1 Securities will not be entitled to that interest payment (or if LBG elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date.

8.10 *The interest rate on the Additional Tier 1 Securities will be reset on each Reset Date, which may affect the market value of the Additional Tier 1 Securities.*

Each Series of Additional Tier 1 Securities will initially earn interest at a fixed rate of interest to, but excluding, the First Reset Date. From, and including, the First Reset Date, however, and every Reset Date thereafter, the interest rate will be reset to the Reset Rate of Interest (as described in Condition 5(d) of the Additional Tier 1 Securities Conditions). This reset rate could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the

amount of any interest payments under the Additional Tier 1 Securities and so the market value of an investment in the Additional Tier 1 Securities.

8.11 *LBG's obligations under the Additional Tier 1 Securities are subordinated and will be further subordinated upon Conversion into Ordinary Shares.*

LBG's obligations under the Additional Tier 1 Securities are unsecured and subordinated and rank junior in priority of payment to the current and future claims of all of its senior and certain of its subordinated creditors. If a winding-up or administration occurs prior to the date on which the Conversion Trigger occurs, LBG will pay each AT1 Securityholder an amount that would have been payable if, throughout the winding-up or administration, such AT1 Securityholder had been the holder of a class of LBG's preference shares having an equal right to a return of assets in the winding-up or administration to, and so ranking *pari passu* with, the holders of the most senior class or classes of LBG's issued preference shares (if any) and which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of LBG but ranking junior to the claims of Senior Creditors (as defined in Condition 4(a) of the Additional Tier 1 Securities Conditions). If a winding-up or administration occurs at any time on or following the date on which the Conversion Trigger occurs but the Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on the Conversion Date have not been so delivered, LBG shall pay such amount, if any, as would have been payable to an AT1 Securityholder in a winding up or administration if the Conversion Date had occurred immediately before the occurrence of a winding-up or administration, regardless of whether Condition 4(a) of the Additional Tier 1 Securities Conditions in relation to solvency had been satisfied on such date and ignoring for these purposes LBG's right to elect for the Settlement Shares Depositary to carry out a Conversion Shares Offer.

Subject to complying with applicable regulatory requirements, LBG expects from time to time to incur additional indebtedness or other obligations that will constitute senior and subordinated indebtedness, and the Additional Tier 1 Securities do not contain any provisions restricting the ability of LBG or its subsidiaries to incur senior or subordinated indebtedness. Although the Additional Tier 1 Securities may pay a higher rate of interest than comparable securities which are not so subordinated, there is a real risk that an investor in the Additional Tier 1 Securities will lose all or some of its investment should LBG become insolvent since its assets would be available to pay such amounts only after all of its senior and more senior subordinated creditors have been paid in full.

Therefore, if a winding-up or administration were to occur, the LBG liquidator or administrator would first apply assets of LBG to satisfy all rights and claims of Senior Creditors. If LBG does not have sufficient assets to settle claims of such Senior Creditors in full, the claims of the AT1 Securityholders will not be settled and, as a result, AT1 Securityholders will lose the entire amount of their investment in the Additional Tier 1 Securities. The Additional Tier 1 Securities will share equally in payment with claims under Parity Securities (or, with claims in respect of Ordinary Shares, in the event of a winding-up or administration occurring in the intervening period between the Conversion Trigger and the Conversion Date) if LBG does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, AT1 Securityholders could lose all or part of their investment.

In addition, investors should be aware that, upon Conversion of the Additional Tier 1 Securities following the Conversion Trigger, AT1 Securityholders will be, effectively, further subordinated as they will be treated as, and subsequently become, holders of Ordinary Shares, even if existing subordinated indebtedness and preference shares remain outstanding. There is a risk that AT1 Securityholders will lose the entire amount of their investment, regardless of whether LBG has sufficient assets available to settle what would have been the claims of AT1 Securityholders or of

securities subordinated to the same or greater extent as the Additional Tier 1 Securities, in winding-up proceedings or otherwise.

8.12 *The Additional Tier 1 Securities may be subject to write off or conversion on the occurrence of a bail-in or if LBG becomes subject to resolution.*

The Basel III Reforms provide that all non-common equity tier 1 instruments such as the Additional Tier 1 Securities and Tier 2 Capital instruments, which do not contain any contractual terms providing for their writing off or conversion into ordinary shares at the option of the relevant authority upon the occurrence of a bail-in (as defined herein), should cease to be eligible to count in full as additional Tier 1 or Tier 2 Capital (as the case may be) from 1 January 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written off upon the occurrence of a bail-in or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss.

As used above, “bail-in” means the earlier of (a) a decision that a write off, without which the relevant bank would become non-viable, is necessary as determined by the relevant authority; and (b) the decision to make a public sector injection of capital, or equivalent support, without which the relevant bank would have become non-viable, as determined by the relevant authority.

The European Commission has published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the Recovery and Resolution Directive (the “RRD”). The stated aim of the RRD is to provide supervisory authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers’ exposure to losses. The powers proposed to be granted to supervisory authorities under the RRD include a “write-down and conversion power” and a “bail-in” power, which would give such authorities the power to write down or write off the claims (potentially including the Additional Tier 1 Securities) of certain unsecured creditors of a failing institution and/or to convert certain debt claims (potentially including the Additional Tier 1 Securities) into another security, including ordinary shares of the surviving Group entity, if any. It is currently contemplated that the majority of measures (including the write-down and conversion powers relating to Tier 1 Capital instruments, such as the Additional Tier 1 Securities, and Tier 2 Capital instruments) set out in the RRD will be implemented with effect from 1 January 2015, with the bail-in power for other eligible liabilities expected to be introduced by 1 January 2016. The RRD contains safeguards for shareholders and creditors in respect of the application of the “write down and conversion” and “bail-in” powers which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings. However, changes may be made to the RRD in the course of the legislative process and anticipated implementation dates could change.

There remains significant uncertainty regarding the ultimate nature and scope of these powers and how they would affect the Group and the Additional Tier 1 Securities. Accordingly, it is not yet possible to assess the full impact of the RRD on the Group and on AT1 Securityholders, and there can be no assurance that, once it is implemented, the manner in which it is implemented or the taking of any actions by the Relevant UK Resolution Authority currently contemplated in the RRD would not adversely affect the rights of AT1 Securityholders, the price or value of an investment in the Additional Tier 1 Securities and/or LBG’s ability to satisfy its obligations under the Additional Tier 1 Securities.

Article 518 of the CRR states that if the RRD is not adopted by 31 December 2015, the European Commission should review and report whether the CRR should be amended so as to include write-down and conversion powers to ensure that relevant capital instruments fully absorb losses at the point

of non-viability of the issuing institution and before any other resolution action is taken. There is a risk that such an amendment would result in the Additional Tier 1 Securities being used to absorb losses on the occurrence of a bail-in.

The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the value of the Additional Tier 1 Securities and could lead to AT1 Securityholders losing some or all of their investment in the Additional Tier 1 Securities.

In addition to the RRD described above, it is possible that the exercise of the current powers under the Banking Act 2009 (the “**Banking Act**”), which provide for a resolution regime to resolve failing banks in the United Kingdom and give the authorities powers to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers, could have a material adverse effect on the rights of AT1 Securityholders, including through a material adverse effect on the price of the Additional Tier 1 Securities.

The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for the UK Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect.

In addition, on 18 December 2013, the Financial Services (Banking Reform) Act 2013 (the “**Banking Reform Act**”), received Royal Assent. The Banking Reform Act includes amendments to the Banking Act to insert a bail-in option among the powers of the Relevant UK Resolution Authority (the “**Bail-In Power**”).

The Bail-In Power is introduced as an additional power available to the Relevant UK Resolution Authority, to enable it to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors in a manner that ought to respect the hierarchy of claims in an insolvency of a relevant financial institution, consistent with shareholders and creditors of financial institutions not receiving less favourable treatment than they would have done in insolvency. The Bail-In Power includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the bank under resolution and the power to convert a liability from one form to another. The conditions for use of the Bail-In Power are, in summary, that (i) the regulator determines that the bank is failing or likely to fail, (ii) it is not reasonably likely that any other action can be taken to avoid the bank’s failure and (iii) the Relevant UK Resolution Authority determines that it is in the public interest to exercise the Bail-In Power.

In announcing the introduction of the Bail-In Power, the UK Government expressed that it was confident that such powers could be introduced without the risk of having to adapt to a radically different regime when the RRD is implemented. It is expected that the UK Treasury will stipulate the date on which the majority of the provisions of the Banking Reform Act will enter into force. Therefore, it is not yet possible to assess the full impact of the RRD or the Banking Reform Act on the Group and on AT1 Securityholders.

In addition, the Banking Act may be further amended and/or other legislation may be introduced in the United Kingdom to amend the resolution regime that would apply in the event of a bank failure or to provide regulators with other resolution powers.

Finally, the determination that all or part of the principal amount of the Additional Tier 1 Securities will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of LBG’s control. This determination will also be made by the

Relevant Regulator and there may be many factors, including factors not directly related to LBG, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of a Bail-In Power may occur which would result in a principal write off or conversion to other securities, including equity. Accordingly, trading behaviour in respect of the Additional Tier 1 Securities is not necessarily expected to follow the trading behaviour associated with other types of securities. Potential investors in the Additional Tier 1 Securities should consider the risk that an AT1 Securityholder may lose all of its investment, including the principal amount plus any accrued and unpaid interest, if such statutory loss absorption measures are acted upon or that the Additional Tier 1 Securities may be converted into Ordinary Shares. This potential risk is in addition to the same risk that will arise if the Conversion Trigger should occur.

8.13 *The circumstances under which the Relevant UK Resolution Authority would exercise its proposed Bail-In Power are uncertain.*

The stated aim of the RRD is to provide supervisory authorities, including the Relevant UK Resolution Authority, with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. However, as the RRD is still in draft form and will be subject to implementing measures in the United Kingdom, there is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimising taxpayers' exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the Relevant UK Resolution Authority would consider in deciding whether to exercise the Bail-In Power with respect to the relevant financial institution and/or securities, such as the Additional Tier 1 Securities, issued by that institution.

Moreover, as the final criteria that the Relevant UK Resolution Authority would consider in exercising any Bail-In Power may provide it with discretion, AT1 Securityholders may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such Bail-In Power and consequently its potential effect on the Group and the Additional Tier 1 Securities.

There is therefore considerable uncertainty regarding the rights that AT1 Securityholders may have to challenge the exercise of any Bail-In Power by the Relevant UK Resolution Authority, and, when the final RRD rules are implemented in the United Kingdom, AT1 Securityholders' rights may be limited.

8.14 *The rights of AT1 Securityholders to challenge the exercise of any Bail-In Power by the Relevant UK Resolution Authority are likely to be limited.*

AT1 Securityholders may have limited rights or no rights to challenge any decision of the Relevant UK Resolution Authority to exercise its Bail-In Power or to have that decision reviewed by a judicial or administrative process or otherwise.

8.15 *AT1 Securityholders may receive Alternative Consideration instead of Ordinary Shares upon the Conversion Trigger and would not know the composition of any Alternative Consideration until the end of the Conversion Shares Offer Period.*

AT1 Securityholders may not ultimately receive Ordinary Shares upon the Conversion Trigger because LBG may elect, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Settlement Shares Depositary.

If all of the Ordinary Shares are sold in the Conversion Shares Offer, AT1 Securityholders shall be entitled to receive, in respect of each Additional Tier 1 Security and as determined by LBG, the *pro rata* share of the cash proceeds from the sale of the Ordinary Shares attributable to such Additional Tier 1 Security and, in relation to the Euro Additional Tier 1 Securities only, translated from sterling

into euro at a then-prevailing exchange rate as determined by the Settlement Shares Depositary (less the *pro rata* share of any foreign exchange transaction costs (in the case of the Euro Additional Tier 1 Securities only) and an amount equal to the *pro rata* share of certain taxes that may arise as a result of the Conversion Shares Offer). If some but not all of the Ordinary Shares are sold in the Conversion Shares Offer, AT1 Securityholders shall be entitled to receive, in respect of each Additional Tier 1 Security, (a) the *pro rata* share of the cash proceeds from the sale of the Ordinary Shares attributable to such Additional Tier 1 Security and, in relation to the Euro Additional Tier 1 Securities only, translated from sterling into euro at a then-prevailing exchange rate as determined by the Settlement Shares Depositary (less the *pro rata* share of any foreign exchange transaction costs (in the case of the Euro Additional Tier 1 Securities only) and an amount equal to the *pro rata* share of certain taxes that may arise as a result of the Conversion Shares Offer) together with (b) the *pro rata* share of the Ordinary Shares not sold pursuant to the Conversion Shares Offer attributable to such Additional Tier 1 Security rounded down to the nearest whole number of Ordinary Shares.

No interest or other compensation is payable in respect of the period from the Conversion Date to the date of delivery of the Ordinary Shares or the cash proceeds from the sale of the Ordinary Shares in the circumstances described above.

Notice of the results of any Conversion Shares Offer will be provided to AT1 Securityholders only at the end of the Conversion Shares Offer Period. Accordingly, AT1 Securityholders would not know the composition of the Alternative Consideration to which they may be entitled until the end of the Conversion Shares Offer Period.

8.16 *As the Conversion Price is fixed at the time of issue of the Additional Tier 1 Securities, AT1 Securityholders will bear the risk of fluctuation in the value of Ordinary Shares and/or the euro and sterling exchange rate.*

Upon the occurrence of the Conversion Trigger, the Additional Tier 1 Securities will be automatically converted into Ordinary Shares on the Conversion Date. Because the Conversion Trigger will occur when LBG's CET1 Ratio will have deteriorated, the Conversion Trigger will likely be accompanied by a prior deterioration in the market price of LBG's Ordinary Shares, which may be expected to continue after the occurrence of the Conversion Trigger. Therefore, if the Conversion Trigger were to occur, investors would receive Ordinary Shares at a time when the market price of LBG's Ordinary Shares is diminished. In addition, there may be a delay in an AT1 Securityholder receiving its Ordinary Shares following the Conversion Trigger, during which time the market price of LBG's Ordinary Shares may further decline. See Condition 7 of the Additional Tier 1 Securities Conditions. As a result, the realisable value of the Ordinary Shares may be below the Conversion Price. The Conversion Price was fixed on 5 March 2014 at (in the case of each Series of Sterling Additional Tier 1 Securities) £0.643 per Ordinary Share and at (in the case of the Euro Additional Tier 1 Securities) €0.780 per Ordinary Share, and (in each case) is subject to limited anti-dilution adjustments, as described under Condition 7(e) of the Additional Tier 1 Securities Conditions. Although the market value of the Ordinary Shares AT1 Securityholders receive could over time increase, at the time the Ordinary Shares are issued, the Conversion Price may not reflect the market price of LBG's Ordinary Shares, which could be significantly lower than the Conversion Price.

In addition, as LBG's Ordinary Shares are denominated and trade in sterling, the market price of the Euro Additional Tier 1 Securities may also be affected by fluctuations in the euro and sterling exchange rate due to the Euro Additional Tier 1 Securities being denominated in euro. Upon Conversion, the Additional Tier 1 Securities will convert into Ordinary Shares at the Conversion Price. Fluctuations in the euro and sterling exchange rate could therefore affect the realisable value of the

Ordinary Shares to be issued for Euro Additional Tier 1 Securities following the Conversion Trigger (and the cash component of any Alternative Consideration).

Furthermore, there may be a delay in a AT1 Securityholder receiving its Ordinary Shares following the Conversion Trigger (in particular if LBG elects that the Settlement Shares Depositary make a Conversion Shares Offer, as the Conversion Shares Offer Period may last up to forty (40) London business days after the delivery of the Conversion Shares Offer Election Notice), during which time the market price of the Ordinary Shares or the exchange rate of sterling against the euro may further decline.

8.17 *AT1 Securityholders have limited anti-dilution protection.*

The number of Ordinary Shares to be issued to the Settlement Shares Depositary on the Conversion Date will be determined by dividing the aggregate principal amount of the Additional Tier 1 Securities outstanding immediately prior to Conversion on the Conversion Date by the Conversion Price prevailing on the Conversion Date. Fractions of Ordinary Shares will not be delivered to the Settlement Shares Depositary or to AT1 Securityholders upon a Conversion and no cash payment will be made in lieu thereof.

The Conversion Price will be adjusted in the event that there is a consolidation, reclassification, redesignation or subdivision of the Ordinary Shares, an issuance of Ordinary Shares in certain circumstances by way of capitalisation of profits or reserves, an Extraordinary Dividend or an issue of Ordinary Shares to shareholders as a class by way of rights, but only in the situations and to the extent provided in Condition 7(e) of the Additional Tier 1 Securities Conditions. These may include any modifications as an Independent Adviser (as defined in Condition 19 of the Additional Tier 1 Securities Conditions) shall determine to be appropriate, including for certain situations falling between the Conversion Date and the Settlement Date. Any New Conversion Price following a Qualifying Relevant Event (as defined Condition 7(j)(v) of the Additional Tier 1 Securities Conditions) will be similarly adjusted, subject to any modifications by the Independent Adviser. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares. In particular, there will be no adjustment to the Conversion Price if a Non-Qualifying Relevant Event such as an acquisition of LBG by an entity that is not an Approved Entity or the New Conversion Condition is not satisfied. Furthermore, the adjustment events that are included are less extensive than those often included in the terms of other convertible securities. Accordingly, events in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Additional Tier 1 Securities.

8.18 *If a Relevant Event occurs, the Additional Tier 1 Securities may be convertible into shares in an entity other than LBG or may be fully written down.*

If a Qualifying Relevant Event occurs, then following Conversion, the Additional Tier 1 Securities shall become convertible into the share capital of the Acquiror (as more fully described under Condition 7(j) of the Additional Tier 1 Securities Conditions) at the New Conversion Price. There can be no assurance as to the nature of any such Acquiror, or of the risks associated with becoming an actual or potential shareholder in such Acquiror and accordingly a Qualifying Relevant Event may have an adverse effect on the value of the Additional Tier 1 Securities.

In addition, LBG and the Acquiror have certain discretion in determining whether a Qualifying Relevant Event has occurred. A Qualifying Relevant Event requires the New Conversion Condition to be satisfied. For the New Conversion Condition to be satisfied, LBG and the Acquiror must, not later than seven days following the occurrence of a Relevant Event, enter into arrangements to the satisfaction of LBG for delivery of the Relevant Shares upon a Conversion of the Additional Tier 1

Securities. If LBG and the Acquiror are unable to enter into such arrangements within this timeframe, the New Conversion Condition would not be satisfied.

In the case of a Non-Qualifying Relevant Event, the Additional Tier 1 Securities will not be subject to Conversion unless the Conversion Date occurs prior to the occurrence of the Relevant Event. If the Conversion Date occurs following the Non-Qualifying Relevant Event, the outstanding principal amount of each Additional Tier 1 Security will be automatically written down to zero and the Additional Tier 1 Securities will be cancelled in their entirety. AT1 Securityholders will be deemed to have irrevocably waived their right to receive repayment of the aggregate principal amount of the Additional Tier 1 Securities so written down and all accrued and unpaid interest and any other amounts payable on the Additional Tier 1 Securities will be cancelled, as more fully described under Condition 7(a)(vi) of the Additional Tier 1 Securities Conditions. There can be no assurance that a Relevant Event will not be a Non-Qualifying Relevant Event, in which case investors may lose their investment in the Additional Tier 1 Securities.

8.19 *Subject to certain conditions, including in relation to the solvency of LBG and regulatory approvals, LBG may redeem the Additional Tier 1 Securities at LBG's option on certain dates.*

Subject to Condition 4(a) in relation to the solvency of LBG, the permission (if, and only to the extent, required) of the Relevant Regulator, the non-occurrence of the Conversion Trigger and compliance by LBG with any alternative or additional pre-conditions to redemption set out in the Applicable Regulations from time to time, LBG may opt to redeem all, but not some only, of the Additional Tier 1 Securities at their principal amount together with accrued but unpaid interest, excluding any interest which has been cancelled or deemed to be cancelled (i) at LBG's option on the First Reset Date or on any Reset Date thereafter (each as defined in Condition 19), (ii) in the event LBG is obliged to pay Additional Amounts (as defined in Condition 10 of the Additional Tier 1 Securities Conditions) in respect of United Kingdom withholding tax, (iii) upon the occurrence of certain other changes in the treatment of the Additional Tier 1 Securities for tax purposes as described in Condition 8(d) of the Additional Tier 1 Securities Conditions, provided that in (ii) and (iii) above that LBG could not avoid the foregoing by taking measures reasonably available to it and (iv) if the Additional Tier 1 Securities fully cease to qualify as Tier 1 Capital of the Group.

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which LBG may elect to redeem the Additional Tier 1 Securities, and if so whether or not LBG will satisfy the conditions, or elect, to redeem the Additional Tier 1 Securities. LBG may also be expected to exercise its option to redeem the Additional Tier 1 Securities on or after the First Reset Date if LBG's funding costs would be lower than the prevailing interest rate payable in respect of the Additional Tier 1 Securities. If the Additional Tier 1 Securities are so redeemed, there can be no assurance that AT1 Securityholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Additional Tier 1 Securities. Furthermore, the redemption feature of the Additional Tier 1 Securities may limit their market value, which is unlikely to rise substantially above the price at which the Additional Tier 1 Securities can be redeemed.

8.20 *The Additional Tier 1 Securities do not contain events of default and the remedies available to AT1 Securityholders under the Additional Tier 1 Securities are limited.*

The terms of the Additional Tier 1 Securities do not provide for any events of default. AT1 Securityholders may not at any time demand repayment or redemption of their Additional Tier 1 Securities, although in a winding-up or administration prior to the Conversion Trigger, the AT1 Securityholders will have a claim for an amount equal to the principal amount of the Additional Tier 1

Securities plus any accrued interest that has not otherwise been cancelled. There is no right of acceleration in the case of non-payment of principal or interest on the Additional Tier 1 Securities or of LBG's failure to perform any of its obligations under or in respect of the Additional Tier 1 Securities.

The sole remedy in the event of any non-payment of principal under the Additional Tier 1 Securities subject to certain conditions as described under Condition 12 of the Additional Tier 1 Securities Conditions is that the Trustee, on behalf of the AT1 Securityholders may, at its discretion, or shall at the direction of the holders of at least 25 per cent. of the aggregate principal amount of the outstanding Additional Tier 1 Securities subject to applicable laws, institute proceedings for the winding-up of LBG and/or prove for any payment obligations of LBG arising under the Additional Tier 1 Securities in any winding-up or other insolvency proceedings in respect of such non-payment.

Prior to the occurrence of any winding-up or administration, the Additional Tier 1 Securities will remain subject to Conversion upon the Conversion Trigger and the exercise of the Bail-In Power; neither event constitutes an event of default under the relevant Trust Deed. LBG is entitled to cancel any interest payment as described under Condition 6 of the Additional Tier 1 Securities Conditions and such cancellation or deemed cancellation (in each case, in whole or in part) will not constitute an event of default. If Ordinary Shares are not issued and delivered to the Settlement Shares Depositary following the Conversion Trigger, the only claim AT1 Securityholders will have will be a claim for specific performance to have such Ordinary Shares issued, or claims to participate in the liquidation proceeds of LBG.

The remedies under the Additional Tier 1 Securities are more limited than those typically available to LBG's unsubordinated creditors. For further detail regarding the limited remedies of the Trustee and the AT1 Securityholders, see Condition 12 of the Additional Tier 1 Securities Conditions.

8.21 *There is no limit on the amount or type of further securities or indebtedness that LBG may issue, incur or guarantee.*

There is no restriction on the amount of securities or other liabilities that LBG may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Additional Tier 1 Securities. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by AT1 Securityholders during a winding-up or administration and may limit LBG's ability to meet its obligations under the Additional Tier 1 Securities. In addition, the Additional Tier 1 Securities do not contain any restriction on LBG's ability to issue securities that may have preferential rights similar to those of the Additional Tier 1 Securities having similar, different or no Conversion Trigger provisions.

8.22 *The Additional Tier 1 Securities are LBG's exclusive obligations and LBG is structurally subordinated to the creditors of its subsidiaries.*

The Additional Tier 1 Securities are LBG's exclusive obligations. LBG is a holding company and conducts substantially all of its operations through its subsidiaries. LBG's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due or to provide LBG with funds to meet any of LBG's payment obligations under the Additional Tier 1 Securities. LBG's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders, except in the limited circumstance where LBG is a creditor with claims that are recognised to be ranked ahead of or *pari passu* with such claims. Accordingly, if one of LBG's subsidiaries were to be wound up, liquidated or dissolved, (i) the AT1 Securityholders would have no right to proceed against the assets of such subsidiary, and (ii) the liquidator of such subsidiary would first apply the assets of such subsidiary to settle the claims of the creditors of such subsidiary, including holders (which may include LBG) of any

preference shares and other Tier 1 Capital instruments of such other subsidiary, before LBG, to the extent LBG is an ordinary shareholder of such other subsidiary and would be entitled to receive any distributions from such other subsidiary.

In the event of a Newco Scheme, LBG may without the consent of AT1 Securityholders, at its option, procure that Newco is substituted under any one or more Series of Additional Tier 1 Securities as the issuer of such Series. If such a substitution occurs the claims of AT1 Securityholders will be structurally subordinated to the creditors of the subsidiaries of Newco, including the remaining creditors of LBG.

- 8.23 *Following Conversion, the Additional Tier 1 Securities will remain in existence until the applicable Settlement Date or Long-Stop Date for the sole purpose of evidencing the holder's right to receive Ordinary Shares or Alternative Consideration, as applicable, from the Settlement Shares Depositary and the rights of the AT1 Securityholders will be limited accordingly.***

Following Conversion, the Additional Tier 1 Securities will remain in existence until the applicable Settlement Date or Long-Stop Date for the sole purpose of evidencing the holder's right to receive Ordinary Shares or Alternative Consideration, as applicable. All obligations of LBG under the Additional Tier 1 Securities shall be irrevocably released in consideration of LBG's issuance and delivery of the Ordinary Shares to the Settlement Shares Depositary on the Conversion Date, and under no circumstances shall such released obligations be reinstated. The Additional Tier 1 Securities shall be cancelled on the applicable Settlement Date or Long-Stop Date.

- 8.24 *Following the occurrence of the Conversion Trigger the Additional Tier 1 Securities may have only limited transferability. There may also be a delay in AT1 Securityholders being able to transfer any Ordinary Shares to be delivered to them following Conversion.***

LBG currently expects that the Additional Tier 1 Securities will only be transferrable until the second London business day following the giving of a Conversion Trigger Notice and so there may be no active trading market for the Additional Tier 1 Securities following the giving of the Conversion Trigger Notice. Accordingly, the price received for the sale of any beneficial interest in an Additional Tier 1 Security from that date may not reflect the market price of such Additional Tier 1 Security prior to the giving of the Conversion Trigger Notice or the Ordinary Shares. AT1 Securityholders will not be able to settle the transfer of any Additional Tier 1 Securities once trading in them has been suspended by Euroclear and Clearstream and any sale or other transfer of Additional Tier 1 Securities that an AT1 Securityholder may have initiated prior to such suspension of transfers will be rejected by the relevant clearing system and will not be settled through the relevant clearing system.

The Additional Tier 1 Securities may also cease to be admitted to trading on the Global Exchange Market of the Irish Stock Exchange or any other stock exchange on which the Additional Tier 1 Securities are then listed or admitted to trading following the giving of a Conversion Trigger Notice.

Moreover, although the AT1 Securityholders will become beneficial owners of the Ordinary Shares upon the issuance of such Ordinary Shares to the Settlement Shares Depositary and the Ordinary Shares will be registered in the name of the Settlement Shares Depositary (or the relevant recipient in accordance with the terms of the Additional Tier 1 Securities), no AT1 Securityholder will be able to sell or otherwise transfer any Ordinary Shares until such time as they are finally delivered to such AT1 Securityholder and registered in their name.

8.25 *AT1 Securityholders will have to submit a Conversion Notice in order to receive delivery of the Ordinary Shares or Alternative Consideration.*

In order to obtain delivery of the Ordinary Shares or Alternative Consideration, as applicable, following Conversion, an AT1 Securityholder must deliver a Conversion Notice (and the relevant Additional Tier 1 Securities, if applicable) to the Settlement Shares Depository. The Conversion Notice must contain certain information, including the holder's CREST account details. Accordingly, AT1 Securityholders (or their nominee, custodian or other representative) will have to have an account with CREST in order to receive the Ordinary Shares or the Ordinary Share component, if any, of any Alternative Consideration, as applicable. If an AT1 Securityholder fails to properly complete and deliver a Conversion Notice on or before the Notice Cut-off Date, the Settlement Shares Depository shall continue to hold the relevant Ordinary Shares or the Alternative Consideration, as the case may be, until a Conversion Notice (and the relevant Additional Tier 1 Securities, if applicable) is or are so validly delivered. However, the relevant Additional Tier 1 Securities shall be cancelled on the Long-Stop Date and any AT1 Securityholder delivering a Conversion Notice after the Notice Cut-off Date will have to provide evidence of its entitlement to the relevant Ordinary Shares or Alternative Consideration, as applicable, satisfactory to the Settlement Shares Depository in its sole and absolute discretion in order to receive delivery of such Ordinary Shares or Alternative Consideration. LBG shall have no liability to any AT1 Securityholder for any loss resulting from such AT1 Securityholder not receiving any Ordinary Shares or the relevant Alternative Consideration, as applicable, or from any delay in the receipt thereof, in each case as a result of such AT1 Securityholder failing to submit a valid Conversion Notice on a timely basis or at all.

8.26 *Prior to the Conversion Date, AT1 Securityholders will not be entitled to any rights with respect to the Ordinary Shares, but will be subject to all changes made with respect to the Ordinary Shares.*

The exercise of voting rights and rights related thereto with respect to any Ordinary Shares is only possible after delivery of the Ordinary Shares following the Conversion Date and the registration of the person entitled to the Ordinary Shares in LBG's share register as a shareholder with voting rights in accordance with the provisions of, and subject to the limitations provided in, the articles of association of LBG.

8.27 *As a result of AT1 Securityholders receiving Ordinary Shares upon the Conversion Trigger, they are particularly exposed to changes in the market price of the Ordinary Shares.*

Many investors in convertible or exchangeable securities seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities, often through short selling of the underlying equity securities or through similar transactions. Prospective investors in the Additional Tier 1 Securities may look to sell Ordinary Shares in anticipation of taking a position in, or during the term of, the Additional Tier 1 Securities. This could drive down the price of the Ordinary Shares. Since the Additional Tier 1 Securities will mandatorily convert into a variable number of Ordinary Shares upon the Conversion Trigger, the price of the Ordinary Shares may be more volatile if LBG is trending toward the Conversion Trigger.

8.28 *Receipt by the Settlement Shares Depository of the Ordinary Shares shall irrevocably discharge and satisfy LBG's obligations in respect of the Additional Tier 1 Securities.*

Following the Conversion Trigger, the relevant Ordinary Shares will be issued and delivered by LBG to the Settlement Shares Depository, which subject to a Conversion Shares Offer, will hold the Ordinary Shares on behalf of the AT1 Securityholders. Receipt by the Settlement Shares Depository of the Ordinary Shares shall irrevocably discharge and satisfy LBG's obligations in respect of the

Additional Tier 1 Securities and an AT1 Securityholder shall, with effect on and from the Conversion Date, only have recourse to the Settlement Shares Depositary for the delivery to it of the relevant Ordinary Shares or, if LBG elects that a Conversion Shares Offer be made as described in Condition 7(b)(iii) of the Additional Tier 1 Securities Conditions, of any Alternative Consideration to which such AT1 Securityholder is entitled as described herein. LBG shall not have any liability for the performance of the obligations of the Settlement Shares Depositary.

In addition, LBG has not yet appointed a Settlement Shares Depositary and LBG may not be able to appoint a Settlement Shares Depositary if Conversion occurs. In such a scenario, LBG would inform AT1 Securityholders via Euroclear, Clearstream, Luxembourg or the Trustee or otherwise, as practicable, of any alternative arrangements in connection with the issuance and/or delivery of the Ordinary Shares or Alternative Consideration, as applicable, and such arrangements may be disadvantageous to, and more restrictive on, the AT1 Securityholders. For example, such arrangements may involve AT1 Securityholders having to wait longer to receive their Ordinary Shares or Alternative Consideration than would be the case under the arrangements expected to be entered into with a Settlement Shares Depositary. Under these circumstances, LBG's issuance of the Ordinary Shares to the relevant recipient in accordance with these alternative arrangements shall constitute a complete and irrevocable release of all of LBG's obligations in respect of the Additional Tier 1 Securities.

8.29 *The Trust Deeds contain provisions which may permit modification of the relevant Series of Additional Tier 1 Securities without the consent of all investors.*

The Trust Deeds contain provisions permitting modifications and amendments to the relevant Series of Additional Tier 1 Securities without the consent of AT1 Securityholders in certain instances and with the consent of a specified quorum and majority of the outstanding Additional Tier 1 Securities in other circumstances. Valid resolutions passed by such AT1 Securityholders will bind all AT1 Securityholders including AT1 Securityholders who did not attend and vote at the relevant meeting and AT1 Securityholders who voted in a manner contrary to the majority. For further information, see Condition 13 of the Additional Tier 1 Securities Conditions.

8.30 *The Additional Tier 1 Securities are novel and complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.*

The Additional Tier 1 Securities are novel and complex financial instruments that involve a high degree of risk. As a result, an investment in the Additional Tier 1 Securities and the Ordinary Shares issuable following the Conversion Trigger will involve certain increased risks. Each potential investor of the Additional Tier 1 Securities must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Additional Tier 1 Securities, the merits and risks of investing in the Additional Tier 1 Securities and the information contained or incorporated by reference in these Listing Particulars ;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Additional Tier 1 Securities and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Additional Tier 1 Securities, including, where the currency for principal or interest payments is different from the currency in which such potential investor's financial activities are principally denominated, and the possibility that the entire principal amount of the Additional Tier 1

Securities could be lost, including following the exercise by the Relevant UK Resolution Authority of any Bail-In Power;

- (iv) understand thoroughly the terms of the Additional Tier 1 Securities, such as the provisions governing Conversion (including, in particular, calculation of the CET1 Ratio, as well as under what circumstances the Conversion Trigger will occur), and be familiar with the behaviour of any relevant indices and financial markets, including the possibility that the Additional Tier 1 Securities may become subject to write down or conversion if LBG should become non-viable; and
- (v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Additional Tier 1 Securities unless they have the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Additional Tier 1 Securities will perform under changing conditions, the resulting effects on the likelihood of Conversion into Ordinary Shares and the value of the Additional Tier 1 Securities, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in these listing particulars or incorporated by reference herein.

8.31 *The market value of the Additional Tier 1 Securities may be influenced by unpredictable factors.*

Many factors, most of which are beyond LBG's control, will influence the value of the Additional Tier 1 Securities and the price, if any, at which securities dealers may be willing to purchase or sell the Additional Tier 1 Securities in the secondary market, including:

- the trading price of LBG's Ordinary Shares;
- the creditworthiness of LBG and, in particular, the level of LBG's CET1 Ratio from time to time;
- supply and demand for the Additional Tier 1 Securities; and
- economic, financial, political or regulatory events or judicial decisions that affect LBG or the financial markets generally.

Accordingly, if an AT1 Securityholder sells its Additional Tier 1 Securities in the secondary market, it may not be able to obtain a price equal to the principal amount of the Additional Tier 1 Securities or a price equal to the price that it paid for the Additional Tier 1 Securities.

8.32 *Changes in law may adversely affect the rights of AT1 Securityholders or may adversely affect the Group's business, financial performance and capital plans.*

Any changes in law or regulations after the date hereof that trigger a Capital Disqualification Event or a Tax Event would entitle LBG, at its option, to redeem the Additional Tier 1 Securities, in whole but not in part, as more particularly described under Condition 8(d) and (e), respectively, of the Additional Tier 1 Securities Conditions. See also the risk factor "Subject to certain conditions, including in

relation to the solvency of LBG and regulatory approvals, LBG may redeem the Additional Tier 1 Securities at LBG's option on certain dates".

In addition, a number of regulators are currently proposing or considering legislation and rule making which may affect the Group's business, the rights of AT1 Securityholders and the market value of the Additional Tier 1 Securities. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Additional Tier 1 Securities, or changes that could have a significant impact on the future legal entity structure, business mix (including potential exit of certain business activities) and management of the Group, and use of capital and requirements for loss-absorbing capacity within the Group, which may have an adverse effect on an investment in the Additional Tier 1 Securities.

These and other regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's, and therefore LBG's, performance and financial condition, which could in turn affect the levels of CET1 Capital and Risk Weighted Assets and, therefore, the resulting fully loaded CET1 Ratio. Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Additional Tier 1 Securities and, therefore, affect the trading price of the Additional Tier 1 Securities given the extent and impact on the Additional Tier 1 Securities that one or more regulatory or legislative changes, including those described above, could have on the Additional Tier 1 Securities. It is not yet possible to predict the detail of such legislation or regulatory rulemaking or the ultimate consequences to the Group or the AT1 Securityholders which could be material.

8.33 *There is no established trading market for the Additional Tier 1 Securities and one may not develop.*

The Additional Tier 1 Securities have no established trading market may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Additional Tier 1 Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for securities that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives and strategies, have been structured to meet the investment requirements of limited categories of investors or include features such as Conversion. These types of securities may have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of the Additional Tier 1 Securities.

8.34 *A downgrade, suspension or withdrawal of the rating assigned by any rating agency to the Additional Tier 1 Securities could cause the liquidity or market value of the Additional Tier 1 Securities to decline.*

Upon issuance, the Additional Tier 1 Securities will be rated by nationally recognised statistical ratings organisations and may in the future be rated by additional rating agencies. However, LBG is under no obligation to ensure the Additional Tier 1 Securities are rated by any rating agency and any rating initially assigned to the Additional Tier 1 Securities may be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances relating to the basis of the rating, such as adverse changes to LBG's business, so warrant. If LBG determines to no longer maintain one or more ratings, or if any rating agency lowers or withdraws its rating, such event could reduce the liquidity or market value of the Additional Tier 1 Securities.

8.35 *The Additional Tier 1 Securities are not investment grade and are subject to the risks associated with non-investment grade securities.*

The Additional Tier 1 Securities, upon issuance, will not be considered to be investment grade securities, and as such will be subject to a higher risk of price volatility than higher-rated securities. Furthermore, deteriorating outlooks for LBG or the Group, or volatile markets, could lead to a significant deterioration in market prices of below-investment grade rated securities such as the Additional Tier 1 Securities.

8.36 *Credit ratings may not reflect all risks.*

One or more independent credit rating agencies may assign credit ratings to the Additional Tier 1 Securities. The ratings may not reflect the potential impact of all risks related to structure, market, Conversion, Bail-In Power, additional factors discussed above and other factors that may affect the value of the Additional Tier 1 Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

8.37 *AT1 Securityholders may be obliged to make a take-over bid following the Conversion Trigger if they take delivery of Ordinary Shares.*

Upon the occurrence of the Conversion Trigger, AT1 Securityholders receiving Ordinary Shares from the Settlement Shares Depositary may have to make a take-over bid addressed to the shareholders of LBG pursuant to the rules of The City Code on Takeovers and Mergers implementing the Takeovers Directive (2004/25/EC) by means of Part 28 of the United Kingdom Companies Act 2006 (the “**Companies Act**”) if their aggregate holdings in LBG exceed 30 per cent. of the voting rights in LBG as a result of Conversion of the Additional Tier 1 Securities into Ordinary Shares.

8.38 *AT1 Securityholders may be subject to disclosure obligations and/or may need approval by the Relevant Regulator.*

As the Additional Tier 1 Securities are mandatorily convertible into Ordinary Shares following the Conversion Trigger, an investment in the Additional Tier 1 Securities may result in AT1 Securityholders, following such Conversion, having to comply with certain disclosure and/or approval requirements pursuant to laws and regulations applicable in the United Kingdom. For example, pursuant to Chapter 5 of the Disclosure Rules and Transparency Rules Sourcebook of the FCA Handbook, LBG (and the Financial Conduct Authority (the “FCA”)) must be notified by a person when the percentage of voting rights in LBG controlled by that person (together with its concert parties), by virtue of direct or indirect holdings of shares aggregated with direct or indirect holdings of certain financial instruments, reaches or crosses 3 per cent. and every percentage point thereafter.

Furthermore, as the Ordinary Shares are of a parent undertaking of a number of regulated Group entities, under the laws of the United Kingdom and other jurisdictions, ownership of an interest in the Ordinary Shares to be delivered following Conversion above a certain level may require the AT1 Securityholder to obtain regulatory approval or subject the AT1 Securityholder to additional regulation.

Non-compliance with such disclosure and/or approval requirements may lead to the incurrence by AT1 Securityholders of substantial fines and/or suspension of voting rights associated with the Ordinary Shares. Each potential investor should consult its legal advisers as to the terms of the Additional Tier 1 Securities and the level of holding it would have if it receives Ordinary Shares following the Conversion Trigger.

8.39 *An AT1 Securityholder may be subject to taxes following Conversion.*

Neither LBG, nor any member of the Group will pay any taxes or capital, stamp, issue and registration or transfer taxes or duties arising upon Conversion or that may arise or be paid as a consequence of the

issue and delivery of Ordinary Shares to the Settlement Shares Depositary. An AT1 Securityholder must pay any taxes and capital, stamp, issue and registration and transfer taxes or duties arising upon Conversion (other than on the transfer and delivery of any Ordinary Shares to a purchaser in any Conversion Shares Offer which in each case shall be payable by the relevant purchaser of the Ordinary Shares) and such AT1 Securityholder must pay all, if any, such taxes or duties arising by reference to any disposal or deemed disposal of such AT1 Securityholder's Additional Tier 1 Security or interest therein.

8.40 *Potential FATCA withholding after 31 December 2016*

Under certain provisions of the US Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder (commonly referred to as "**FATCA**"), as well as certain intergovernmental agreements between the United States and certain other countries (including the United Kingdom) together with expected local country implementing legislation, certain payments made in respect of the Additional Tier 1 Securities and Ordinary Shares after 31 December 31 2016 may be subject to withholding ("**FATCA withholding**").

LBG (or a relevant intermediary) may be required to impose FATCA withholding on payments in respect of the Additional Tier 1 Securities and Ordinary Shares to the extent that such payments are "foreign passthru payments," made after 31 December 2016 to non-U.S. financial institutions (including intermediaries) that have not entered into agreements with the US Internal Revenue Service ("**IRS**") pursuant to FATCA or otherwise established an exemption from FATCA, and other holders that fail to provide sufficient identifying information to LBG or any relevant intermediary. Under current guidance it is not clear whether and to what extent payments on the Additional Tier 1 Securities and Ordinary Shares will be considered foreign passthru payments subject to FATCA withholding or how intergovernmental agreements will address "foreign passthru payments" (including whether withholding on foreign passthru payments will be required under such agreements). Holders of Additional Tier 1 Securities should consult their tax advisers as to how these rules may apply to payments they receive under the Additional Tier 1 Securities and Ordinary Shares.

8.41 *An AT1 Securityholder may be subject to the EU Savings Tax Directive.*

Under the EU Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in that EU Member State or certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are required to operate a withholding system in relation to such payments (unless during that period they elect otherwise) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other markets and territories). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015 in favour of automatic information exchange under the Savings Directive.

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above. AT1 Securityholders should note that if a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither LBG nor any paying agent would be obliged to pay any additional amounts with respect to the Additional Tier 1 Securities.

Investors should be aware that the materialisation of any of the above risks (including those risks incorporated herein by reference) may adversely affect the value of the Additional Tier 1 Securities.

FORMS OF ADDITIONAL TIER 1 SECURITIES CONDITIONS

PART A

TERMS AND CONDITIONS OF THE EURO ADDITIONAL TIER 1 SECURITIES

The following (excluding italicised paragraphs) is the text of the terms and conditions that shall be applicable to the Euro Additional Tier 1 Securities in definitive form (if any) issued in exchange for the Global Security.

The issue of the €750,000,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “**AT1 Securities**”, which expression shall, unless otherwise indicated, include any Further AT1 Securities) was (save in respect of any Further AT1 Securities) authorised pursuant to a resolution of the board of directors of Lloyds Banking Group plc (the “**Issuer**”) passed on 27 February 2014 and a resolution of a committee of the board of directors of the Issuer passed on 5 March 2014. The AT1 Securities are constituted by a trust deed (the “**Trust Deed**”) dated 1 April 2014 entered into between the Issuer and BNY Mellon Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the AT1 Securityholders. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Certificates referred to below. An Agency Agreement (the “**Agency Agreement**”) dated 1 April 2014 has been entered into in relation to the AT1 Securities between the Issuer, the Trustee, The Bank of New York Mellon (Luxembourg) S.A. as registrar and as transfer agent, The Bank of New York Mellon, London Branch as principal paying and conversion agent and calculation agent and the other paying and conversion agents named in it. The principal paying and conversion agent, the other paying and conversion agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Principal Paying and Conversion Agent**”, the “**Paying and Conversion Agents**” (which expression shall include the Principal Paying and Conversion Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL) and at the specified offices of the Paying and Conversion Agents and the Transfer Agents.

The AT1 Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

1 Form, Denomination and Title

The AT1 Securities are issued in registered form in specified denominations of €200,000 and integral multiples of €1,000 in excess thereof.

The AT1 Securities are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of AT1 Securities by the same Holder.

Title to the AT1 Securities shall pass by registration in the register of the AT1 Securityholders that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any AT1 Security 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 any interest in it, any writing on it (or on the

Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the Holder.

2 Transfers of AT1 Securities

(a) Transfer of AT1 Securities

One or more AT1 Securities may, subject to Condition 2(d), be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such AT1 Securities to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. A new Certificate shall be issued to the transferee in respect of the AT1 Securities the subject of the relevant transfer and, in the case of a transfer of part only of a holding of AT1 Securities represented by one Certificate, a new Certificate in respect of the balance of the AT1 Securities not transferred shall be issued to the transferor. In the case of a transfer of AT1 Securities to a person who is already a Holder of AT1 Securities, a new Certificate representing the enlarged holding may be issued but only against surrender of the Certificate representing the existing holding of such person. All transfers of AT1 Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of AT1 Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any AT1 Securityholder upon request.

(b) Delivery of New Certificates

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

(c) Transfers Free of Charge

Transfers of AT1 Securities and the issue of new Certificates on transfer shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) Closed Periods

No AT1 Securityholder may require the transfer of an AT1 Security to be registered (i) during the period of 15 days ending on the due date for redemption of the AT1 Securities pursuant to Condition 8, (ii) at any time after the second London business day following the giving of a Conversion Trigger Notice by the Issuer or (iii) during the period of seven days ending on (and including) any Record Date.

3 Status of the AT1 Securities

The AT1 Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the AT1 Securityholders are subordinated as described in Condition 4.

4 Subordination

(a) Conditions to Payment

Other than where Condition 4(b), 4(c) or (in relation to the cash component of any Alternative Consideration) 7(b)(iii) applies, all payments in respect of or arising from (including any damages for breach of any obligations under) the AT1 Securities are, in addition to the provisions of Condition 6 relating to the cancellation of interest, conditional upon the Issuer being solvent at the time of payment by the Issuer and no principal, interest or other amount shall be due and payable in respect of or arising from the AT1 Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter.

The Issuer shall, for these purposes, be considered to be solvent if (x) it is able to pay its debts owed to its Senior Creditors as they fall due and (y) its Assets at least equal its Liabilities.

A certificate as to the solvency or insolvency of the Issuer by two Authorised Signatories shall, in the absence of manifest error, be treated by the Issuer, the Trustee, the Holders and all other interested parties as correct and sufficient evidence thereof.

Any payment of interest not due by reason of this Condition 4(a) shall be cancelled as provided in Condition 6(a).

As used herein:

“**Assets**” means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the directors of the Issuer may determine;

“**Liabilities**” means the unconsolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent and prospective liabilities and for subsequent events in such manner as the directors of the Issuer may determine; and

“**Senior Creditors**” means creditors of the Issuer (a) who are unsubordinated creditors, (b) whose claims are, or are expressed to be, subordinated to the claims of unsubordinated creditors of the Issuer but not further or otherwise or (c) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the AT1 Securities in a winding-up occurring prior to the Conversion Trigger.

(b) Winding-up prior to a Conversion Trigger

If at any time prior to the date on which a Conversion Trigger occurs:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by

an Extraordinary Resolution and (y) do not provide that the AT1 Securities shall thereby become redeemable or repayable in accordance with these Conditions); or

- (ii) an administrator of the Issuer is appointed and such administrator declares, or gives notice that it intends to declare and distribute a dividend,

there shall be payable by the Issuer in respect of each AT1 Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such AT1 Security if, throughout such winding-up or administration, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares**”) having an equal right to a return of assets in the winding-up or administration to, and so ranking *pari passu* with, the holders of the most senior class or classes of issued preference shares in the capital of the Issuer from time to time (if any) and which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer but ranking junior to the claims of Senior Creditors (as defined above), and on the assumption that the amount that such holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up or administration were an amount equal to the principal amount of the relevant AT1 Security together with, to the extent not otherwise included within the foregoing, any other amounts attributable to the AT1 Security, including any accrued but unpaid interest thereon (to the extent not cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations, whether or not the conditions referred to in Condition 4(a) are satisfied on the date upon which the same would otherwise be due and payable.

(c) *Winding-up on or after a Conversion Trigger*

If at any time on or after the date on which a Conversion Trigger occurs:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (y) do not provide that the AT1 Securities shall thereby become redeemable or repayable in accordance with these Conditions); or
- (ii) an administrator of the Issuer is appointed and such administrator declares, or gives notice that it intends to declare and distribute a dividend,

but the relevant Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on Conversion in accordance with Condition 7 have not been so delivered, there shall be payable by the Issuer in respect of each AT1 Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such AT1 Security if, throughout such winding-up or administration, such Holder were the holder of such number of Ordinary Shares as that Holder would have been entitled to receive on Conversion in accordance with Condition 7 (ignoring for these purposes the Issuer’s right to make an election for a Conversion Shares Offer to be effected in accordance with Condition 7(b)(iii)), whether or not the conditions referred to in Condition 4(a) are satisfied on the date upon which the same would otherwise be due and payable.

(d) *Set-off*

Subject to applicable law, no AT1 Securityholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the AT1 Securities and each AT1 Securityholder shall, by virtue of its holding of any AT1 Security be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any AT1 Securityholder by the Issuer in respect of, or arising under or in connection with the AT1 Securities is discharged by set-off, such AT1 Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

(e) *Trustee*

The provisions of this Condition 4 apply only to the principal and interest and any other amounts payable in respect of the AT1 Securities and nothing in this Condition 4 or in Condition 7 or 12 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest or other amounts by reason of Condition 4(a) or Condition 6, Conversion pursuant to Condition 7 or any cancellation of the AT1 Securities or write down of any claims in respect thereof following the occurrence of a Non-Qualifying Relevant Event pursuant to Condition 7(a)(vi)). Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in connection with any of the foregoing.

5 Interest

(a) *Interest Rate*

The AT1 Securities bear interest at the applicable Interest Rate from the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 4(a), 6 and 7, interest shall be payable on the AT1 Securities quarterly in arrear on each Interest Payment Date in equal instalments, in each case as provided in this Condition 5, except that the first payment of interest, scheduled to be made on 27 June 2014, will be in respect of the period from and including the Issue Date to but excluding 27 June 2014.

Where it is necessary to compute an amount of interest in respect of any AT1 Security for a period which is less than a complete Interest Period, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year.

(b) *Interest Accrual*

Without prejudice to Conditions 4(a), 6 and 7, the AT1 Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 8 unless, upon due presentation,

payment and performance of all amounts and obligations due in respect of the AT1 Securities is not properly and duly made, in which event interest shall continue to accrue on the AT1 Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any AT1 Security shall be calculated per Calculation Amount. The amount of interest per Calculation Amount shall, save as provided in Condition 5(a) in relation to equal instalments, be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 5(a) for the relevant period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(c) *Initial Fixed Interest Rate*

For the Initial Fixed Rate Interest Period, the Interest Rate will be 6.375 per cent. per annum (the “**Initial Fixed Interest Rate**”).

Subject to Conditions 4(a), 6 and 7, the Interest Payment in relation to the short first coupon scheduled to be paid on 27 June 2014 will (if paid in full) amount to €15.0713 per Calculation Amount and each subsequent quarterly Interest Payment thereafter for each Interest Period commencing in the Initial Fixed Rate Interest Period will (if paid in full) amount to €15.9375 per Calculation Amount.

(d) *Reset Interest Rate*

The Interest Rate will be reset (the “**Reset Rate of Interest**”) in accordance with this Condition 5 on each Reset Date. The Reset Rate of Interest in respect of each Reset Period will be determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Reference Rate plus the Margin, converted to a quarterly rate in accordance with market convention (rounded to three decimal places, with 0.0005 rounded down).

(e) *Determination of Reset Rate of Interest*

The Calculation Agent will, as soon as practicable after 11.00 a.m. (Central European time) on each Reset Determination Date, determine the Reset Rate of Interest in respect of the relevant Reset Period.

(f) *Publication of Reset Rate of Interest*

The Issuer shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 5 to be given to the Trustee, the Registrar, the Paying and Conversion Agents, any stock exchange on which the AT1 Securities are for the time being listed or admitted to trading and, in accordance with Condition 17, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth TARGET Business Day thereafter.

(g) *Calculation Agent*

With effect from the Reset Determination Date relating to the first Reset Period, and so long as any AT1 Securities remain outstanding thereafter, the Issuer will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in the euro-zone. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails duly to determine the Reset Rate of Interest in respect of any Reset Period as provided in Condition 5(d) and (e), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in the euro-zone approved in writing by the Trustee to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(h) *Determinations of Calculation Agent Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5, by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Calculation Agent, the Trustee, the Paying and Conversion Agents and all AT1 Securityholders and (in the absence of wilful default and bad faith) no liability to the AT1 Securityholders or the Issuer shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6 Interest Cancellation

(a) *Interest Payments Discretionary*

Interest on the AT1 Securities is due and payable only at the sole discretion, subject to Conditions 4(a), 6(b) and 7(c), of the Issuer. Accordingly, the Issuer may elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date. If the Issuer does not make an Interest Payment or part thereof on the relevant Interest Payment Date, such non-payment shall evidence either the non-payment and cancellation of such Interest Payment (or relevant part thereof) by reason of it not being due in accordance with Condition 4(a), the cancellation of such Interest Payment (or relevant part thereof) in accordance with Condition 6(b) or 7(c) or, as appropriate, the Issuer's exercise of its discretion otherwise to cancel such Interest Payment (or relevant part thereof) in accordance with this Condition 6(a), and accordingly such interest shall not in any such case be due and payable.

Any Interest Payment (or relevant part thereof) which is cancelled in accordance with this Condition 6 or which is otherwise not due in accordance with Condition 4(a) or Condition 7(c) shall not become due and shall not accumulate or be payable at any time thereafter, and Holders of the AT1 Securities shall have no rights in respect thereof and any such non-payment shall not constitute a default for any purpose on the part of the Issuer.

(b) *Restrictions on Interest Payments*

The Issuer shall cancel any Interest Payment (or, as appropriate, part thereof) on the AT1 Securities in accordance with this Condition 6 in respect of any Interest Payment Date to the extent that the Issuer has an amount of Distributable Items on such Interest Payment Date that is less than the sum of (i) all payments (other than redemption payments) made or declared by the Issuer since the end of the last financial year of the Issuer and prior to such Interest Payment Date on or in respect of any Parity Securities, the AT1 Securities and any Junior Securities and (ii) all payments (other than redemption payments) payable by the Issuer on such Interest Payment Date (x) on the AT1 Securities and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items of the Issuer.

In addition, the Issuer shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Group to be exceeded. "Maximum Distributable Amount" means any applicable maximum distributable amount relating to the Group required to be calculated in accordance with Article 141 of the CRD IV Directive (or as the case may be, any provision of applicable law transposing or implementing the CRD IV Directive, as amended or replaced).

The Issuer shall be responsible for determining compliance with this Condition 6(b) and neither the Trustee nor any Paying and Conversion Agent, Transfer Agent or Calculation Agent shall be required to monitor such compliance or to perform any calculations in connection therewith.

(c) *Notice of Interest Cancellation*

If practicable, the Issuer shall provide notice of any cancellation of any Interest Payment to the Holders of the AT1 Securities in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent on or prior to the relevant Interest Payment Date. However, any failure to provide such notice will not invalidate the cancellation of the relevant Interest Payment.

7 Conversion

(a) *Conversion upon Conversion Trigger*

- (i) If the Conversion Trigger occurs, each AT1 Security shall, subject to and as provided in this Condition 7(a), be irrevocably discharged and satisfied by its Conversion into Ordinary Shares, credited as fully paid, in the manner and in the circumstances described below and the issuance and delivery of such Ordinary Shares to the Settlement Shares Depositary, to be held on trust (on terms permitting a Conversion Shares Offer in accordance with Condition 7(b)(iii)) for the AT1 Securityholders, as provided below. Such Conversion shall occur without delay upon the occurrence of a Conversion Trigger.

The AT1 Securities are not convertible at the option of AT1 Securityholders at any time.

The “**Conversion Trigger**” shall occur if the Issuer determines that the CET1 Ratio as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than 7.00 per cent. on such date.

Following the occurrence of the Conversion Trigger, the Issuer shall give notice thereof to the Holders of the AT1 Securities (the “**Conversion Trigger Notice**”) in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent (i) in the case of a Conversion Trigger that has occurred as at any Quarterly Financial Period End Date, on or within five London business days (or such shorter period as the Relevant Regulator may require) after the relevant Ordinary Reporting Date and (ii) in the case of a Conversion Trigger that has occurred as at any Extraordinary Calculation Date, on or as soon as practicable after such Extraordinary Calculation Date (and, in any event, within such period as the Relevant Regulator may require). The Conversion Trigger Notice shall specify the CET1 Ratio as at the relevant Quarterly Financial Period End Date or Extraordinary Calculation Date (as applicable), the Conversion Price then prevailing (which Conversion Price shall remain subject to any subsequent adjustment pursuant to Condition 7(e) up to the Conversion Date), the Conversion Date and details of the Settlement Shares Depositary, the Notice Cut-Off Date and the Long-Stop Date.

- (ii) If the Conversion Trigger occurs, the AT1 Securities will be converted in whole and not in part on the Conversion Date as provided below, at which point all of the Issuer’s obligations under the AT1 Securities shall be irrevocably discharged and satisfied by the Issuer’s issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date.

If the Issuer has been unable to appoint a Settlement Shares Depositary, it shall make such other arrangements for the issuance and delivery of the Ordinary Shares to be issued and delivered

upon Conversion (or of the Alternative Consideration, as applicable) to the AT1 Securityholders as it shall consider reasonable in the circumstances, which may include issuing and delivering the Ordinary Shares to another independent nominee to be held on trust (on terms permitting a Conversion Shares Offer in accordance with Condition 7(b)(iii)) for the AT1 Securityholders or to the AT1 Securityholders directly, which issuance and delivery shall irrevocably discharge and satisfy all of the Issuer's obligations under the AT1 Securities as if the relevant Ordinary Shares had been issued and delivered to the Settlement Shares Depositary and, in which case, where the context so admits, references in these Conditions to the issue and delivery of Ordinary Shares to the Settlement Shares Depositary shall be construed accordingly and apply *mutatis mutandis*.

- (iii) Provided that the Issuer issues and delivers the relevant Ordinary Shares to the Settlement Shares Depositary in accordance with these Conditions, with effect from the Conversion Date no Holder of the AT1 Securities will have any rights against the Issuer with respect to the repayment of the principal amount of the AT1 Securities or the payment of interest or other amount on or in respect of such AT1 Securities and the principal amount of the AT1 Securities shall equal zero at all times thereafter.
- (iv) Upon its determination that a Conversion Trigger has occurred, the Issuer shall immediately inform the Relevant Regulator and shall, prior to giving the Conversion Trigger Notice, deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Conversion Trigger has occurred and the Trustee shall accept such certificate without any further enquiry as sufficient evidence of such matters, in which event such certificate will be conclusive and binding on the Trustee and the AT1 Securityholders.
- (v) If a Relevant Event shall occur that is a Qualifying Relevant Event, then, where the Conversion Date falls on or after the New Conversion Condition Effective Date, each AT1 Security shall, upon the occurrence of the Conversion Trigger, subject to and as provided in this Condition 7(a) and in Condition 7(j), be converted into Relevant Shares of the Approved Entity.
- (vi) If a Relevant Event shall occur that is a Non-Qualifying Relevant Event, then, with effect from the occurrence of such Non-Qualifying Relevant Event and unless the Conversion Date shall have occurred prior to such date, outstanding AT1 Securities shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently but, instead, upon the occurrence of a Conversion Trigger subsequent to a Non-Qualifying Relevant Event the full principal amount of each AT1 Security will automatically be written down to zero, each AT1 Security will be cancelled, the AT1 Securityholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the AT1 Securities written down pursuant to this Condition and all accrued but unpaid interest and any other amounts payable on each AT1 Security will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger. For the avoidance of doubt, nothing in this Condition 7(a)(vi) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.
- (vii) The Ordinary Shares to be issued and delivered on Conversion shall (except where the Issuer has been unable to appoint a Settlement Shares Depositary as contemplated in Condition 7(a)(ii)) initially be registered in the name of the Settlement Shares Depositary, which (subject to the provisions of Condition 7(b)(iii)) shall hold such Ordinary Shares on trust for the Holders of the AT1 Securities. By virtue of its holding of any AT1 Security, each AT1 Securityholder

shall be deemed to have irrevocably directed the Issuer to issue and deliver such Ordinary Shares to the Settlement Shares Depositary.

Provided that the Issuer so issues and delivers the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary, with effect on and from the Conversion Date, Holders of the AT1 Securities shall have recourse only to the Settlement Shares Depositary for the delivery to them of such Ordinary Shares or, subject to and as provided in Condition 7(b)(iii), the Alternative Consideration. Subject to Condition 4(c), if the Issuer fails to issue and deliver the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary on the Conversion Date, a Holder's only right under the AT1 Securities against the Issuer for any such failure will be to claim to have such Ordinary Shares so issued and delivered.

Following the issuance and delivery of the Ordinary Shares to be delivered on Conversion to the Settlement Shares Depositary on the Conversion Date, the AT1 Securities shall remain in existence until the applicable Settlement Date (or, if earlier, the Long-Stop Date) for the purpose only of evidencing the Holders' right as aforesaid to receive such Ordinary Shares or the Alternative Consideration, as the case may be, to be delivered by the Settlement Shares Depositary.

- (viii) Subject to and as provided in Condition 7(b)(iii), the Settlement Shares Depositary shall hold the Ordinary Shares to be issued and delivered on Conversion on trust for the Holders of the AT1 Securities who shall, for so long as such Ordinary Shares are held by the Settlement Shares Depositary, be entitled to direct the Settlement Shares Depositary to exercise on their behalf all rights of an ordinary shareholder (including voting rights and rights to receive dividends) except that Holders shall not be able to sell or otherwise transfer such Ordinary Shares unless and until such time as they have been delivered to Holders in accordance with Condition 7(m).

(b) Conversion Settlement

- (i) Upon Conversion, the Issuer shall redeem the AT1 Securities at a price equal to their principal amount and the AT1 Securityholders shall be deemed irrevocably to have directed and authorised the Issuer to apply such sum on their behalf in paying up the relevant Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on Conversion of their AT1 Securities.
- (ii) In order to obtain delivery from the Settlement Shares Depositary of Ordinary Shares or, as applicable, the relevant Alternative Consideration following a Conversion, AT1 Securityholders will be required to deliver a Conversion Notice and the relevant Certificate representing the relevant AT1 Security to the Settlement Shares Depositary (or an agent designated for the purpose in the Conversion Trigger Notice) on or before the Notice Cut-off Date in accordance with Condition 7(m). If AT1 Securityholders fail to make such delivery on or before the Notice Cut-off Date or otherwise the relevant Conversion Notice shall have been determined by the Settlement Shares Depositary to be null and void, then the Settlement Shares Depositary shall continue to hold the relevant Ordinary Shares or the relevant Alternative Consideration, as the case may be, until a valid Conversion Notice (and the Certificate representing the relevant AT1 Securities) is so delivered.
- (iii) Not later than the tenth London business day following the Conversion Date, the Issuer may, in its sole and absolute discretion, make an election by giving notice to the Holders of the AT1 Securities in accordance with Condition 17 (a "**Conversion Shares Offer Election Notice**")

that the Settlement Shares Depositary (or an agent on its behalf) will make an offer, in the Issuer's sole and absolute discretion, of all or some of the Ordinary Shares to be delivered on Conversion to, in the Issuer's sole and absolute discretion, all or some of the Issuer's Shareholders at such time, such offer to be at a cash price per Ordinary Share being no less than the Conversion Price (translated from euro into pounds sterling at the then prevailing rate as determined by the Issuer in its sole discretion), all in accordance with the following provisions (the "**Conversion Shares Offer**").

A Conversion Shares Offer Election Notice shall specify the period of time for which the Conversion Shares Offer will be open (the "**Conversion Shares Offer Period**"). The Conversion Shares Offer Period shall end no later than 40 London business days after the giving of the Conversion Shares Offer Election Notice by the Issuer.

Upon expiry of the Conversion Shares Offer Period, the Settlement Shares Depositary will provide notice to the Holders of the AT1 Securities in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent of the composition of the Alternative Consideration (and of the deductions to the cash component, if any, of the Alternative Consideration (as set out in the definition of Alternative Consideration)) per Calculation Amount. The Alternative Consideration shall be held on trust by the Settlement Shares Depositary for the AT1 Securityholders. The cash component of any Alternative Consideration shall be payable by the Settlement Shares Depositary to the Holders of the AT1 Securities in euro and whether or not the conditions referred to in Condition 4(a) are satisfied.

The Issuer reserves the right, in its sole and absolute discretion, to elect that the Settlement Shares Depositary terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period. If the Issuer makes such election, it will provide at least three London business days' notice to the Holders of the AT1 Securities in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent and the Settlement Shares Depositary may then, in its sole and absolute discretion, take steps to deliver to Holders of the AT1 Securities the Ordinary Shares to be delivered on Conversion at a time that is earlier than the time at which they would have otherwise received the Alternative Consideration had the Conversion Shares Offer been completed.

By virtue of its holding of any AT1 Security, each Holder of the AT1 Securities acknowledges and agrees that if the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Settlement Shares Depositary, such Holder shall be deemed to have: (i) irrevocably consented to any Conversion Shares Offer and, notwithstanding that such Ordinary Shares are held by the Settlement Shares Depositary on trust for the AT1 Securityholders, to the Settlement Shares Depositary using the Ordinary Shares delivered to it on Conversion to settle any Conversion Shares Offer; (ii) irrevocably consented to the transfer of the interest such Holder has in the Ordinary Shares delivered on Conversion to the Settlement Shares Depositary to one or more purchasers identified by the Settlement Shares Depositary in connection with the Conversion Shares Offer; (iii) irrevocably agreed that the Issuer and the Settlement Shares Depositary may take any and all actions necessary to conduct the Conversion Shares Offer in accordance with the terms of the AT1 Securities; and (iv) irrevocably agreed that none of the Issuer, the Trustee or the Settlement Shares Depositary shall, to the extent permitted by applicable law, incur any liability to the Holders of the AT1 Securities in respect of the Conversion Shares Offer (except for the obligations of the Settlement Shares Depositary in respect of the Holders' entitlement to, and the subsequent delivery of, any Alternative Consideration).

Any Conversion Shares Offer shall only be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that the Issuer, in its sole and absolute discretion, determines that the Conversion Shares Offer is appropriate and practicable.

The Trustee shall not be responsible for monitoring any Conversion Shares Offer, nor for monitoring or enforcing the obligations of the Settlement Shares Depositary in respect thereof. Following Conversion and delivery of the Ordinary Shares to the Settlement Shares Depositary, AT1 Securityholders must look to the Settlement Shares Depositary for any Ordinary Shares or Alternative Consideration due to them at the relevant time.

(c) *Accrued Interest on Conversion*

Any interest in respect of an Interest Payment Date which falls on or after the date of a Conversion Trigger shall be deemed to have been cancelled upon the occurrence of such Conversion Trigger and shall not become due and payable.

(d) *Conversion Price*

The Issuer shall issue and deliver to the Settlement Shares Depositary on the Conversion Date a number of Ordinary Shares in respect of each AT1 Security determined by dividing the principal amount of such AT1 Security by the Conversion Price prevailing on the Conversion Date.

The “**Conversion Price**” per Ordinary Share in respect of the AT1 Securities is €0.780, subject to adjustment in the circumstances described in Condition 7(e).

As at the date of announcement of the issue of the AT1 Securities the Conversion Price is equivalent to a price of £0.643 translated into euro at an exchange rate of €1.00 = £0.82421 and rounded to 3 decimal places.

Once an AT1 Security has been converted into Ordinary Shares, there is no provision for the reconversion of such Ordinary Shares back into AT1 Securities.

As noted above, if the Conversion Trigger occurs, the AT1 Securities will be converted in whole and not in part on the Conversion Date, at which point all of the Issuer’s obligations under the AT1 Securities shall be irrevocably discharged and satisfied by the Issuer’s issuance of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date. In addition to, or as an alternative to, any Conversion Shares Offer carried out in accordance with Condition 7(b)(iii), the Issuer may (but is not obliged to) procure that a share sale facility is established by the Settlement Shares Depositary or another third party following a Conversion Trigger to enable AT1 Securityholders (at their option) to sell any Ordinary Shares which they are entitled to receive from the Settlement Shares Depositary. If such a share sale facility is established, the Issuer would also expect to provide a preferential allocation to existing Shareholders, where in the Issuer’s sole discretion it considers it practicable to do so and subject to applicable laws and regulations.

(e) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification, redesignation or subdivision in relation to the Ordinary Shares which alters the number of Ordinary Shares in issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately

prior to such consolidation, reclassification, redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification, redesignation or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares to Shareholders credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Cash Dividend which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Cash Dividend in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are or are expressed to be issued in lieu of a dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to the Shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) If and whenever the Issuer shall pay any Extraordinary Dividend to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date;

and

- B is the portion of the aggregate Extraordinary Dividend attributable to one Ordinary Share, with such portion being determined by dividing the aggregate Extraordinary Dividend by the number of Ordinary Shares entitled to receive the relevant Extraordinary Dividend. If the Extraordinary Dividend shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 7(e)(iii), the first date on which the Ordinary Shares are traded ex-the Extraordinary Dividend on the Relevant Stock Exchange.

“**Extraordinary Dividend**” means any Cash Dividend that is expressly declared by the Issuer to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders as a class or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

“**Cash Dividend**” means any dividend or distribution in respect of the Ordinary Shares which is to be paid or made to Shareholders as a class in cash (in whatever currency) and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital.

- (iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or the Issuer or any member of the Group or (at the direction or request or pursuant to arrangements with the Issuer or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Ordinary Shares in issue on the Effective Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share on the Effective Date; and
- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum

number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate,

provided that if, on the Effective Date, such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 7(e)(iv), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 7(e)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

Notwithstanding the foregoing provisions:

- (A) where the events or circumstances giving rise to any adjustment pursuant to this Condition 7(e) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result;
- (B) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once, (ii) to ensure that the economic effect of an Extraordinary Dividend is not taken into account more than once and (iii) to reflect a redenomination of the issued Ordinary Shares for the time being into a new currency; and
- (C) for the avoidance of doubt, the issue of Ordinary Shares upon a Conversion or upon any conversion or exchange in respect of any other Securities or the exercise of any other options, warrants or other rights shall not result in an adjustment to the Conversion Price.

(f) *Determination of Consideration Receivable*

For the purpose of any calculation of the consideration receivable or price pursuant to Condition 7(e)(iv), the following provisions shall apply:

- (1) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (2) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate

consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

- (3) if the consideration or price determined pursuant to (1) or (2) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (1) above) or the relevant date of first public announcement (in the case of (2) above);
- (4) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (5) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity.

(g) Decision of an Independent Adviser

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, the Issuer may at its discretion appoint an Independent Adviser and, following consultation between the Issuer and such Independent Adviser, a written opinion of such Independent Adviser in respect thereof shall be conclusive and binding on the Issuer and the AT1 Securityholders, save in the case of manifest error.

(h) Share Option Schemes, Dividend Reinvestment Plans

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its Subsidiaries or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme.

(i) *Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment, if the resultant Conversion Price has more decimal places than the initial Conversion Price, it shall be rounded to the same number of decimal places as the initial Conversion Price. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to AT1 Securityholders promptly after the determination thereof in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent.

The Conversion Price shall not in any event be reduced to below the nominal value of an Ordinary Share for the time being. The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below such nominal value.

(j) *Qualifying Relevant Event*

(i) If a Qualifying Relevant Event shall occur, the AT1 Securities shall, where the Conversion Date (if any) falls on or after the New Conversion Condition Effective Date, be converted on such Conversion Date into Relevant Shares of the Approved Entity (save as provided below in this Condition 7(j)(i) *mutatis mutandis* as provided in this Condition 7) at a Conversion Price that shall be the New Conversion Price. Such conversion shall be effected by the delivery by the Issuer of such number of Ordinary Shares as is determined in accordance with Condition 7(d) to, or to the order of, the Approved Entity. Such delivery shall irrevocably discharge and satisfy all of the Issuer's obligations under the AT1 Securities (but shall be without prejudice to the rights of the Trustee and the AT1 Securityholders against the Approved Entity in connection with its undertaking to deliver Relevant Shares as provided in the definition of "New Conversion Condition" in Condition 7(j)(v) below). Such delivery shall be in consideration of the Approved Entity irrevocably undertaking, for the benefit of the AT1 Securityholders, to deliver the Relevant Shares to the Settlement Shares Depositary as aforesaid. For the avoidance of doubt, the Issuer may elect that a Conversion Shares Offer be made by the Settlement Shares Depositary in respect of the Relevant Shares.

(ii) The New Conversion Price shall be subject to adjustment in the circumstances provided in this Condition 7 (with such modifications and amendments as an Independent Adviser acting in good faith shall determine to be appropriate) and the Issuer shall give notice to AT1 Securityholders of the New Conversion Price and of any such modifications and amendments in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent.

(iii) In the case of a Qualifying Relevant Event:

(1) the Issuer shall, on or prior to the New Conversion Condition Effective Date, enter into such agreements and arrangements, which may include deeds supplemental to the Trust Deed, and such amendments and modifications to the Trust Deed shall be made to ensure that, with effect from the New Conversion Condition Effective Date, the AT1 Securities shall (following the occurrence of a Conversion Trigger) be convertible into,

or exchangeable for, Relevant Shares of the Approved Entity, *mutatis mutandis* in accordance with, and subject to, this Condition 7 (as may be so supplemented, amended or modified) at the New Conversion Price; and

- (2) the Issuer shall, where the Conversion Date falls on or after the New Conversion Condition Effective Date, procure the issue and/or delivery of the relevant number of Relevant Shares in the manner provided in this Condition 7, as may be supplemented, amended or modified as provided above.

The Trustee shall be obliged (at the expense of the Issuer) to concur with the Issuer in making any such amendments and modifications to the Trust Deed, and to execute any such deeds supplemental to the Trust Deed, provided that the Trustee shall not be bound to do so if any such amendments, modifications or deeds would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the AT1 Securities.

- (iv) Within 10 days following the occurrence of a Relevant Event, the Issuer shall give notice thereof to the AT1 Securityholders (a “**Relevant Event Notice**”) in accordance with Condition 17.

The Relevant Event Notice shall specify:

- (1) the identity of the Acquiror;
- (2) whether the Relevant Event is a Qualifying Relevant Event or a Non-Qualifying Relevant Event;
- (3) in the case of a Qualifying Relevant Event, the New Conversion Price;
- (4) in the case of a Non-Qualifying Relevant Event, that, with effect from the occurrence of the Relevant Event and unless the Conversion Trigger shall have occurred prior to the date of such Relevant Event, outstanding AT1 Securities shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently but that, instead, upon the occurrence of a subsequent Conversion Trigger (if any) the full principal amount of each AT1 Security will automatically be written down to zero, each AT1 Security will be cancelled, the AT1 Securityholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the AT1 Securities written down pursuant to this Condition and all accrued but unpaid interest and any other amounts payable on each AT1 Security will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

- (v) As used herein:

“**Acquiror**” means the person which, following a Relevant Event, controls the Issuer.

“**Approved Entity**” means a body corporate that is incorporated or established under the laws of an OECD member state and which, on the occurrence of the Relevant Event, has in issue Relevant Shares.

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

The **“New Conversion Condition”** shall be satisfied if by not later than seven days following the occurrence of a Relevant Event where the Acquiror is an Approved Entity, the Issuer shall have entered into arrangements to its satisfaction with the Approved Entity pursuant to which the Approved Entity irrevocably undertakes to the Trustee, for the benefit of the AT1 Securityholders, to deliver the Relevant Shares to the Settlement Shares Depositary upon a Conversion of the AT1 Securities, all as contemplated in Condition 7(j)(i).

“New Conversion Condition Effective Date” means the date with effect from which the New Conversion Condition shall have been satisfied.

“New Conversion Price” means the amount determined by the Issuer in accordance with the following formula:

$$\text{NCP} = \text{ECP} \times \frac{\text{VWAPRS}}{\text{VWAPOS}}$$

where:

NCP is the New Conversion Price.

ECP is the Conversion Price in effect on the dealing day immediately prior to the New Conversion Condition Effective Date.

VWAPRS means the average of the Volume Weighted Average Price of the Relevant Shares (translated, if necessary, into euro at the Prevailing Rate on the relevant dealing day) on each of the 10 dealing days ending on the dealing day prior to the date the Relevant Event shall have occurred (and where references in the definition of “Volume Weighted Average Price” to “Ordinary Shares” shall be construed as a reference to the Relevant Shares and in the definition of “dealing day”, references to the “Relevant Stock Exchange” shall be to the primary Regulated Market on which the Relevant Shares are then listed, admitted to trading or accepted for dealing).

VWAPOS is the average of the Volume Weighted Average Price of the Ordinary Shares (translated, if necessary, into euro at the Prevailing Rate on the relevant dealing day) on each of the 10 dealing days ending on the dealing day prior to the date the Relevant Event shall have occurred.

“Non-Qualifying Relevant Event” means a Relevant Event that is not a Qualifying Relevant Event.

“Qualifying Relevant Event” means a Relevant Event where:

- (i) the Acquiror is an Approved Entity; and
- (ii) the New Conversion Condition is satisfied.

“Regulated Market” means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state.

A “**Relevant Event**” shall occur if any person or persons acting in concert (as defined in the Takeover Code of the United Kingdom Panel on Takeovers and Mergers) acquires control of the Issuer (other than as a result of a Newco Scheme).

For the purposes of the definition of “Relevant Event”, “**control**” means:

- (a) the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the issued Ordinary Shares of the Issuer; or
- (b) the right to appoint and/or remove all or the majority of the members of the board of directors of the Issuer, whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise;

and “**controlled**” shall be construed accordingly.

“**Relevant Shares**” means ordinary share capital of the Approved Entity that constitutes equity share capital or the equivalent (or depositary or other receipts representing the same) which is listed and admitted to trading on a Regulated Market.

(k) Procedure for Settlement and Delivery of Ordinary Shares on Conversion

Ordinary Shares to be issued and delivered upon a Conversion in respect of the AT1 Securities shall be issued and delivered subject to and as provided below.

(l) Fractions

Fractions of Ordinary Shares will not be delivered to the Settlement Shares Depositary or to Holders of AT1 Securities upon a Conversion and no cash payment will be made in lieu thereof. However, if one or more Conversion Notices and relevant Certificates are delivered to the Settlement Shares Depositary such that any Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, as applicable) to be issued and delivered to a Holder on Conversion are to be registered in the same name, the number of Ordinary Shares to be issued and delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such AT1 Securities to be converted.

(m) Procedure for Delivery in respect of a Conversion upon Conversion Trigger

- (i) Subject as provided in Condition 7(m)(ii) below, in order to obtain delivery of the relevant Ordinary Shares or the Alternative Consideration, as applicable, following a Conversion of the AT1 Securities, the relevant AT1 Securityholder must deliver a duly completed Conversion Notice, together with the relevant Certificates representing the AT1 Securities to the Settlement Shares Depositary or the specified office of its agent(s) designated for the purpose in the Conversion Trigger Notice by the Notice Cut-off Date.

If such delivery is made or notice is given after the end of normal business hours at the specified office of the Settlement Shares Depositary or, as appropriate, its designated agent as aforesaid or on a day which is not a business day in such place, such delivery or notice shall be deemed for all purposes of these Conditions to have been made or given on the next following business day.

Subject as otherwise provided herein, the relevant Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will be delivered by or on behalf of the Settlement Shares Depositary in accordance with the instructions given in the relevant Conversion Notice.

Any cash component of any Alternative Consideration shall be paid by transfer to a euro account with a bank in a city in which banks have access to the TARGET System in accordance with the instructions contained in the relevant Conversion Notice.

- (ii) If not previously cancelled on the relevant Settlement Date, the relevant AT1 Securities shall be cancelled on the Long-Stop Date and any Holder of AT1 Securities delivering a Conversion Notice after the Notice Cut-off Date will have to provide evidence of its entitlement to the relevant Ordinary Shares or the relevant Alternative Consideration, as applicable, satisfactory to the Settlement Shares Depositary in its sole and absolute discretion in order to receive delivery of such Ordinary Shares or such Alternative Consideration, as applicable. The Issuer shall have no liability to any Holder of the AT1 Securities for any loss resulting from such Holder not receiving any Ordinary Shares or the relevant Alternative Consideration, as applicable, or from any delay in the receipt thereof, in each case as a result of such Holder failing to submit a valid Conversion Notice and the relevant Certificate, on a timely basis or at all.
- (iii) Any determination as to whether any Conversion Notice has been properly completed and delivered together with the relevant Certificate(s) as provided in these Conditions shall be made by the Settlement Shares Depositary in its sole discretion and shall be conclusive and binding on the relevant AT1 Securityholders.

(n) *Taxes and Duties*

Neither the Issuer, nor any member of the Group shall be liable for any taxes or capital, stamp, issue and registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the issue and delivery of Ordinary Shares on Conversion. An AT1 Securityholder must pay any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary on behalf of such AT1 Securityholder and such AT1 Securityholder must pay all, if any, such taxes or duties arising by reference to any disposal or deemed disposal of such AT1 Securityholder's AT1 Securities or interest therein. Any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on delivery or transfer of Ordinary Shares to a purchaser in any Conversion Shares Offer shall be payable by the relevant purchaser of those Ordinary Shares.

(o) *Delivery*

The Ordinary Shares to be delivered on Conversion will be issued and delivered to the Settlement Shares Depositary (or as otherwise provided in these Conditions) on trust (on terms permitting a Conversion Shares Offer in accordance with Condition 7(b)(iii)) for the Holders on the Conversion Date.

Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will be delivered to Holders in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST, in which case Ordinary Shares will be delivered in certificated form. Where any Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) are to be delivered to Holders by the Settlement Shares Depositary through CREST, they will be delivered to the account specified by the relevant AT1 Securityholder in the relevant Conversion Notice, on the relevant Settlement Date. Where any Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) are to be delivered to Holders in certificated form, a certificate in respect thereof will be dispatched by mail free of charge to the relevant AT1

Securityholder or as it may direct in the relevant Conversion Notice (in each case uninsured and at the risk of the relevant recipient) within 28 days following delivery of the relevant Conversion Notice.

The Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will not be available for issue or delivery (i) to, or to a nominee for, Euroclear or Clearstream, Luxembourg or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the “abolition day” as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom or (iii) to the CREST account of such a person described in (i) or (ii).

(p) *Ordinary Shares*

The Ordinary Shares issued and delivered on Conversion will be fully paid and non-assessable and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law, and except that any Ordinary Shares so issued and delivered will not rank for (or, as the case may be, the relevant Holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

(q) *Purchase or Redemption of Ordinary Shares*

The Issuer or any Subsidiary of the Issuer may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares or securities of the Issuer (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of AT1 Securityholders.

(r) *Covenants*

Whilst any AT1 Security remains outstanding, the Issuer shall (if and to the extent permitted by the Applicable Regulations from time to time and only to the extent that such covenant would not cause a Capital Disqualification Event to occur), save with the approval of an Extraordinary Resolution:

- (i) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Conversion, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (ii) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that the Newco Scheme is an Exempt Newco Scheme and that immediately after completion of the Scheme of Arrangement such amendments are made to these Conditions as are necessary to ensure that the AT1 Securities may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions.

The Trustee shall be obliged (at the expense of the Issuer) to concur in effecting such amendments, provided that the Trustee shall not be bound so to concur if to do so would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the AT1 Securities;

- (iii) use all reasonable endeavours to ensure that the Ordinary Shares issued upon Conversion shall be admitted to listing and trading on the Relevant Stock Exchange;
- (iv) notwithstanding the provisions of Condition 7(b)(iii), at all times keep available for issue, free from pre-emptive or other preferential rights, sufficient Ordinary Shares to enable Conversion of the AT1 Securities to be satisfied in full;
- (v) in circumstances where these Conditions contemplate the appointment of a Settlement Shares Depositary, the Issuer shall use all reasonable endeavours promptly to appoint such Settlement Shares Depositary; and
- (vi) where these Conditions require or provide for a determination by an Independent Adviser, the Issuer shall use all reasonable endeavours promptly to appoint an Independent Adviser for such purpose.

8 Redemption and Purchase

(a) No Fixed Redemption Date

The AT1 Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 4(a)) only have the right to repay them or purchase them in accordance with the following provisions of this Condition 8.

(b) Conditions to Redemption and Purchase

Any redemption or purchase (other than a purchase in the ordinary course of a business dealing in securities) of the AT1 Securities by or on behalf of the Issuer or its Subsidiaries in accordance with Condition 8(c), (d), (e) or (g) is subject to:

- (i) the Issuer giving notice to the Relevant Regulator and the Relevant Regulator granting permission to the Issuer to redeem or purchase the relevant AT1 Securities (in each case to the extent, and in the manner, required by the relevant Applicable Regulations);
- (ii) in respect of any redemption proposed to be made prior to the fifth anniversary of the Issue Date, if and to the extent then required under the Applicable Regulations (A) in the case of redemption following the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that the relevant change or event is material and was not reasonably foreseeable by the Issuer as at the Issue Date or (B) in the case of redemption following the occurrence of a Capital Disqualification Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that the relevant change was not reasonably foreseeable by the Issuer as at the Issue Date;
- (iii) in the case of any redemption of the AT1 Securities, the Issuer being solvent (as described in Condition 4(a)) both immediately prior to and immediately following such redemption;
- (iv) in the case of any redemption of the AT1 Securities, Condition 8(f); and
- (v) compliance by the Issuer with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the relevant Applicable Regulations for the time being.

Article 78 of the CRD IV Regulation provides that the Relevant Regulator shall, subject as provided in Article 78 and below, grant permission for redemption where either:

- (1) *on or before the relevant redemption date, the Issuer replaces the AT1 Securities with instruments qualifying as Tier 1 Capital of an equal or higher quality on terms that are sustainable for the income capacity of the Issuer; or*
- (2) *the Issuer has demonstrated to the satisfaction of the Relevant Regulator that its Tier 1 Capital and Tier 2 capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Relevant Regulator may consider necessary on the basis set out in CRD IV.*

Further, Article 78 provides that the Relevant Regulator may only permit the Issuer to redeem the AT1 Securities before the fifth anniversary of the Issue Date if, in addition to meeting one of the conditions referred to in paragraphs (1) or (2) above, either of the following is also met:

- (a) *there is (or is expected to be) a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Relevant Regulator considers such change to be sufficiently certain and the Issuer demonstrates to the satisfaction of the Relevant Regulator that the regulatory reclassification was not reasonably foreseeable at the Issue Date; or*
- (b) *there is (or is expected to be) a change in the applicable tax treatment of the instruments and the Issuer demonstrates to the satisfaction of the Relevant Regulator that such Tax Event is material and was not reasonably foreseeable at the Issue Date.*

Prior to the publication of any notice of redemption pursuant to this Condition 8 (other than redemption pursuant to Condition 8(c)), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the relevant event giving rise to the right to redeem has occurred and is continuing and the details thereof, and the Trustee shall be entitled to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event such certificate shall be conclusive and binding on the Trustee and the AT1 Securityholders.

(c) *Issuer's Call Option*

Subject to Conditions 4(a), 8(b) and 8(f), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 17, the Trustee, the Registrar and the Principal Paying and Conversion Agent, which notice shall, save as provided in Conditions 4(a), 8(b) and 8(f), be irrevocable, elect to redeem all, but not some only, of the AT1 Securities on the First Reset Date or on any Reset Date thereafter at their principal amount, together with any Accrued Interest. Upon the relevant Reset Date, the Issuer shall, subject to Conditions 4(a), 8(b) and 8(f), redeem the AT1 Securities as aforesaid.

(d) *Redemption Due to Taxation*

If at any time a Tax Event has occurred and is continuing, then the Issuer may, subject to Conditions 4(a), 8(b) and 8(f) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying and Conversion Agent, the Registrar and, in accordance with Condition 17, the AT1 Securityholders (which notice shall, subject as provided in Conditions 4(a), 8(b) and 8(f), be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the AT1 Securities at their principal amount, together with any Accrued Interest. Upon the expiry of such notice, the Issuer shall, subject to Conditions 4(a), 8(b) and 8(f), redeem the AT1 Securities as aforesaid.

(e) *Redemption for Regulatory Purposes*

If at any time a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Conditions 4(a), 8(b) and 8(f) and having given not less than 30 nor more than 60 days' notice to the AT1 Securityholders in accordance with Condition 17, the Trustee, the Principal Paying and Conversion Agent and the Registrar (which notice shall, subject as provided in Conditions 4(a), 8(b) and 8(f), be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the AT1 Securities at their principal amount, together with any Accrued Interest. Upon the expiry of such notice, the Issuer shall, subject to Conditions 4(a), 8(b) and 8(f), redeem the AT1 Securities as aforesaid.

(f) *Conversion Trigger*

The Issuer may not give a notice of redemption of the AT1 Securities pursuant to this Condition 8 if a Conversion Trigger Notice has been given. If a Conversion Trigger Notice is given after a notice of redemption shall have been given by the Issuer but before the relevant redemption date, such notice of redemption shall automatically be revoked and be null and void and the relevant redemption shall not be made.

(g) *Purchases*

The Issuer (or any Subsidiary of the Issuer) may, subject to Condition 8(b), at any time purchase or procure others to purchase beneficially for its account AT1 Securities in any manner and at any price.

(h) *Cancellation*

All AT1 Securities redeemed by the Issuer pursuant to this Condition 8 will forthwith be cancelled. All AT1 Securities repurchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, surrendered for cancellation to the Principal Paying and Conversion Agent. AT1 Securities so surrendered shall be cancelled forthwith. Any AT1 Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such AT1 Securities shall be discharged.

(i) *Trustee Not Obligated to Monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 8 and will not be responsible to AT1 Securityholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 8, it shall be entitled to assume that no such event or circumstance exists.

9 Payments

(a) *Method of Payment*

- (i) Payments of principal to be made to Holders in respect of AT1 Securities and payments of Accrued Interest payable on a redemption of AT1 Securities (other than on an Interest Payment Date) shall, in each case, be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in (ii) below.
- (ii) Payments of interest to be made to Holders in respect of AT1 Securities due on an Interest Payment Date shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”).

- (iii) Each payment in respect of the AT1 Securities pursuant to Condition 9(a)(i) and (ii) will be made by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System. Payment instructions (for value on the due date or, if that is not a TARGET Business Day, for value the first following day which is a TARGET Business Day) will be initiated on the TARGET Business Day preceding the due date for payment (for value the next TARGET Business Day).
- (iv) Payments of any cash component of any Alternative Consideration shall be made in accordance with the provisions of Condition 7.

(b) *Payments subject to laws*

Save as provided in Condition 10, payments under the AT1 Security will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or its Paying and Conversion Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. No commission or expenses shall be charged to the AT1 Securityholders in respect of such payments.

(c) *Appointment of Agents*

The initial Principal Paying and Conversion Agent, the other Paying and Conversion Agents, Registrar, Transfer Agents and Calculation Agent and their respective specified offices are listed below. The Principal Paying and Conversion Agent, the Paying and Conversion Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any AT1 Securityholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying and Conversion Agent, any other Paying and Conversion Agent, the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying and Conversion Agents, Calculation Agents or Transfer Agents, provided that there shall at all times be (i) a Principal Paying and Conversion Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Calculation Agents where the Conditions so require, (v) such other agents as may be required by any other stock exchange on which the AT1 Securities may be listed, in each case as approved by the Trustee and (vi) a Paying and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer shall, in the event that it would be obliged to pay additional amounts on or in respect of any AT1 Security pursuant to Condition 10 by virtue of such AT1 Security being presented for payment in the United Kingdom, appoint and at all times thereafter maintain a Paying and Conversion Agent in a jurisdiction within Europe (other than the United Kingdom) and which otherwise complies with the foregoing provisions of this Condition 9(c).

Notice of any such change or any change of any specified office shall promptly be given to the Trustee and to the AT1 Securityholders in accordance with Condition 17.

(d) *Non-Business Days*

If any date for payment in respect of any AT1 Security is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a

Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation (where presentation and surrender is required pursuant to these Conditions) which is a TARGET Business Day.

10 Taxation

All payments of principal and/or interest to AT1 Securityholders by or on behalf of the Issuer in respect of the AT1 Securities shall be made without withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts (“**Additional Amounts**”) as will result (after such withholding or deduction) in receipt by the AT1 Securityholders of the sums which would have been receivable (in the absence of such withholding or deduction) by them in respect of their AT1 Securities; except that no such Additional Amounts shall be payable with respect to any AT1 Security:

- (a) held by or on behalf of any Holder who is liable to such tax, duty, assessment or governmental charge in respect of such AT1 Security by reason of such Holder having some connection with the United Kingdom other than the mere holding of such AT1 Security; or
- (b) to, or to a third party on behalf of, a Holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such Holder proves that he is not entitled so to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a Holder that is a partnership, or a Holder that is not the sole beneficial owner of the AT1 Security, or which holds the AT1 Security 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 its beneficial or distributive share of the payment; or
- (d) presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to such additional amounts on presenting or surrendering the same for payment at the expiry of such period of 30 days; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) in respect of any AT1 Security presented or surrendered for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting or surrendering the relevant AT1 Security to another Paying and Conversion Agent in a member state of the European Union.

11 Prescription

Claims against the Issuer for payment in respect of the AT1 Securities, shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12 Non-payment when due

The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.

(a) *Proceedings for Winding-up*

If the Issuer shall not make payment of principal in respect of the AT1 Securities for a period of seven days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the AT1 Securities and the Trustee may institute proceedings for the winding-up of the Issuer. In the event of a winding-up or liquidation of the Issuer (whether or not instituted by the Trustee), the Trustee may prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer, such claim being as set out in Condition 4(b) or Condition 4(c) as applicable.

(b) *Enforcement*

Without prejudice to Condition 12(a), the Trustee may, at its discretion, and without notice institute such proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the AT1 Securities (other than any payment obligation of the Issuer under or arising from the AT1 Securities or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the AT1 Securities, including any damages awarded for breach of any obligations but excluding any amount due to the Trustee in respect of its fees and/or expenses) and in no event shall the Issuer, 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 pursuant to these Conditions and the Trust Deed. Nothing in this Condition 12(b) shall, however, prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer or exercising rights under Condition 4(b) or, as applicable, 4(c) in respect of any payment obligations of the Issuer arising from or in respect of the AT1 Securities or the Trust Deed (including any damages awarded for breach of any obligations).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 12(a) or (b) above against the Issuer to enforce the terms of the Trust Deed or the AT1 Securities or any other action under or pursuant to the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the AT1 Securityholders or in writing by the holders of at least one-quarter in principal amount of the AT1 Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Right of AT1 Securityholders*

No AT1 Securityholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or to claim in the liquidation of the Issuer or to prove in a winding-up unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, in which case the AT1 Securityholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 12.

(e) *Extent of AT1 Securityholder's remedy*

No remedy against the Issuer, other than as referred to in this Condition 12, shall be available to the Trustee or the AT1 Securityholders, whether for the recovery of amounts owing in respect of the AT1

Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the AT1 Securities or under the Trust Deed.

13 Meetings of AT1 Securityholders, Modification, Waiver and Substitution

(a) Meetings of AT1 Securityholders

The Trust Deed contains provisions for convening meetings of AT1 Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be requisitioned by AT1 Securityholders holding not less than 10 per cent. in aggregate principal amount of the AT1 Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in aggregate principal amount of the AT1 Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing AT1 Securityholders whatever the aggregate principal amount of the AT1 Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend any date of optional redemption of the AT1 Securities or any date for payment of interest on the AT1 Securities, (ii) to reduce or cancel the principal amount of the AT1 Securities, (iii) to reduce the rate or rates of interest in respect of the AT1 Securities or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the amounts of any interest in respect of the AT1 Securities, (iv) to vary any method of, or basis for, calculating the amounts payable on redemption of the AT1 Securities, (v) to vary the currency or currencies of payment or denomination of the AT1 Securities, (vi) to modify the provisions concerning the quorum required at any meeting of AT1 Securityholders or the majority required to pass the Extraordinary Resolution or (vii) to modify the provisions of Condition 7 (other than pursuant to or as a result of any amendment to these Conditions and the Trust Deed made pursuant to and in accordance with Condition 7(j) and/or Condition 7(r)(ii)), in which case the necessary quorum shall be one or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the AT1 Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on AT1 Securityholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the AT1 Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of AT1 Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more AT1 Securityholders.

No modification to these Conditions or any other provisions of the Trust Deed (whether pursuant to this Condition 13 or otherwise) shall become effective unless the Issuer shall have given such notice as is required by, and received such permission from, the Relevant Regulator as is required by the Relevant Regulator under the Applicable Regulations. The Trustee shall be entitled to request and rely upon a certificate from two Authorised Signatories of the Issuer as to the satisfaction of this condition precedent to any modification without further enquiry.

(b) Modification of the Trust Deed

The Trustee may agree, without the consent of the AT1 Securityholders, 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 AT1 Securityholders. Any such modification, authorisation or waiver shall be binding on the AT1 Securityholders and, if the Trustee so requires, shall be notified to the AT1 Securityholders as soon as practicable.

(c) *Newco Scheme*

In the event of a Newco Scheme, the Issuer may, subject as provided in Condition 13(d) and the Trust Deed, without the consent of AT1 Securityholders, at its option, procure that Newco is substituted under such AT1 Securities as the Issuer.

At the request of the Issuer, the Trustee shall, without the requirement for any consent or approval of the AT1 Securityholders, concur with the Issuer in the substitution in place of the Issuer (or any previous substituted company) as principal debtor under the Trust Deed and the AT1 Securities of Newco, subject to the provisions set out in Condition 7(r)(ii).

(d) *Substitution*

The Trust Deed contains provisions (in the case of (i) below) requiring the Trustee and (in the case of (ii) below) permitting the Trustee (subject to the Issuer giving such notice to, and receiving such permission from, the Relevant Regulator as may from time to time be required by the Relevant Regulator under the Applicable Regulations), to agree, without the consent of the AT1 Securityholders, to (i) any substitution as provided in and for the purposes of Condition 13(c) or (ii) the substitution of the Issuer's successor in business in place of the Issuer, or of any previously substituted company, as principal debtor under the Trust Deed and the AT1 Securities subject to (in the case of (ii) only) the Trustee being of the opinion that such substitution will not be materially prejudicial to the interests of the AT1 Securityholders and subject to (in the case of (i) and (ii)) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution, the Trustee may agree, without the consent of the AT1 Securityholders, to a change of the law governing the AT1 Securities and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the AT1 Securityholders.

(e) *Entitlement of the Trustee*

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 AT1 Securityholders as a class but shall not have regard to any interests arising from circumstances particular to individual AT1 Securityholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual AT1 Securityholders (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 AT1 Securityholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual AT1 Securityholders except to the extent already provided for in Condition 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

(f) *Notification to the AT1 Securityholders*

Any modification, abrogation, waiver, authorisation or substitution made pursuant to these Conditions and the Trust Deed shall be binding on the AT1 Securityholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the AT1 Securityholders as soon as practicable thereafter in accordance with Condition 17.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the AT1 Securityholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the AT1 Securityholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the AT1 Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may rely without liability to AT1 Securityholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice in which event such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the AT1 Securityholders.

15 Replacement of AT1 Securities

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to AT1 Securityholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificates) and otherwise as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16 Further Issues

The Issuer may, from time to time, without the consent of the AT1 Securityholders, create and issue further securities either having the same terms and conditions as the AT1 Securities in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the AT1 Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the AT1 Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the AT1 Securities. Any further securities forming a single series with the

outstanding securities of any series (including the AT1 Securities) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the AT1 Securityholders and the holders of securities of other series where the Trustee so decides.

17 Notices

Notices to AT1 Securityholders shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the Financial Times). If, in the opinion of the Trustee, any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. If and for so long as the AT1 Securities are admitted to trading on the Global Exchange Market of the Irish Stock Exchange or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any such notices delivered to the Global Exchange Market of the Irish Stock Exchange will also be published on the Daily Official List of the Irish Stock Exchange for so long as its rules so require.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the AT1 Securities under the Contracts (Rights of Third Parties) Act 1999.

19 Definitions

“**Accrued Interest**” means any interest accrued on the AT1 Securities to their date of redemption and which is unpaid, but which excludes any interest which has been cancelled in accordance with Condition 4(a), 6 or Condition 7(c);

“**Additional Amounts**” has the meaning described thereto in Condition 10;

“**Alternative Consideration**” means in respect of each AT1 Security and as determined by the Issuer (i) if all of the Ordinary Shares to be issued and delivered on Conversion are sold in the Conversion Shares Offer, the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such AT1 Security translated from pounds sterling into euro at a then-prevailing exchange rate as determined by the Settlement Shares Depositary (less the *pro rata* share of any foreign exchange transaction costs and an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary pursuant to the Conversion Shares Offer), (ii) if some but not all of such Ordinary Shares to be issued and delivered upon Conversion are sold in the Conversion Shares Offer, (x) the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such AT1 Security translated from pounds sterling into euro at a then-prevailing exchange rate as determined by the Settlement Shares Depositary (less the *pro rata* share of any foreign exchange transaction costs and an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid in connection with the delivery of Ordinary Shares to the Settlement Shares Depositary pursuant to the Conversion Shares Offer) and (y) the *pro rata* share of such Ordinary Shares not sold pursuant to the Conversion Shares Offer attributable to such AT1 Security rounded down to the nearest whole number of Ordinary Shares and (iii) if no Ordinary Shares are sold in the Conversion Shares Offer, the relevant number of Ordinary Shares that would have been

received had the Issuer not elected that the Settlement Shares Depositary should carry out a Conversion Shares Offer;

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

“AT1 Securityholder” or **“Holder”** means the person in whose name an AT1 Security is registered;

“Authorised Signatory” means a director or the company secretary of the Issuer;

“business day” means unless otherwise specified herein, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place;

“Calculation Amount” means €1,000;

a **“Capital Disqualification Event”** will occur if at any time the Issuer determines that as a result of a change (or prospective future change which the Relevant Regulator considers to be sufficiently certain) to the regulatory classification of the AT1 Securities under the Applicable Regulations, in any such case becoming effective on or after the Issue Date, all of the outstanding aggregate principal amount of the AT1 Securities fully ceases (or would fully cease) to be included in, or count towards, the Tier 1 Capital (howsoever defined in the Applicable Regulations) of the Group;

“CET1 Capital” means, as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, the sum, expressed in pounds sterling, of all amounts that constitute Common Equity Tier 1 Capital of the Group as at such date, less any deductions from Common Equity Tier 1 Capital of the Group required to be made as at such date, in each case as calculated by the Issuer on a consolidated and fully loaded basis in accordance with the Applicable Regulations applicable to the Group as at such date (which calculation shall be binding on the Trustee and the Holders);

“CET1 Ratio” means, as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the ratio of CET1 Capital as at such date to the Risk Weighted Assets as at the same date, expressed as a percentage and on the basis that all measures used in such calculation shall be calculated on a fully loaded basis;

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

“Common Equity Tier 1 Capital” shall have the meaning ascribed to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Applicable Regulations then applicable to the Group;

“Companies Act” means the Companies Act 2006;

“Conversion” means the conversion of the AT1 Securities into Ordinary Shares pursuant to Condition 7, and **“convert”** and **“converted”** shall be construed accordingly;

“Conversion Date” means the date specified in the Conversion Trigger Notice as the date on which the Conversion shall take place;

“Conversion Notice” means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent and which is required to be delivered to the Settlement Shares

Depository (or its agent(s) designated for the purpose in the Conversion Trigger Notice) in connection with a Conversion of the AT1 Securities;

“**Conversion Price**” has the meaning ascribed to it in Condition 7(d);

“**Conversion Shares Offer Period**” has the meaning ascribed to it in Condition 7(b);

“**Conversion Trigger**” has the meaning ascribed to it in Condition 7(a);

“**Conversion Trigger Notice**” has the meaning ascribed to it in Condition 7(a);

“**CRD IV**” means the legislative package consisting of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “**CRD IV Directive**”) and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013 (the “**CRD IV Regulation**”);

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days (or, for the purposes of Condition 7(e)(iv), 10 consecutive dealing days) ending on the dealing day immediately preceding such date; provided that, if at any time during the said five (or 10) dealing-day period the Volume Weighted Average Price shall have been based on a price ex-dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-dividend (or cum- any other entitlement), then:

- (i) if the Ordinary Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-dividend (or cum- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
- (ii) if the Ordinary Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-dividend (or ex- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if on each of the said five dealing days (or, for the purposes of Condition 7(e)(iv), the said 10 dealing days) the Volume Weighted Average Price shall have been based on a price cum-dividend (or cum- any other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued and delivered do not rank for that dividend (or other entitlement), the Volume Weighted Average Price on each of such dates shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days (or, for the purposes of Condition 7(e)(iv), the said 10 dealing days) (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five (or, for the purposes of Condition 7(e)(iv), 10-) dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period, the Current Market Price shall be determined in good faith by an Independent Adviser;

“dealing day” means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Ordinary Shares, Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

“Distributable Items” has the meaning assigned to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Applicable Regulations then applicable to the Issuer but amended so that any reference therein to “before distributions to holders of own funds instruments” shall be read as a reference to “before distributions by the Issuer to holders of Parity Securities, the AT1 Securities or any Junior Securities”;

Under CRD IV, as at the date hereof, “distributable items” means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution’s bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.

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

“Euroclear” means Euroclear Bank SA/NV;

“Exempt Newco Scheme” means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (i) admitted to trading on the Relevant Stock Exchange or (ii) admitted to listing on such other Regulated Market as the Issuer or Newco may determine;

“Extraordinary Calculation Date” means any day (other than a Quarterly Financial Period End Date) on which the CET1 Ratio is calculated upon the instruction of the Relevant Regulator or at the Issuer’s discretion;

“Extraordinary Dividend” has the meaning provided in Condition 7(e)(iii);

“Extraordinary Resolution” has the meaning given to it in the Trust Deed;

“Fair Market Value” means, with respect to any property on any date, the fair market value of that property as determined by an Independent Adviser in good faith, provided that (i) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined in good faith by an Independent Adviser), the Fair Market Value (a) of such Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities and (b) of such options, warrants or other rights shall equal the

arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of (a) and (b), during the period of five dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, options, warrants or other rights are publicly traded; (iv) where Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, options, warrants or other rights shall be determined in good faith by an Independent Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared, announced, made, paid or payable in a currency other than the Relevant Currency, and if the relevant dividend is payable at the option of the Issuer or a Shareholder in any currency additional to the Relevant Currency, the relevant dividend shall be treated as payable in the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Relevant Currency; and, in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;

“First Reset Date” means 27 June 2020;

“fully loaded” means, in relation to a measure that is presented or described as being on a “fully loaded basis”, that such measure is calculated without applying the transitional provisions set out in Part Ten of the CRD IV Regulation (as may be amended from time to time);

“Further AT1 Securities” means any further AT1 Securities issued pursuant to Condition 16 of the AT1 Securities and consolidated and forming a single series with the then outstanding AT1 Securities;

“Global Security” means the global security in registered form initially representing the AT1 Securities on the Issue Date;

“Group” means the Issuer and its Subsidiaries;

“Independent Adviser” means an independent financial institution of international repute appointed by the Issuer at its own expense;

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

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

“Interest Payment” means, in respect of an Interest Payment Date, the amount of interest due and payable on such Interest Payment Date;

“Interest Payment Date” means 27 March, 27 June, 27 September and 27 December in each year, commencing on 27 June 2014;

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

“**Interest Rate**” means the Initial Fixed Interest Rate and/or the relevant Reset Interest Rate, as the case may be;

“**Issue Date**” means 1 April 2014;

“**Junior Securities**” means (i) any Ordinary Share or other securities of the Issuer ranking, or expressed to rank, junior to the AT1 Securities in a winding-up or administration of the Issuer as described in Condition 4(b) and/or (ii) any securities issued by any other member of the Group where the terms of such securities benefit from a guarantee or support agreement entered into by the Issuer which ranks, or is expressed to rank, junior to the AT1 Securities in a winding-up or administration of the Issuer as described in Condition 4(b);

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

“**Long-Stop Date**” means the date on which any AT1 Securities in relation to which no Conversion Notice has been received by the Settlement Shares Depositary (or its designated agent(s)) on or before the Notice Cut-off Date shall be cancelled, which date is expected to be no more than 15 London business days following the Notice Cut-off Date and which will be notified to Holders in the Conversion Trigger Notice;

“**Margin**” means 5.29 per cent.;

“**New Conversion Condition Effective Date**” has the meaning ascribed to it in Condition 7(j)(v);

“**Newco Scheme**” means a scheme of arrangement or analogous proceeding (“**Scheme of Arrangement**”) which effects the interposition of a limited liability company (“**Newco**”) between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the “**Existing Shareholders**”) and the Issuer; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement;

“**Notice Cut-off Date**” means the date specified as such in the Conversion Trigger Notice, which date shall be at least 20 London business days following the Conversion Date;

“**Ordinary Reporting Date**” means each day on which Quarterly Financial Information is published by the Issuer;

“**Ordinary Shares**” means fully paid ordinary shares in the capital of the Issuer, currently with a par value of £0.10 each;

“**outstanding**” has the meaning given to it in the Trust Deed;

“**Parity Securities**” means (i) the most senior ranking class or classes of preference shares in the capital of the Issuer from time to time and any other securities of the Issuer ranking, or expressed to rank, *pari passu* with the AT1 Securities and/or such preference shares in a winding-up or administration of the Issuer as

described in Condition 4(b) and/or (ii) any securities issued by any other member of the Group where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank *pari passu* with the AT1 Securities and/or such preference shares in a winding-up or administration of the Issuer as described in Condition 4(b);

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity);

“**Prevailing Rate**” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Relevant Page, the rate determined in such other manner as an Independent Adviser shall in good faith prescribe;

“**Quarterly Financial Information**” means the financial information of the Group in respect of a fiscal quarter that is contained in the principal financial report for such fiscal quarter published by the Issuer. As at the Issue Date, the principal financial reports published by the Issuer with respect to each fiscal quarter are: (i) the Q1 Interim Management Statement in respect of the first fiscal quarter, (ii) the Interim Results Announcement in respect of the first half of the year (including the second fiscal quarter), (iii) the Q3 Interim Management Statement in respect of the first nine months of the year (including the third fiscal quarter) and (iv) the Results Announcement in respect of the full year (including the fourth fiscal quarter);

“**Quarterly Financial Period End Date**” means the last day of each fiscal quarter of the Issuer;

“**Relevant Currency**” means pounds sterling or, if at the relevant time or for the purposes of the relevant calculation or determination the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares or the Relevant Shares (as applicable) are quoted or dealt in on the Relevant Stock Exchange at such time;

“**Relevant Date**” in respect of any payment on any AT1 Security, means the date on which such payment first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount required to be paid is made or, in the case where presentation is required pursuant to the Conditions, (if earlier) the date seven days after that on which notice is duly given to the AT1 Securityholders that, upon further presentation of the AT1 Security (or relative Certificate) being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

“**Relevant Page**” means the relevant page on Bloomberg or such other information service provider that displays the relevant information;

“**Relevant Stock Exchange**” means the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market (if any) on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing;

“**Relevant Regulator**” means the UK Prudential Regulation Authority, or the then relevant regulatory body with primary responsibility for the prudential supervision of the Issuer and the Group;

“**Reset Date**” means the First Reset Date and each date falling five, or an integral multiple of five, years after the First Reset Date;

“Reset Determination Date” means, in respect of a Reset Period, the day falling two TARGET Business Days prior to the first day of such Reset Period;

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

“Reset Rate of Interest” has the meaning given to it in Condition 5(d);

“Reset Reference Banks” means four major banks in the interbank market in the euro-zone as selected by the Calculation Agent, after consultation with the Issuer;

“Reset Reference Rate” means in respect of the relevant Reset Period, (i) the applicable annual mid-swap rate for swap transactions in euro (with a maturity equal to 5 years) as displayed on the Screen Page at 11.00 a.m. (Central European time) on the relevant Reset Determination Date or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate,

where:

“Mid-Swap Quotations” means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (i) has a term commencing on the relevant Reset Date which is equal to 5 years; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

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

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

“Risk Weighted Assets” means, as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Group as at such date, as calculated by the Issuer on a consolidated and fully loaded basis in accordance with the Applicable Regulations applicable to the Group on such date (which calculation shall be binding on the Trustee and the Holders) and where the term “risk weighted assets” means the risk weighted assets or total risk exposure amount, as calculated by the Issuer in accordance with the Applicable Regulations applicable to the Group on the relevant Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be;

“**Securities**” means any securities including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer (and each a “**Security**”);

“**Settlement Date**” means:

- (i) with respect to any AT1 Security in relation to which a Conversion Notice is received by the Settlement Shares Depositary or its designated agent on or before the Notice Cut-off Date where the Issuer has not elected that the Settlement Shares Depositary will carry out a Conversion Shares Offer, the date that is two London business days after the latest of (a) the Conversion Date, (b) the date on which the Issuer announces that it will not elect for the Settlement Shares Depositary to carry out a Conversion Shares Offer (or, if no such announcement is made, the last date on which the Issuer is entitled to give the Conversion Shares Offer Election Notice) and (c) the date on which the relevant Conversion Notice has been received by the Settlement Shares Depositary or its designated agent;
- (ii) with respect to any AT1 Security in relation to which a Conversion Notice is received by the Settlement Shares Depositary or its designated agent on or before the Notice Cut-off Date where the Issuer has elected that the Settlement Shares Depositary will carry out a Conversion Shares Offer, the date that is the later of (a) two London business days after the day on which the Conversion Shares Offer Period expires or is terminated and (b) two London business days after the date on which such Conversion Notice has been so received by the Settlement Shares Depositary or its designated agent; and
- (iii) with respect to any AT1 Security in relation to which a Conversion Notice is not so received by the Settlement Shares Depositary or its designated agent on or before the Notice Cut-off Date, the date on which the Settlement Shares Depositary delivers the relevant Ordinary Shares or the relevant Alternative Consideration, as applicable, to AT1 Securityholders;

“**Settlement Shares Depositary**” means a reputable financial institution, trust company or similar entity (which in each such case is wholly independent of the Issuer) to be appointed by the Issuer on or prior to any date when a function ascribed to the Settlement Shares Depositary in these Conditions is required to be performed to perform such functions and that will hold the Ordinary Shares (and any Alternative Consideration, if any) on trust for the Holders of the AT1 Securities in one or more segregated accounts, unless otherwise required to be transferred out of such accounts for the purposes of the Conversion Shares Offer, and otherwise on terms consistent with these Conditions;

“**Shareholders**” means the holders of Ordinary Shares;

“**Specified Date**” has the meaning provided in Condition 7(e)(iv);

“**Subsidiary**” has the meaning provided in Section 1159 of the Companies Act;

“**successor in business**” has the meaning given to it in the Trust Deed;

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

“**TARGET System**” means the Trans European Real Time Gross Settlement Express Transfer (TARGET2) System;

a “**Tax Event**” is deemed to have occurred if:

- (i) as a result of a Tax Law Change, in making any payments on the AT1 Securities, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts; and/or
- (ii) a Tax Law Change would:

- (a) result in the Issuer not being entitled to claim a deduction in respect of any payments in respect of the AT1 Securities in computing its taxation liabilities or materially reduce the amount of such deduction;
- (b) prevent the AT1 Securities from being treated as loan relationships for United Kingdom tax purposes;
- (c) as a result of the AT1 Securities being in issue, result in the Issuer not being able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the AT1 Securities or any similar system or systems having like effect as may from time to time exist);
- (d) result in a United Kingdom tax liability, or the receipt of income or profit which would be subject to United Kingdom tax, in respect of a write-down of the principal amount of the AT1 Securities or the conversion of the AT1 Securities into Ordinary Shares; or
- (e) result in an AT1 Security or any part thereof being treated as a derivative or an embedded derivative for United Kingdom tax purposes,

provided that, in each such case, the Issuer could not avoid the foregoing in connection with the AT1 Securities by taking measures reasonably available to it;

“Tax Law Change” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom, or any political subdivision or authority therein or thereof, having the power to tax, including any treaty to which the United Kingdom is a party, or any change in any generally published application or interpretation of such laws, including a decision of any court or tribunal or any change in the generally published application or interpretation of such laws by any relevant tax authority or any generally published pronouncement by any tax authority, which change, amendment or pronouncement (x) (subject to (y)) becomes, or would become, effective on or after the Issue Date, or (y) 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 United Kingdom Act of Parliament or implemented by statutory instrument, on or after the Issue Date;

“Tier 1 Capital” has the meaning given to it by the Relevant Regulator from time to time;

“Tier 2 Capital” has the meaning given to it by the Relevant Regulator from time to time; and

“UK Listing Authority” means the Financial Conduct Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000;

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

“Volume Weighted Average Price” means, in respect of an Ordinary Share or Security on any dealing day, the order book volume-weighted average price of an Ordinary Share or Security published by or derived (in the case of an Ordinary Share) from the relevant Bloomberg page or (in the case of a Security (other than Ordinary Shares), options, warrants or other rights) from the principal stock exchange or securities market on which such Securities, options, warrants or other rights are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security, option, warrant or other right, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same

can be so determined or determined as an Independent Adviser might otherwise determine in good faith to be appropriate; and

“£” and “**pounds sterling**” means the lawful currency for the time being of the United Kingdom.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such statutory modification or re-enactment.

References to “**ordinary share capital**” has the meaning provided in Section 1119 of the Income and Corporation Taxes Act 2010 and “**equity share capital**” has the meaning provided in Section 548 of the Companies Act.

References to any issue or offer or grant to Shareholders or Existing Shareholders “**as a class**” or “**by way of rights**” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Adviser determines in good faith to be appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Condition 7(a), (b), (h), (n) and (r), (1) references to the “**issue**” of Ordinary Shares or Ordinary Shares being “**issued**” shall, unless otherwise expressly specified in those paragraphs, include the delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any of its Subsidiaries, and (2) Ordinary Shares held by or on behalf of the Issuer or any of its respective Subsidiaries (and which, in the case of Condition 7(e)(iv), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “**in issue**” or “**issued**” or entitled to receive the relevant dividend, right or other entitlement.

Unless the context otherwise requires, references to (i) “**principal**” shall be deemed to include any Additional Amounts relating to principal that may be payable under Condition 10 or any undertaking given in addition to or in substitution for it under the Trust Deed in respect of any such amount and all other amounts in the nature of principal payable pursuant to these Conditions or any amendment or supplement to it and (ii) “**interest**” shall be deemed to include any Additional Amounts relating to interest that may be payable under Condition 10 or any undertaking given in addition to or in substitution for it under the Trust Deed in respect of any such amount.

20 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed and the AT1 Securities and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law save that the provisions of Condition 4 (and related provisions of the Trust Deed) relating to the status and subordination of the AT1 Securities are governed by, and shall be construed in accordance with, Scots law.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, or the AT1 Securities (other than Condition 4 (and related provisions of the Trust Deed) relating to the status and subordination of the AT1 Securities (“**Excluded Matters**”), in respect of which the Court of Session in Scotland shall have jurisdiction) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any AT1 Securities (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (other than in respect of Excluded Matters) and to the jurisdiction of the Court of Session in Scotland in respect of any Proceedings relating to Excluded Matters.

PART B

TERMS AND CONDITIONS OF THE STERLING PNC5 ADDITIONAL TIER 1 SECURITIES

The following (excluding italicised paragraphs) is the text of the terms and conditions that shall be applicable to the Sterling PCN5 Additional Tier 1 Securities in definitive form (if any) issued in exchange for the Global Security.

The issue of the £1,480,784,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “**AT1 Securities**”, which expression shall, unless otherwise indicated, include any Further AT1 Securities) was (save in respect of any Further AT1 Securities) authorised pursuant to a resolution of the board of directors of Lloyds Banking Group plc (the “**Issuer**”) passed on 27 February 2014 and a resolution of a committee of the board of directors of the Issuer passed on 5 March 2014. The AT1 Securities are constituted by a trust deed (the “**Trust Deed**”) dated 1 April 2014 entered into between the Issuer and BNY Mellon Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the AT1 Securityholders. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Certificates referred to below. An Agency Agreement (the “**Agency Agreement**”) dated 1 April 2014 has been entered into in relation to the AT1 Securities between the Issuer, the Trustee, The Bank of New York Mellon (Luxembourg) S.A. as registrar and as transfer agent, The Bank of New York Mellon, London Branch as principal paying and conversion agent and calculation agent and the other paying and conversion agents named in it. The principal paying and conversion agent, the other paying and conversion agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Principal Paying and Conversion Agent**”, the “**Paying and Conversion Agents**” (which expression shall include the Principal Paying and Conversion Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL) and at the specified offices of the Paying and Conversion Agents and the Transfer Agents.

The AT1 Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

1 Form, Denomination and Title

The AT1 Securities are issued in registered form in specified denominations of £200,000 and integral multiples of £1,000 in excess thereof.

The AT1 Securities are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of AT1 Securities by the same Holder.

Title to the AT1 Securities shall pass by registration in the register of the AT1 Securityholders that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any AT1 Security 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 any interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the Holder.

2 Transfers of AT1 Securities

(a) *Transfer of AT1 Securities*

One or more AT1 Securities may, subject to Condition 2(d), be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such AT1 Securities to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. A new Certificate shall be issued to the transferee in respect of the AT1 Securities the subject of the relevant transfer and, in the case of a transfer of part only of a holding of AT1 Securities represented by one Certificate, a new Certificate in respect of the balance of the AT1 Securities not transferred shall be issued to the transferor. In the case of a transfer of AT1 Securities to a person who is already a Holder of AT1 Securities, a new Certificate representing the enlarged holding may be issued but only against surrender of the Certificate representing the existing holding of such person. All transfers of AT1 Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of AT1 Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any AT1 Securityholder upon request.

(b) *Delivery of New Certificates*

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

(c) *Transfers Free of Charge*

Transfers of AT1 Securities and the issue of new Certificates on transfer shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) *Closed Periods*

No AT1 Securityholder may require the transfer of an AT1 Security to be registered (i) during the period of 15 days ending on the due date for redemption of the AT1 Securities pursuant to Condition 8, (ii) at any time after the second London business day following the giving of a Conversion Trigger Notice by the Issuer or (iii) during the period of seven days ending on (and including) any Record Date.

3 Status of the AT1 Securities

The AT1 Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the AT1 Securityholders are subordinated as described in Condition 4.

4 Subordination

(a) Conditions to Payment

Other than where Condition 4(b), 4(c) or (in relation to the cash component of any Alternative Consideration) 7(b)(iii) applies, all payments in respect of or arising from (including any damages for breach of any obligations under) the AT1 Securities are, in addition to the provisions of Condition 6 relating to the cancellation of interest, conditional upon the Issuer being solvent at the time of payment by the Issuer and no principal, interest or other amount shall be due and payable in respect of or arising from the AT1 Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter.

The Issuer shall, for these purposes, be considered to be solvent if (x) it is able to pay its debts owed to its Senior Creditors as they fall due and (y) its Assets at least equal its Liabilities.

A certificate as to the solvency or insolvency of the Issuer by two Authorised Signatories shall, in the absence of manifest error, be treated by the Issuer, the Trustee, the Holders and all other interested parties as correct and sufficient evidence thereof.

Any payment of interest not due by reason of this Condition 4(a) shall be cancelled as provided in Condition 6(a).

As used herein:

“**Assets**” means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the directors of the Issuer may determine;

“**Liabilities**” means the unconsolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent and prospective liabilities and for subsequent events in such manner as the directors of the Issuer may determine; and

“**Senior Creditors**” means creditors of the Issuer (a) who are unsubordinated creditors, (b) whose claims are, or are expressed to be, subordinated to the claims of unsubordinated creditors of the Issuer but not further or otherwise or (c) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the AT1 Securities in a winding-up occurring prior to the Conversion Trigger.

(b) Winding-up prior to a Conversion Trigger

If at any time prior to the date on which a Conversion Trigger occurs:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by

an Extraordinary Resolution and (y) do not provide that the AT1 Securities shall thereby become redeemable or repayable in accordance with these Conditions); or

- (ii) an administrator of the Issuer is appointed and such administrator declares, or gives notice that it intends to declare and distribute a dividend,

there shall be payable by the Issuer in respect of each AT1 Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such AT1 Security if, throughout such winding-up or administration, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares**”) having an equal right to a return of assets in the winding-up or administration to, and so ranking *pari passu* with, the holders of the most senior class or classes of issued preference shares in the capital of the Issuer from time to time (if any) and which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer but ranking junior to the claims of Senior Creditors (as defined above), and on the assumption that the amount that such holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up or administration were an amount equal to the principal amount of the relevant AT1 Security together with, to the extent not otherwise included within the foregoing, any other amounts attributable to the AT1 Security, including any accrued but unpaid interest thereon (to the extent not cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations, whether or not the conditions referred to in Condition 4(a) are satisfied on the date upon which the same would otherwise be due and payable.

(c) *Winding-up on or after a Conversion Trigger*

If at any time on or after the date on which a Conversion Trigger occurs:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (y) do not provide that the AT1 Securities shall thereby become redeemable or repayable in accordance with these Conditions); or
- (ii) an administrator of the Issuer is appointed and such administrator declares, or gives notice that it intends to declare and distribute a dividend,

but the relevant Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on Conversion in accordance with Condition 7 have not been so delivered, there shall be payable by the Issuer in respect of each AT1 Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such AT1 Security if, throughout such winding-up or administration, such Holder were the holder of such number of Ordinary Shares as that Holder would have been entitled to receive on Conversion in accordance with Condition 7 (ignoring for these purposes the Issuer’s right to make an election for a Conversion Shares Offer to be effected in accordance with Condition 7(b)(iii)), whether or not the conditions referred to in Condition 4(a) are satisfied on the date upon which the same would otherwise be due and payable.

(d) *Set-off*

Subject to applicable law, no AT1 Securityholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the AT1 Securities and each AT1 Securityholder shall, by virtue of its holding of any AT1 Security be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any AT1 Securityholder by the Issuer in respect of, or arising under or in connection with the AT1 Securities is discharged by set-off, such AT1 Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

(e) *Trustee*

The provisions of this Condition 4 apply only to the principal and interest and any other amounts payable in respect of the AT1 Securities and nothing in this Condition 4 or in Condition 7 or 12 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest or other amounts by reason of Condition 4(a) or Condition 6, Conversion pursuant to Condition 7 or any cancellation of the AT1 Securities or write down of any claims in respect thereof following the occurrence of a Non-Qualifying Relevant Event pursuant to Condition 7(a)(vi)). Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in connection with any of the foregoing.

5 Interest

(a) *Interest Rate*

The AT1 Securities bear interest at the applicable Interest Rate from the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 4(a), 6 and 7, interest shall be payable on the AT1 Securities quarterly in arrear on each Interest Payment Date in equal instalments, in each case as provided in this Condition 5, except that the first payment of interest, scheduled to be made on 27 June 2014, will be in respect of the period from and including the Issue Date to but excluding 27 June 2014.

Where it is necessary to compute an amount of interest in respect of any AT1 Security for a period which is less than a complete Interest Period, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year.

(b) *Interest Accrual*

Without prejudice to Conditions 4(a), 6 and 7, the AT1 Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 8 unless, upon due presentation,

payment and performance of all amounts and obligations due in respect of the AT1 Securities is not properly and duly made, in which event interest shall continue to accrue on the AT1 Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any AT1 Security shall be calculated per Calculation Amount. The amount of interest per Calculation Amount shall, save as provided in Condition 5(a) in relation to equal instalments, be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 5(a) for the relevant period, rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

(c) *Initial Fixed Interest Rate*

For the Initial Fixed Rate Interest Period, the Interest Rate will be 7.00 per cent. per annum (the “**Initial Fixed Interest Rate**”).

Subject to Conditions 4(a), 6 and 7, the Interest Payment in relation to the short first coupon scheduled to be paid on 27 June 2014 will (if paid in full) amount to £16.5489 per Calculation Amount and each subsequent quarterly Interest Payment thereafter for each Interest Period commencing in the Initial Fixed Rate Interest Period will (if paid in full) amount to £17.50 per Calculation Amount.

(d) *Reset Interest Rate*

The Interest Rate will be reset (the “**Reset Rate of Interest**”) in accordance with this Condition 5 on each Reset Date. The Reset Rate of Interest in respect of each Reset Period will be determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Reference Rate plus the Margin, converted to a quarterly rate in accordance with market convention (rounded to three decimal places, with 0.0005 rounded down).

(e) *Determination of Reset Rate of Interest*

The Calculation Agent will, as soon as practicable after 11.00 a.m. (London time) on each Reset Determination Date, determine the Reset Rate of Interest in respect of the relevant Reset Period.

(f) *Publication of Reset Rate of Interest*

The Issuer shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 5 to be given to the Trustee, the Registrar, the Paying and Conversion Agents, any stock exchange on which the AT1 Securities are for the time being listed or admitted to trading and, in accordance with Condition 17, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth London business day thereafter.

(g) *Calculation Agent*

With effect from the Reset Determination Date relating to the first Reset Period, and so long as any AT1 Securities remain outstanding thereafter, the Issuer will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

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

(h) *Determinations of Calculation Agent Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5, by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Calculation Agent, the Trustee, the Paying and Conversion Agents and all AT1 Securityholders and (in the absence of wilful default and bad faith) no liability to the AT1 Securityholders or the Issuer shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6 Interest Cancellation

(a) *Interest Payments Discretionary*

Interest on the AT1 Securities is due and payable only at the sole discretion, subject to Conditions 4(a), 6(b) and 7(c), of the Issuer. Accordingly, the Issuer may elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date. If the Issuer does not make an Interest Payment or part thereof on the relevant Interest Payment Date, such non-payment shall evidence either the non-payment and cancellation of such Interest Payment (or relevant part thereof) by reason of it not being due in accordance with Condition 4(a), the cancellation of such Interest Payment (or relevant part thereof) in accordance with Condition 6(b) or 7(c) or, as appropriate, the Issuer's exercise of its discretion otherwise to cancel such Interest Payment (or relevant part thereof) in accordance with this Condition 6(a), and accordingly such interest shall not in any such case be due and payable.

Any Interest Payment (or relevant part thereof) which is cancelled in accordance with this Condition 6 or which is otherwise not due in accordance with Condition 4(a) or Condition 7(c) shall not become due and shall not accumulate or be payable at any time thereafter, and Holders of the AT1 Securities shall have no rights in respect thereof and any such non-payment shall not constitute a default for any purpose on the part of the Issuer.

(b) *Restrictions on Interest Payments*

The Issuer shall cancel any Interest Payment (or, as appropriate, part thereof) on the AT1 Securities in accordance with this Condition 6 in respect of any Interest Payment Date to the extent that the Issuer has an amount of Distributable Items on such Interest Payment Date that is less than the sum of (i) all payments (other than redemption payments) made or declared by the Issuer since the end of the last financial year of the Issuer and prior to such Interest Payment Date on or in respect of any Parity Securities, the AT1 Securities and any Junior Securities and (ii) all payments (other than redemption payments) payable by the Issuer on such Interest Payment Date (x) on the AT1 Securities and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items of the Issuer.

In addition, the Issuer shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Group to be exceeded. "Maximum Distributable Amount" means any applicable maximum distributable amount relating to the Group required to be calculated in accordance with Article 141 of the CRD IV Directive (or as the case may be, any provision of applicable law transposing or implementing the CRD IV Directive, as amended or replaced).

The Issuer shall be responsible for determining compliance with this Condition 6(b) and neither the Trustee nor any Paying and Conversion Agent, Transfer Agent or Calculation Agent shall be required to monitor such compliance or to perform any calculations in connection therewith.

(c) *Notice of Interest Cancellation*

If practicable, the Issuer shall provide notice of any cancellation of any Interest Payment to the Holders of the AT1 Securities in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent on or prior to the relevant Interest Payment Date. However, any failure to provide such notice will not invalidate the cancellation of the relevant Interest Payment.

7 Conversion

(a) *Conversion upon Conversion Trigger*

- (i) If the Conversion Trigger occurs, each AT1 Security shall, subject to and as provided in this Condition 7(a), be irrevocably discharged and satisfied by its Conversion into Ordinary Shares, credited as fully paid, in the manner and in the circumstances described below and the issuance and delivery of such Ordinary Shares to the Settlement Shares Depositary, to be held on trust (on terms permitting a Conversion Shares Offer in accordance with Condition 7(b)(iii)) for the AT1 Securityholders, as provided below. Such Conversion shall occur without delay upon the occurrence of a Conversion Trigger.

The AT1 Securities are not convertible at the option of AT1 Securityholders at any time.

The “**Conversion Trigger**” shall occur if the Issuer determines that the CET1 Ratio as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than 7.00 per cent. on such date.

Following the occurrence of the Conversion Trigger, the Issuer shall give notice thereof to the Holders of the AT1 Securities (the “**Conversion Trigger Notice**”) in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent (i) in the case of a Conversion Trigger that has occurred as at any Quarterly Financial Period End Date, on or within five London business days (or such shorter period as the Relevant Regulator may require) after the relevant Ordinary Reporting Date and (ii) in the case of a Conversion Trigger that has occurred as at any Extraordinary Calculation Date, on or as soon as practicable after such Extraordinary Calculation Date (and, in any event, within such period as the Relevant Regulator may require). The Conversion Trigger Notice shall specify the CET1 Ratio as at the relevant Quarterly Financial Period End Date or Extraordinary Calculation Date (as applicable), the Conversion Price then prevailing (which Conversion Price shall remain subject to any subsequent adjustment pursuant to Condition 7(e) up to the Conversion Date), the Conversion Date and details of the Settlement Shares Depositary, the Notice Cut-Off Date and the Long-Stop Date.

- (ii) If the Conversion Trigger occurs, the AT1 Securities will be converted in whole and not in part on the Conversion Date as provided below, at which point all of the Issuer’s obligations under the AT1 Securities shall be irrevocably discharged and satisfied by the Issuer’s issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date.

If the Issuer has been unable to appoint a Settlement Shares Depositary, it shall make such other arrangements for the issuance and delivery of the Ordinary Shares to be issued and delivered

upon Conversion (or of the Alternative Consideration, as applicable) to the AT1 Securityholders as it shall consider reasonable in the circumstances, which may include issuing and delivering the Ordinary Shares to another independent nominee to be held on trust (on terms permitting a Conversion Shares Offer in accordance with Condition 7(b)(iii)) for the AT1 Securityholders or to the AT1 Securityholders directly, which issuance and delivery shall irrevocably discharge and satisfy all of the Issuer's obligations under the AT1 Securities as if the relevant Ordinary Shares had been issued and delivered to the Settlement Shares Depositary and, in which case, where the context so admits, references in these Conditions to the issue and delivery of Ordinary Shares to the Settlement Shares Depositary shall be construed accordingly and apply *mutatis mutandis*.

- (iii) Provided that the Issuer issues and delivers the relevant Ordinary Shares to the Settlement Shares Depositary in accordance with these Conditions, with effect from the Conversion Date no Holder of the AT1 Securities will have any rights against the Issuer with respect to the repayment of the principal amount of the AT1 Securities or the payment of interest or other amount on or in respect of such AT1 Securities and the principal amount of the AT1 Securities shall equal zero at all times thereafter.
- (iv) Upon its determination that a Conversion Trigger has occurred, the Issuer shall immediately inform the Relevant Regulator and shall, prior to giving the Conversion Trigger Notice, deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Conversion Trigger has occurred and the Trustee shall accept such certificate without any further enquiry as sufficient evidence of such matters, in which event such certificate will be conclusive and binding on the Trustee and the AT1 Securityholders.
- (v) If a Relevant Event shall occur that is a Qualifying Relevant Event, then, where the Conversion Date falls on or after the New Conversion Condition Effective Date, each AT1 Security shall, upon the occurrence of the Conversion Trigger, subject to and as provided in this Condition 7(a) and in Condition 7(j), be converted into Relevant Shares of the Approved Entity.
- (vi) If a Relevant Event shall occur that is a Non-Qualifying Relevant Event, then, with effect from the occurrence of such Non-Qualifying Relevant Event and unless the Conversion Date shall have occurred prior to such date, outstanding AT1 Securities shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently but, instead, upon the occurrence of a Conversion Trigger subsequent to a Non-Qualifying Relevant Event the full principal amount of each AT1 Security will automatically be written down to zero, each AT1 Security will be cancelled, the AT1 Securityholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the AT1 Securities written down pursuant to this Condition and all accrued but unpaid interest and any other amounts payable on each AT1 Security will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger. For the avoidance of doubt, nothing in this Condition 7(a)(vi) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.
- (vii) The Ordinary Shares to be issued and delivered on Conversion shall (except where the Issuer has been unable to appoint a Settlement Shares Depositary as contemplated in Condition 7(a)(ii)) initially be registered in the name of the Settlement Shares Depositary, which (subject to the provisions of Condition 7(b)(iii)) shall hold such Ordinary Shares on trust for the Holders of the AT1 Securities. By virtue of its holding of any AT1 Security, each AT1 Securityholder

shall be deemed to have irrevocably directed the Issuer to issue and deliver such Ordinary Shares to the Settlement Shares Depositary.

Provided that the Issuer so issues and delivers the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary, with effect on and from the Conversion Date, Holders of the AT1 Securities shall have recourse only to the Settlement Shares Depositary for the delivery to them of such Ordinary Shares or, subject to and as provided in Condition 7(b)(iii), the Alternative Consideration. Subject to Condition 4(c), if the Issuer fails to issue and deliver the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary on the Conversion Date, a Holder's only right under the AT1 Securities against the Issuer for any such failure will be to claim to have such Ordinary Shares so issued and delivered.

Following the issuance and delivery of the Ordinary Shares to be delivered on Conversion to the Settlement Shares Depositary on the Conversion Date, the AT1 Securities shall remain in existence until the applicable Settlement Date (or, if earlier, the Long-Stop Date) for the purpose only of evidencing the Holders' right as aforesaid to receive such Ordinary Shares or the Alternative Consideration, as the case may be, to be delivered by the Settlement Shares Depositary.

- (viii) Subject to and as provided in Condition 7(b)(iii), the Settlement Shares Depositary shall hold the Ordinary Shares to be issued and delivered on Conversion on trust for the Holders of the AT1 Securities who shall, for so long as such Ordinary Shares are held by the Settlement Shares Depositary, be entitled to direct the Settlement Shares Depositary to exercise on their behalf all rights of an ordinary shareholder (including voting rights and rights to receive dividends) except that Holders shall not be able to sell or otherwise transfer such Ordinary Shares unless and until such time as they have been delivered to Holders in accordance with Condition 7(m).

(b) Conversion Settlement

- (i) Upon Conversion, the Issuer shall redeem the AT1 Securities at a price equal to their principal amount and the AT1 Securityholders shall be deemed irrevocably to have directed and authorised the Issuer to apply such sum on their behalf in paying up the relevant Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on Conversion of their AT1 Securities.
- (ii) In order to obtain delivery from the Settlement Shares Depositary of Ordinary Shares or, as applicable, the relevant Alternative Consideration following a Conversion, AT1 Securityholders will be required to deliver a Conversion Notice and the relevant Certificate representing the relevant AT1 Security to the Settlement Shares Depositary (or an agent designated for the purpose in the Conversion Trigger Notice) on or before the Notice Cut-off Date in accordance with Condition 7(m). If AT1 Securityholders fail to make such delivery on or before the Notice Cut-off Date or otherwise the relevant Conversion Notice shall have been determined by the Settlement Shares Depositary to be null and void, then the Settlement Shares Depositary shall continue to hold the relevant Ordinary Shares or the relevant Alternative Consideration, as the case may be, until a valid Conversion Notice (and the Certificate representing the relevant AT1 Securities) is so delivered.
- (iii) Not later than the tenth London business day following the Conversion Date, the Issuer may, in its sole and absolute discretion, make an election by giving notice to the Holders of the AT1 Securities in accordance with Condition 17 (a "**Conversion Shares Offer Election Notice**")

that the Settlement Shares Depositary (or an agent on its behalf) will make an offer, in the Issuer's sole and absolute discretion, of all or some of the Ordinary Shares to be delivered on Conversion to, in the Issuer's sole and absolute discretion, all or some of the Issuer's Shareholders at such time, such offer to be at a cash price per Ordinary Share being no less than the Conversion Price, all in accordance with the following provisions (the "**Conversion Shares Offer**").

A Conversion Shares Offer Election Notice shall specify the period of time for which the Conversion Shares Offer will be open (the "**Conversion Shares Offer Period**"). The Conversion Shares Offer Period shall end no later than 40 London business days after the giving of the Conversion Shares Offer Election Notice by the Issuer.

Upon expiry of the Conversion Shares Offer Period, the Settlement Shares Depositary will provide notice to the Holders of the AT1 Securities in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent of the composition of the Alternative Consideration (and of the deductions to the cash component, if any, of the Alternative Consideration (as set out in the definition of Alternative Consideration)) per Calculation Amount. The Alternative Consideration shall be held on trust by the Settlement Shares Depositary for the AT1 Securityholders. The cash component of any Alternative Consideration shall be payable by the Settlement Shares Depositary to the Holders of the AT1 Securities in pounds sterling and whether or not the conditions referred to in Condition 4(a) are satisfied.

The Issuer reserves the right, in its sole and absolute discretion, to elect that the Settlement Shares Depositary terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period. If the Issuer makes such election, it will provide at least three London business days' notice to the Holders of the AT1 Securities in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent and the Settlement Shares Depositary may then, in its sole and absolute discretion, take steps to deliver to Holders of the AT1 Securities the Ordinary Shares to be delivered on Conversion at a time that is earlier than the time at which they would have otherwise received the Alternative Consideration had the Conversion Shares Offer been completed.

By virtue of its holding of any AT1 Security, each Holder of the AT1 Securities acknowledges and agrees that if the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Settlement Shares Depositary, such Holder shall be deemed to have: (i) irrevocably consented to any Conversion Shares Offer and, notwithstanding that such Ordinary Shares are held by the Settlement Shares Depositary on trust for the AT1 Securityholders, to the Settlement Shares Depositary using the Ordinary Shares delivered to it on Conversion to settle any Conversion Shares Offer; (ii) irrevocably consented to the transfer of the interest such Holder has in the Ordinary Shares delivered on Conversion to the Settlement Shares Depositary to one or more purchasers identified by the Settlement Shares Depositary in connection with the Conversion Shares Offer; (iii) irrevocably agreed that the Issuer and the Settlement Shares Depositary may take any and all actions necessary to conduct the Conversion Shares Offer in accordance with the terms of the AT1 Securities; and (iv) irrevocably agreed that none of the Issuer, the Trustee or the Settlement Shares Depositary shall, to the extent permitted by applicable law, incur any liability to the Holders of the AT1 Securities in respect of the Conversion Shares Offer (except for the obligations of the Settlement Shares Depositary in respect of the Holders' entitlement to, and the subsequent delivery of, any Alternative Consideration).

Any Conversion Shares Offer shall only be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that the Issuer, in its sole and absolute discretion, determines that the Conversion Shares Offer is appropriate and practicable.

The Trustee shall not be responsible for monitoring any Conversion Shares Offer, nor for monitoring or enforcing the obligations of the Settlement Shares Depositary in respect thereof. Following Conversion and delivery of the Ordinary Shares to the Settlement Shares Depositary, AT1 Securityholders must look to the Settlement Shares Depositary for any Ordinary Shares or Alternative Consideration due to them at the relevant time.

(c) *Accrued Interest on Conversion*

Any interest in respect of an Interest Payment Date which falls on or after the date of a Conversion Trigger shall be deemed to have been cancelled upon the occurrence of such Conversion Trigger and shall not become due and payable.

(d) *Conversion Price*

The Issuer shall issue and deliver to the Settlement Shares Depositary on the Conversion Date a number of Ordinary Shares in respect of each AT1 Security determined by dividing the principal amount of such AT1 Security by the Conversion Price prevailing on the Conversion Date.

The “**Conversion Price**” per Ordinary Share in respect of the AT1 Securities is £0.643, subject to adjustment in the circumstances described in Condition 7(e).

Once an AT1 Security has been converted into Ordinary Shares, there is no provision for the reconversion of such Ordinary Shares back into AT1 Securities.

As noted above, if the Conversion Trigger occurs, the AT1 Securities will be converted in whole and not in part on the Conversion Date, at which point all of the Issuer’s obligations under the AT1 Securities shall be irrevocably discharged and satisfied by the Issuer’s issuance of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date. In addition to, or as an alternative to, any Conversion Shares Offer carried out in accordance with Condition 7(b)(iii), the Issuer may (but is not obliged to) procure that a share sale facility is established by the Settlement Shares Depositary or another third party following a Conversion Trigger to enable AT1 Securityholders (at their option) to sell any Ordinary Shares which they are entitled to receive from the Settlement Shares Depositary. If such a share sale facility is established, the Issuer would also expect to provide a preferential allocation to existing Shareholders, where in the Issuer’s sole discretion it considers it practicable to do so and subject to applicable laws and regulations.

(e) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification, redesignation or subdivision in relation to the Ordinary Shares which alters the number of Ordinary Shares in issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification, redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification, redesignation or subdivision, as the case may be; and
- B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares to Shareholders credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Cash Dividend which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Cash Dividend in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are or are expressed to be issued in lieu of a dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to the Shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such issue; and
- B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) If and whenever the Issuer shall pay any Extraordinary Dividend to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
- B is the portion of the aggregate Extraordinary Dividend attributable to one

Ordinary Share, with such portion being determined by dividing the aggregate Extraordinary Dividend by the number of Ordinary Shares entitled to receive the relevant Extraordinary Dividend. If the Extraordinary Dividend shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 7(e)(iii), the first date on which the Ordinary Shares are traded ex-the Extraordinary Dividend on the Relevant Stock Exchange.

“**Extraordinary Dividend**” means any Cash Dividend that is expressly declared by the Issuer to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders as a class or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

“**Cash Dividend**” means any dividend or distribution in respect of the Ordinary Shares which is to be paid or made to Shareholders as a class in cash (in whatever currency) and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital.

- (iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or the Issuer or any member of the Group or (at the direction or request or pursuant to arrangements with the Issuer or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the Effective Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share on the Effective Date; and
- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or

rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate,

provided that if, on the Effective Date, such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 7(e)(iv), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 7(e)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

Notwithstanding the foregoing provisions:

- (A) where the events or circumstances giving rise to any adjustment pursuant to this Condition 7(e) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result;
- (B) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once, (ii) to ensure that the economic effect of an Extraordinary Dividend is not taken into account more than once and (iii) to reflect a redenomination of the issued Ordinary Shares for the time being into a new currency; and
- (C) for the avoidance of doubt, the issue of Ordinary Shares upon a Conversion or upon any conversion or exchange in respect of any other Securities or the exercise of any other options, warrants or other rights shall not result in an adjustment to the Conversion Price.

(f) *Determination of Consideration Receivable*

For the purpose of any calculation of the consideration receivable or price pursuant to Condition 7(e)(iv), the following provisions shall apply:

- (1) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (2) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any

options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

- (3) if the consideration or price determined pursuant to (1) or (2) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (1) above) or the relevant date of first public announcement (in the case of (2) above);
- (4) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (5) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity.

(g) Decision of an Independent Adviser

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, the Issuer may at its discretion appoint an Independent Adviser and, following consultation between the Issuer and such Independent Adviser, a written opinion of such Independent Adviser in respect thereof shall be conclusive and binding on the Issuer and the AT1 Securityholders, save in the case of manifest error.

(h) Share Option Schemes, Dividend Reinvestment Plans

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its Subsidiaries or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme.

(i) Rounding Down and Notice of Adjustment to the Conversion Price

On any adjustment, if the resultant Conversion Price has more decimal places than the initial Conversion Price, it shall be rounded to the same number of decimal places as the initial Conversion

Price. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to AT1 Securityholders promptly after the determination thereof in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent.

The Conversion Price shall not in any event be reduced to below the nominal value of an Ordinary Share for the time being. The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below such nominal value.

(j) *Qualifying Relevant Event*

- (i) If a Qualifying Relevant Event shall occur, the AT1 Securities shall, where the Conversion Date (if any) falls on or after the New Conversion Condition Effective Date, be converted on such Conversion Date into Relevant Shares of the Approved Entity (save as provided below in this Condition 7(j)(i) *mutatis mutandis* as provided in this Condition 7) at a Conversion Price that shall be the New Conversion Price. Such conversion shall be effected by the delivery by the Issuer of such number of Ordinary Shares as is determined in accordance with Condition 7(d) to, or to the order of, the Approved Entity. Such delivery shall irrevocably discharge and satisfy all of the Issuer's obligations under the AT1 Securities (but shall be without prejudice to the rights of the Trustee and the AT1 Securityholders against the Approved Entity in connection with its undertaking to deliver Relevant Shares as provided in the definition of "New Conversion Condition" in Condition 7(j)(v) below). Such delivery shall be in consideration of the Approved Entity irrevocably undertaking, for the benefit of the AT1 Securityholders, to deliver the Relevant Shares to the Settlement Shares Depositary as aforesaid. For the avoidance of doubt, the Issuer may elect that a Conversion Shares Offer be made by the Settlement Shares Depositary in respect of the Relevant Shares.
- (ii) The New Conversion Price shall be subject to adjustment in the circumstances provided in this Condition 7 (with such modifications and amendments as an Independent Adviser acting in good faith shall determine to be appropriate) and the Issuer shall give notice to AT1 Securityholders of the New Conversion Price and of any such modifications and amendments in accordance with Condition 17 and to the Trustee and the Principal Paying and Conversion Agent.
- (iii) In the case of a Qualifying Relevant Event:
 - (1) the Issuer shall, on or prior to the New Conversion Condition Effective Date, enter into such agreements and arrangements, which may include deeds supplemental to the Trust Deed, and such amendments and modifications to the Trust Deed shall be made to ensure that, with effect from the New Conversion Condition Effective Date, the AT1 Securities shall (following the occurrence of a Conversion Trigger) be convertible into, or exchangeable for, Relevant Shares of the Approved Entity, *mutatis mutandis* in accordance with, and subject to, this Condition 7 (as may be so supplemented, amended or modified) at the New Conversion Price; and

- (2) the Issuer shall, where the Conversion Date falls on or after the New Conversion Condition Effective Date, procure the issue and/or delivery of the relevant number of Relevant Shares in the manner provided in this Condition 7, as may be supplemented, amended or modified as provided above.

The Trustee shall be obliged (at the expense of the Issuer) to concur with the Issuer in making any such amendments and modifications to the Trust Deed, and to execute any such deeds supplemental to the Trust Deed, provided that the Trustee shall not be bound to do so if any such amendments, modifications or deeds would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the AT1 Securities.

- (iv) Within 10 days following the occurrence of a Relevant Event, the Issuer shall give notice thereof to the AT1 Securityholders (a “**Relevant Event Notice**”) in accordance with Condition 17.

The Relevant Event Notice shall specify:

- (1) the identity of the Acquiror;
- (2) whether the Relevant Event is a Qualifying Relevant Event or a Non-Qualifying Relevant Event;
- (3) in the case of a Qualifying Relevant Event, the New Conversion Price;
- (4) in the case of a Non-Qualifying Relevant Event, that, with effect from the occurrence of the Relevant Event and unless the Conversion Trigger shall have occurred prior to the date of such Relevant Event, outstanding AT1 Securities shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently but that, instead, upon the occurrence of a subsequent Conversion Trigger (if any) the full principal amount of each AT1 Security will automatically be written down to zero, each AT1 Security will be cancelled, the AT1 Securityholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the AT1 Securities written down pursuant to this Condition and all accrued but unpaid interest and any other amounts payable on each AT1 Security will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

- (v) As used herein:

“**Acquiror**” means the person which, following a Relevant Event, controls the Issuer.

“**Approved Entity**” means a body corporate that is incorporated or established under the laws of an OECD member state and which, on the occurrence of the Relevant Event, has in issue Relevant Shares.

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

The “**New Conversion Condition**” shall be satisfied if by not later than seven days following the occurrence of a Relevant Event where the Acquiror is an Approved Entity, the Issuer shall have entered into arrangements to its satisfaction with the Approved Entity pursuant to which the Approved Entity irrevocably undertakes to the Trustee, for the benefit of the AT1 Securityholders, to deliver the Relevant Shares to the Settlement Shares Depositary upon a Conversion of the AT1 Securities, all as contemplated in Condition 7(j)(i).

“**New Conversion Condition Effective Date**” means the date with effect from which the New Conversion Condition shall have been satisfied.

“**New Conversion Price**” means the amount determined by the Issuer in accordance with the following formula:

$$\text{NCP} = \text{ECP} \times \frac{\text{VWAPRS}}{\text{VWAPOS}}$$

where:

NCP is the New Conversion Price.

ECP is the Conversion Price in effect on the dealing day immediately prior to the New Conversion Condition Effective Date.

VWAPRS means the average of the Volume Weighted Average Price of the Relevant Shares (translated, if necessary, into pounds sterling at the Prevailing Rate on the relevant dealing day) on each of the 10 dealing days ending on the dealing day prior to the date the Relevant Event shall have occurred (and where references in the definition of “Volume Weighted Average Price” to “Ordinary Shares” shall be construed as a reference to the Relevant Shares and in the definition of “dealing day”, references to the “Relevant Stock Exchange” shall be to the primary Regulated Market on which the Relevant Shares are then listed, admitted to trading or accepted for dealing).

VWAPOS is the average of the Volume Weighted Average Price of the Ordinary Shares (translated, if necessary, into pounds sterling at the Prevailing Rate on the relevant dealing day) on each of the 10 dealing days ending on the dealing day prior to the date the Relevant Event shall have occurred.

“**Non-Qualifying Relevant Event**” means a Relevant Event that is not a Qualifying Relevant Event.

“**Qualifying Relevant Event**” means a Relevant Event where:

- (i) the Acquiror is an Approved Entity; and
- (ii) the New Conversion Condition is satisfied.

“**Regulated Market**” means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state.

A “**Relevant Event**” shall occur if any person or persons acting in concert (as defined in the Takeover Code of the United Kingdom Panel on Takeovers and Mergers) acquires control of the Issuer (other than as a result of a Newco Scheme).

For the purposes of the definition of “Relevant Event”, “**control**” means:

- (a) the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the issued Ordinary Shares of the Issuer; or
- (b) the right to appoint and/or remove all or the majority of the members of the board of directors of the Issuer, whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise;

and “**controlled**” shall be construed accordingly.

“**Relevant Shares**” means ordinary share capital of the Approved Entity that constitutes equity share capital or the equivalent (or depositary or other receipts representing the same) which is listed and admitted to trading on a Regulated Market.

(k) *Procedure for Settlement and Delivery of Ordinary Shares on Conversion*

Ordinary Shares to be issued and delivered upon a Conversion in respect of the AT1 Securities shall be issued and delivered subject to and as provided below.

(l) *Fractions*

Fractions of Ordinary Shares will not be delivered to the Settlement Shares Depositary or to Holders of AT1 Securities upon a Conversion and no cash payment will be made in lieu thereof. However, if one or more Conversion Notices and relevant Certificates are delivered to the Settlement Shares Depositary such that any Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, as applicable) to be issued and delivered to a Holder on Conversion are to be registered in the same name, the number of Ordinary Shares to be issued and delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such AT1 Securities to be converted.

(m) *Procedure for Delivery in respect of a Conversion upon Conversion Trigger*

- (i) Subject as provided in Condition 7(m)(ii) below, in order to obtain delivery of the relevant Ordinary Shares or the Alternative Consideration, as applicable, following a Conversion of the AT1 Securities, the relevant AT1 Securityholder must deliver a duly completed Conversion Notice, together with the relevant Certificates representing the AT1 Securities to the Settlement Shares Depositary or the specified office of its agent(s) designated for the purpose in the Conversion Trigger Notice by the Notice Cut-off Date.

If such delivery is made or notice is given after the end of normal business hours at the specified office of the Settlement Shares Depositary or, as appropriate, its designated agent as aforesaid or on a day which is not a business day in such place, such delivery or notice shall be deemed for all purposes of these Conditions to have been made or given on the next following business day.

Subject as otherwise provided herein, the relevant Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will be delivered by or on behalf of the Settlement Shares Depositary in accordance with the instructions given in the relevant Conversion Notice.

Any cash component of any Alternative Consideration shall be paid by transfer to a pounds sterling account with a bank in London in accordance with the instructions contained in the relevant Conversion Notice.

- (ii) If not previously cancelled on the relevant Settlement Date, the relevant AT1 Securities shall be cancelled on the Long-Stop Date and any Holder of AT1 Securities delivering a Conversion Notice after the Notice Cut-off Date will have to provide evidence of its entitlement to the

relevant Ordinary Shares or the relevant Alternative Consideration, as applicable, satisfactory to the Settlement Shares Depositary in its sole and absolute discretion in order to receive delivery of such Ordinary Shares or such Alternative Consideration, as applicable. The Issuer shall have no liability to any Holder of the AT1 Securities for any loss resulting from such Holder not receiving any Ordinary Shares or the relevant Alternative Consideration, as applicable, or from any delay in the receipt thereof, in each case as a result of such Holder failing to submit a valid Conversion Notice and the relevant Certificate, on a timely basis or at all.

- (iii) Any determination as to whether any Conversion Notice has been properly completed and delivered together with the relevant Certificate(s) as provided in these Conditions shall be made by the Settlement Shares Depositary in its sole discretion and shall be conclusive and binding on the relevant AT1 Securityholders.

(n) *Taxes and Duties*

Neither the Issuer, nor any member of the Group shall be liable for any taxes or capital, stamp, issue and registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the issue and delivery of Ordinary Shares on Conversion. An AT1 Securityholder must pay any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary on behalf of such AT1 Securityholder and such AT1 Securityholder must pay all, if any, such taxes or duties arising by reference to any disposal or deemed disposal of such AT1 Securityholder's AT1 Securities or interest therein. Any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on delivery or transfer of Ordinary Shares to a purchaser in any Conversion Shares Offer shall be payable by the relevant purchaser of those Ordinary Shares.

(o) *Delivery*

The Ordinary Shares to be delivered on Conversion will be issued and delivered to the Settlement Shares Depositary (or as otherwise provided in these Conditions) on trust (on terms permitting a Conversion Shares Offer in accordance with Condition 7(b)(iii)) for the Holders on the Conversion Date.

Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will be delivered to Holders in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST, in which case Ordinary Shares will be delivered in certificated form. Where any Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) are to be delivered to Holders by the Settlement Shares Depositary through CREST, they will be delivered to the account specified by the relevant AT1 Securityholder in the relevant Conversion Notice, on the relevant Settlement Date. Where any Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) are to be delivered to Holders in certificated form, a certificate in respect thereof will be dispatched by mail free of charge to the relevant AT1 Securityholder or as it may direct in the relevant Conversion Notice (in each case uninsured and at the risk of the relevant recipient) within 28 days following delivery of the relevant Conversion Notice.

The Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will not be available for issue or delivery (i) to, or to a nominee for, Euroclear or Clearstream, Luxembourg or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the

United Kingdom, in each case at any time prior to the “abolition day” as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom or (iii) to the CREST account of such a person described in (i) or (ii).

(p) *Ordinary Shares*

The Ordinary Shares issued and delivered on Conversion will be fully paid and non-assessable and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law, and except that any Ordinary Shares so issued and delivered will not rank for (or, as the case may be, the relevant Holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

(q) *Purchase or Redemption of Ordinary Shares*

The Issuer or any Subsidiary of the Issuer may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares or securities of the Issuer (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of AT1 Securityholders.

(r) *Covenants*

Whilst any AT1 Security remains outstanding, the Issuer shall (if and to the extent permitted by the Applicable Regulations from time to time and only to the extent that such covenant would not cause a Capital Disqualification Event to occur), save with the approval of an Extraordinary Resolution:

- (i) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Conversion, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (ii) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that the Newco Scheme is an Exempt Newco Scheme and that immediately after completion of the Scheme of Arrangement such amendments are made to these Conditions as are necessary to ensure that the AT1 Securities may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions.

The Trustee shall be obliged (at the expense of the Issuer) to concur in effecting such amendments, provided that the Trustee shall not be bound so to concur if to do so would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the AT1 Securities;

- (iii) use all reasonable endeavours to ensure that the Ordinary Shares issued upon Conversion shall be admitted to listing and trading on the Relevant Stock Exchange;
- (iv) notwithstanding the provisions of Condition 7(b)(iii), at all times keep available for issue, free from pre-emptive or other preferential rights, sufficient Ordinary Shares to enable Conversion of the AT1 Securities to be satisfied in full;

- (v) in circumstances where these Conditions contemplate the appointment of a Settlement Shares Depositary, the Issuer shall use all reasonable endeavours promptly to appoint such Settlement Shares Depositary; and
- (vi) where these Conditions require or provide for a determination by an Independent Adviser, the Issuer shall use all reasonable endeavours promptly to appoint an Independent Adviser for such purpose.

8 Redemption and Purchase

(a) No Fixed Redemption Date

The AT1 Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 4(a)) only have the right to repay them or purchase them in accordance with the following provisions of this Condition 8.

(b) Conditions to Redemption and Purchase

Any redemption or purchase (other than a purchase in the ordinary course of a business dealing in securities) of the AT1 Securities by or on behalf of the Issuer or its Subsidiaries in accordance with Condition 8(c), (d), (e) or (g) is subject to:

- (i) the Issuer giving notice to the Relevant Regulator and the Relevant Regulator granting permission to the Issuer to redeem or purchase the relevant AT1 Securities (in each case to the extent, and in the manner, required by the relevant Applicable Regulations);
- (ii) in respect of any redemption proposed to be made prior to the fifth anniversary of the Issue Date, if and to the extent then required under the Applicable Regulations (A) in the case of redemption following the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that the relevant change or event is material and was not reasonably foreseeable by the Issuer as at the Issue Date or (B) in the case of redemption following the occurrence of a Capital Disqualification Event, the Issuer having demonstrated to the satisfaction of the Relevant Regulator that the relevant change was not reasonably foreseeable by the Issuer as at the Issue Date;
- (iii) in the case of any redemption of the AT1 Securities, the Issuer being solvent (as described in Condition 4(a)) both immediately prior to and immediately following such redemption;
- (iv) in the case of any redemption of the AT1 Securities, Condition 8(f); and
- (v) compliance by the Issuer with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the relevant Applicable Regulations for the time being.

Article 78 of the CRD IV Regulation provides that the Relevant Regulator shall, subject as provided in Article 78 and below, grant permission for redemption where either:

- (1) on or before the relevant redemption date, the Issuer replaces the AT1 Securities with instruments qualifying as Tier 1 Capital of an equal or higher quality on terms that are sustainable for the income capacity of the Issuer; or*
- (2) the Issuer has demonstrated to the satisfaction of the Relevant Regulator that its Tier 1 Capital and Tier 2 capital would, following such redemption, exceed the capital ratios required under CRD IV by a margin that the Relevant Regulator may consider necessary on the basis set out in CRD IV.*

Further, Article 78 provides that the Relevant Regulator may only permit the Issuer to redeem the AT1 Securities before the fifth anniversary of the Issue Date if, in addition to meeting one of the conditions referred to in paragraphs (1) or (2) above, either of the following is also met:

- (a) there is (or is expected to be) a change in the regulatory classification of the instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, the Relevant Regulator considers such change to be sufficiently certain and the Issuer demonstrates to the satisfaction of the Relevant Regulator that the regulatory reclassification was not reasonably foreseeable at the Issue Date; or*
- (b) there is (or is expected to be) a change in the applicable tax treatment of the instruments and the Issuer demonstrates to the satisfaction of the Relevant Regulator that such Tax Event is material and was not reasonably foreseeable at the Issue Date.*

Prior to the publication of any notice of redemption pursuant to this Condition 8 (other than redemption pursuant to Condition 8(c)), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the relevant event giving rise to the right to redeem has occurred and is continuing and the details thereof, and the Trustee shall be entitled to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event such certificate shall be conclusive and binding on the Trustee and the AT1 Securityholders.

(c) Issuer's Call Option

Subject to Conditions 4(a), 8(b) and 8(f), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 17, the Trustee, the Registrar and the Principal Paying and Conversion Agent, which notice shall, save as provided in Conditions 4(a), 8(b) and 8(f), be irrevocable, elect to redeem all, but not some only, of the AT1 Securities on the First Reset Date or on any Reset Date thereafter at their principal amount, together with any Accrued Interest. Upon the relevant Reset Date, the Issuer shall, subject to Conditions 4(a), 8(b) and 8(f), redeem the AT1 Securities as aforesaid.

(d) Redemption Due to Taxation

If at any time a Tax Event has occurred and is continuing, then the Issuer may, subject to Conditions 4(a), 8(b) and 8(f) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying and Conversion Agent, the Registrar and, in accordance with Condition 17, the AT1 Securityholders (which notice shall, subject as provided in Conditions 4(a), 8(b) and 8(f), be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the AT1 Securities at their principal amount, together with any Accrued Interest. Upon the expiry of such notice, the Issuer shall, subject to Conditions 4(a), 8(b) and 8(f), redeem the AT1 Securities as aforesaid.

(e) Redemption for Regulatory Purposes

If at any time a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Conditions 4(a), 8(b) and 8(f) and having given not less than 30 nor more than 60 days' notice to the AT1 Securityholders in accordance with Condition 17, the Trustee, the Principal Paying and Conversion Agent and the Registrar (which notice shall, subject as provided in Conditions 4(a), 8(b) and 8(f), be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the AT1 Securities at their principal amount, together with any Accrued Interest. Upon

the expiry of such notice, the Issuer shall, subject to Conditions 4(a), 8(b) and 8(f), redeem the AT1 Securities as aforesaid.

(f) *Conversion Trigger*

The Issuer may not give a notice of redemption of the AT1 Securities pursuant to this Condition 8 if a Conversion Trigger Notice has been given. If a Conversion Trigger Notice is given after a notice of redemption shall have been given by the Issuer but before the relevant redemption date, such notice of redemption shall automatically be revoked and be null and void and the relevant redemption shall not be made.

(g) *Purchases*

The Issuer (or any Subsidiary of the Issuer) may, subject to Condition 8(b), at any time purchase or procure others to purchase beneficially for its account AT1 Securities in any manner and at any price.

(h) *Cancellation*

All AT1 Securities redeemed by the Issuer pursuant to this Condition 8 will forthwith be cancelled. All AT1 Securities repurchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, surrendered for cancellation to the Principal Paying and Conversion Agent. AT1 Securities so surrendered shall be cancelled forthwith. Any AT1 Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such AT1 Securities shall be discharged.

(i) *Trustee Not Obligated to Monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 8 and will not be responsible to AT1 Securityholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 8, it shall be entitled to assume that no such event or circumstance exists.

9 Payments

(a) *Method of Payment*

- (i) Payments of principal to be made to Holders in respect of AT1 Securities and payments of Accrued Interest payable on a redemption of AT1 Securities (other than on an Interest Payment Date) shall, in each case, be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in (ii) below.
- (ii) Payments of interest to be made to Holders in respect of AT1 Securities due on an Interest Payment Date shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”).
- (iii) Each payment in respect of the AT1 Securities pursuant to Condition 9(a)(i) and (ii) will be made by transfer to a pounds sterling account maintained by the payee with a bank in London. Payment instructions (for value on the due date or, if that is not a London business day, for value the first following day which is a London business day) will be initiated on the London business day preceding the due date for payment (for value the next London business day).

- (iv) Payments of any cash component of any Alternative Consideration shall be made in accordance with the provisions of Condition 7.

(b) *Payments subject to laws*

Save as provided in Condition 10, payments under the AT1 Security will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or its Paying and Conversion Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. No commission or expenses shall be charged to the AT1 Securityholders in respect of such payments.

(c) *Appointment of Agents*

The initial Principal Paying and Conversion Agent, the other Paying and Conversion Agents, Registrar, Transfer Agents and Calculation Agent and their respective specified offices are listed below. The Principal Paying and Conversion Agent, the Paying and Conversion Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any AT1 Securityholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying and Conversion Agent, any other Paying and Conversion Agent, the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying and Conversion Agents, Calculation Agents or Transfer Agents, provided that there shall at all times be (i) a Principal Paying and Conversion Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Calculation Agents where the Conditions so require, (v) such other agents as may be required by any other stock exchange on which the AT1 Securities may be listed, in each case as approved by the Trustee and (vi) a Paying and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer shall, in the event that it would be obliged to pay additional amounts on or in respect of any AT1 Security pursuant to Condition 10 by virtue of such AT1 Security being presented for payment in the United Kingdom, appoint and at all times thereafter maintain a Paying and Conversion Agent in a jurisdiction within Europe (other than the United Kingdom) and which otherwise complies with the foregoing provisions of this Condition 9(c).

Notice of any such change or any change of any specified office shall promptly be given to the Trustee and to the AT1 Securityholders in accordance with Condition 17.

(d) *Non-Business Days*

If any date for payment in respect of any AT1 Security is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation (where presentation and surrender is required pursuant to these Conditions) which is a London business day.

10 Taxation

All payments of principal and/or interest to AT1 Securityholders by or on behalf of the Issuer in respect of the AT1 Securities shall be made without withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts (“**Additional Amounts**”) as will result (after such withholding or deduction) in receipt by the AT1 Securityholders of the sums which would have been receivable (in the absence of such withholding or deduction) by them in respect of their AT1 Securities; except that no such Additional Amounts shall be payable with respect to any AT1 Security:

- (a) held by or on behalf of any Holder who is liable to such tax, duty, assessment or governmental charge in respect of such AT1 Security by reason of such Holder having some connection with the United Kingdom other than the mere holding of such AT1 Security; or
- (b) to, or to a third party on behalf of, a Holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such Holder proves that he is not entitled so to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a Holder that is a partnership, or a Holder that is not the sole beneficial owner of the AT1 Security, or which holds the AT1 Security 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 its beneficial or distributive share of the payment; or
- (d) presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to such additional amounts on presenting or surrendering the same for payment at the expiry of such period of 30 days; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) in respect of any AT1 Security presented or surrendered for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting or surrendering the relevant AT1 Security to another Paying and Conversion Agent in a member state of the European Union.

11 Prescription

Claims against the Issuer for payment in respect of the AT1 Securities, shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12 Non-payment when due

The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.

(a) *Proceedings for Winding-up*

If the Issuer shall not make payment of principal in respect of the AT1 Securities for a period of seven days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the AT1 Securities and the Trustee may institute proceedings for the winding-up of the Issuer. In the event of a winding-up or liquidation of the Issuer (whether or not instituted by the Trustee), the Trustee may prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer, such claim being as set out in Condition 4(b) or Condition 4(c) as applicable.

(b) *Enforcement*

Without prejudice to Condition 12(a), the Trustee may, at its discretion, and without notice institute such proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the AT1 Securities (other than any payment obligation of the Issuer under or arising from the AT1 Securities or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the AT1 Securities, including any damages awarded for breach of any obligations but excluding any amount due to the Trustee in respect of its fees and/or expenses) and in no event shall the Issuer, 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 pursuant to these Conditions and the Trust Deed. Nothing in this Condition 12(b) shall, however, prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer or exercising rights under Condition 4(b) or, as applicable, 4(c) in respect of any payment obligations of the Issuer arising from or in respect of the AT1 Securities or the Trust Deed (including any damages awarded for breach of any obligations).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 12(a) or (b) above against the Issuer to enforce the terms of the Trust Deed or the AT1 Securities or any other action under or pursuant to the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the AT1 Securityholders or in writing by the holders of at least one-quarter in principal amount of the AT1 Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Right of AT1 Securityholders*

No AT1 Securityholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or to claim in the liquidation of the Issuer or to prove in a winding-up unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, in which case the AT1 Securityholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 12.

(e) *Extent of AT1 Securityholder's remedy*

No remedy against the Issuer, other than as referred to in this Condition 12, shall be available to the Trustee or the AT1 Securityholders, whether for the recovery of amounts owing in respect of the AT1 Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the AT1 Securities or under the Trust Deed.

13 Meetings of AT1 Securityholders, Modification, Waiver and Substitution

(a) *Meetings of AT1 Securityholders*

The Trust Deed contains provisions for convening meetings of AT1 Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be requisitioned by AT1 Securityholders holding not less than 10 per cent. in aggregate principal amount of the AT1 Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in aggregate principal amount of the AT1 Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing AT1 Securityholders whatever the aggregate principal amount of the AT1 Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend any date of optional redemption of the AT1 Securities or any date for payment of interest on the AT1 Securities, (ii) to reduce or cancel the principal amount of the AT1 Securities, (iii) to reduce the rate or rates of interest in respect of the AT1 Securities or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the amounts of any interest in respect of the AT1 Securities, (iv) to vary any method of, or basis for, calculating the amounts payable on redemption of the AT1 Securities, (v) to vary the currency or currencies of payment or denomination of the AT1 Securities, (vi) to modify the provisions concerning the quorum required at any meeting of AT1 Securityholders or the majority required to pass the Extraordinary Resolution or (vii) to modify the provisions of Condition 7 (other than pursuant to or as a result of any amendment to these Conditions and the Trust Deed made pursuant to and in accordance with Condition 7(j) and/or Condition 7(r)(ii)), in which case the necessary quorum shall be one or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the AT1 Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on AT1 Securityholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the AT1 Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of AT1 Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more AT1 Securityholders.

No modification to these Conditions or any other provisions of the Trust Deed (whether pursuant to this Condition 13 or otherwise) shall become effective unless the Issuer shall have given such notice as is required by, and received such permission from, the Relevant Regulator as is required by the Relevant Regulator under the Applicable Regulations. The Trustee shall be entitled to request and rely upon a certificate from two Authorised Signatories of the Issuer as to the satisfaction of this condition precedent to any modification without further enquiry.

(b) *Modification of the Trust Deed*

The Trustee may agree, without the consent of the AT1 Securityholders, 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 AT1 Securityholders. Any such modification, authorisation or waiver shall be binding on the AT1 Securityholders and, if the Trustee so requires, shall be notified to the AT1 Securityholders as soon as practicable.

(c) *Newco Scheme*

In the event of a Newco Scheme, the Issuer may, subject as provided in Condition 13(d) and the Trust Deed, without the consent of AT1 Securityholders, at its option, procure that Newco is substituted under such AT1 Securities as the Issuer.

At the request of the Issuer, the Trustee shall, without the requirement for any consent or approval of the AT1 Securityholders, concur with the Issuer in the substitution in place of the Issuer (or any previous substituted company) as principal debtor under the Trust Deed and the AT1 Securities of Newco, subject to the provisions set out in Condition 7(r)(ii).

(d) *Substitution*

The Trust Deed contains provisions (in the case of (i) below) requiring the Trustee and (in the case of (ii) below) permitting the Trustee (subject to the Issuer giving such notice to, and receiving such permission from, the Relevant Regulator as may from time to time be required by the Relevant Regulator under the Applicable Regulations), to agree, without the consent of the AT1 Securityholders, to (i) any substitution as provided in and for the purposes of Condition 13(c) or (ii) the substitution of the Issuer's successor in business in place of the Issuer, or of any previously substituted company, as principal debtor under the Trust Deed and the AT1 Securities subject to (in the case of (ii) only) the Trustee being of the opinion that such substitution will not be materially prejudicial to the interests of the AT1 Securityholders and subject to (in the case of (i) and (ii)) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution, the Trustee may agree, without the consent of the AT1 Securityholders, to a change of the law governing the AT1 Securities and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the AT1 Securityholders.

(e) *Entitlement of the Trustee*

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 AT1 Securityholders as a class but shall not have regard to any interests arising from circumstances particular to individual AT1 Securityholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual AT1 Securityholders (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 AT1 Securityholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual AT1 Securityholders except to the extent already provided for in Condition 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

(f) *Notification to the AT1 Securityholders*

Any modification, abrogation, waiver, authorisation or substitution made pursuant to these Conditions and the Trust Deed shall be binding on the AT1 Securityholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the AT1 Securityholders as soon as practicable thereafter in accordance with Condition 17.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the AT1 Securityholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the AT1 Securityholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the AT1 Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may rely without liability to AT1 Securityholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice in which event such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the AT1 Securityholders.

15 Replacement of AT1 Securities

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to AT1 Securityholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Certificates) and otherwise as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16 Further Issues

The Issuer may, from time to time, without the consent of the AT1 Securityholders, create and issue further securities either having the same terms and conditions as the AT1 Securities in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the AT1 Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the AT1 Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the AT1 Securities. Any further securities forming a single series with the

outstanding securities of any series (including the AT1 Securities) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the AT1 Securityholders and the holders of securities of other series where the Trustee so decides.

17 Notices

Notices to AT1 Securityholders shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the Financial Times). If, in the opinion of the Trustee, any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. If and for so long as the AT1 Securities are admitted to trading on the Global Exchange Market of the Irish Stock Exchange or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any such notices delivered to the Global Exchange Market of the Irish Stock Exchange will also be published on the Daily Official List of the Irish Stock Exchange for so long as its rules so require.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the AT1 Securities under the Contracts (Rights of Third Parties) Act 1999.

19 Definitions

“**Accrued Interest**” means any interest accrued on the AT1 Securities to their date of redemption and which is unpaid, but which excludes any interest which has been cancelled in accordance with Condition 4(a), 6 or Condition 7(c);

“**Additional Amounts**” has the meaning described thereto in Condition 10;

“**Alternative Consideration**” means in respect of each AT1 Security and as determined by the Issuer (i) if all of the Ordinary Shares to be issued and delivered on Conversion are sold in the Conversion Shares Offer, the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such AT1 Security (less an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary pursuant to the Conversion Shares Offer), (ii) if some but not all of such Ordinary Shares to be issued and delivered upon Conversion are sold in the Conversion Shares Offer, (x) the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such AT1 Security (less an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid in connection with the delivery of Ordinary Shares to the Settlement Shares Depositary pursuant to the Conversion Shares Offer) and (y) the *pro rata* share of such Ordinary Shares not sold pursuant to the Conversion Shares Offer attributable to such AT1 Security rounded down to the nearest whole number of Ordinary Shares and (iii) if no Ordinary Shares are sold in the Conversion Shares Offer, the relevant number of Ordinary Shares that would have been received had the Issuer not elected that the Settlement Shares Depositary should carry out a Conversion Shares Offer;

“**Applicable Regulations**” means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy (including, without limitation, as to leverage) then in effect in the United Kingdom including, without limitation to the generality of the foregoing, any delegated or implementing acts

(such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines and policies relating to capital adequacy adopted by the Relevant Regulator, from time to time (whether or not such requirement, guidelines or policies are applied generally or specifically to the Issuer or to the Issuer and its Subsidiaries);

“**AT1 Securityholder**” or “**Holder**” means the person in whose name an AT1 Security is registered;

“**Authorised Signatory**” means a director or the company secretary of the Issuer;

“**business day**” means unless otherwise specified herein, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place;

“**Calculation Amount**” means £1,000;

a “**Capital Disqualification Event**” will occur if at any time the Issuer determines that as a result of a change (or prospective future change which the Relevant Regulator considers to be sufficiently certain) to the regulatory classification of the AT1 Securities under the Applicable Regulations, in any such case becoming effective on or after the Issue Date, all of the outstanding aggregate principal amount of the AT1 Securities fully ceases (or would fully cease) to be included in, or count towards, the Tier 1 Capital (howsoever defined in the Applicable Regulations) of the Group;

“**CET1 Capital**” means, as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, the sum, expressed in pounds sterling, of all amounts that constitute Common Equity Tier 1 Capital of the Group as at such date, less any deductions from Common Equity Tier 1 Capital of the Group required to be made as at such date, in each case as calculated by the Issuer on a consolidated and fully loaded basis in accordance with the Applicable Regulations applicable to the Group as at such date (which calculation shall be binding on the Trustee and the Holders);

“**CET1 Ratio**” means, as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the ratio of CET1 Capital as at such date to the Risk Weighted Assets as at the same date, expressed as a percentage and on the basis that all measures used in such calculation shall be calculated on a fully loaded basis;

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

“**Common Equity Tier 1 Capital**” shall have the meaning ascribed to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Applicable Regulations then applicable to the Group;

“**Companies Act**” means the Companies Act 2006;

“**Conversion**” means the conversion of the AT1 Securities into Ordinary Shares pursuant to Condition 7, and “**convert**” and “**converted**” shall be construed accordingly;

“**Conversion Date**” means the date specified in the Conversion Trigger Notice as the date on which the Conversion shall take place;

“**Conversion Notice**” means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent and which is required to be delivered to the Settlement Shares Depositary (or its agent(s) designated for the purpose in the Conversion Trigger Notice) in connection with a Conversion of the AT1 Securities;

“**Conversion Price**” has the meaning ascribed to it in Condition 7(d);

“**Conversion Shares Offer Period**” has the meaning ascribed to it in Condition 7(b);

“**Conversion Trigger**” has the meaning ascribed to it in Condition 7(a);

“**Conversion Trigger Notice**” has the meaning ascribed to it in Condition 7(a);

“**CRD IV**” means the legislative package consisting of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “**CRD IV Directive**”) and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013 (the “**CRD IV Regulation**”);

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days (or, for the purposes of Condition 7(e)(iv), 10 consecutive dealing days) ending on the dealing day immediately preceding such date; provided that, if at any time during the said five (or 10) dealing-day period the Volume Weighted Average Price shall have been based on a price ex-dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-dividend (or cum- any other entitlement), then:

- (i) if the Ordinary Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-dividend (or cum- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
- (ii) if the Ordinary Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-dividend (or ex- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if on each of the said five dealing days (or, for the purposes of Condition 7(e)(iv), the said 10 dealing days) the Volume Weighted Average Price shall have been based on a price cum-dividend (or cum- any other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued and delivered do not rank for that dividend (or other entitlement), the Volume Weighted Average Price on each of such dates shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days (or, for the purposes of Condition 7(e)(iv), the said 10 dealing days) (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five (or, for the purposes of Condition 7(e)(iv), 10-) dealing-day period shall be used (subject to a minimum of two such prices) and if

only one, or no, such Volume Weighted Average Price is available in the relevant period, the Current Market Price shall be determined in good faith by an Independent Adviser;

“dealing day” means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Ordinary Shares, Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

“Distributable Items” has the meaning assigned to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Applicable Regulations then applicable to the Issuer but amended so that any reference therein to “before distributions to holders of own funds instruments” shall be read as a reference to “before distributions by the Issuer to holders of Parity Securities, the AT1 Securities or any Junior Securities”;

Under CRD IV, as at the date hereof, “distributable items” means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution’s bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.

“Euroclear” means Euroclear Bank SA/NV;

“Exempt Newco Scheme” means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (i) admitted to trading on the Relevant Stock Exchange or (ii) admitted to listing on such other Regulated Market as the Issuer or Newco may determine;

“Extraordinary Calculation Date” means any day (other than a Quarterly Financial Period End Date) on which the CET1 Ratio is calculated upon the instruction of the Relevant Regulator or at the Issuer’s discretion;

“Extraordinary Dividend” has the meaning provided in Condition 7(e)(iii);

“Extraordinary Resolution” has the meaning given to it in the Trust Deed;

“Fair Market Value” means, with respect to any property on any date, the fair market value of that property as determined by an Independent Adviser in good faith, provided that (i) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined in good faith by an Independent Adviser), the Fair Market Value (a) of such Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of (a) and (b), during the period of five dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, options, warrants or other rights are publicly traded; (iv) where Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, options, warrants or other rights shall be determined in good faith by an Independent Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the

market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared, announced, made, paid or payable in a currency other than the Relevant Currency, and if the relevant dividend is payable at the option of the Issuer or a Shareholder in any currency additional to the Relevant Currency, the relevant dividend shall be treated as payable in the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Relevant Currency; and, in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;

“First Reset Date” means 27 June 2019;

“fully loaded” means, in relation to a measure that is presented or described as being on a “fully loaded basis”, that such measure is calculated without applying the transitional provisions set out in Part Ten of the CRD IV Regulation (as may be amended from time to time);

“Further AT1 Securities” means any further AT1 Securities issued pursuant to Condition 16 of the AT1 Securities and consolidated and forming a single series with the then outstanding AT1 Securities;

“Global Security” means the global security in registered form initially representing the AT1 Securities on the Issue Date;

“Group” means the Issuer and its Subsidiaries;

“Independent Adviser” means an independent financial institution of international repute appointed by the Issuer at its own expense;

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

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

“Interest Payment” means, in respect of an Interest Payment Date, the amount of interest due and payable on such Interest Payment Date;

“Interest Payment Date” means 27 March, 27 June, 27 September and 27 December in each year, commencing on 27 June 2014;

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

“Interest Rate” means the Initial Fixed Interest Rate and/or the relevant Reset Interest Rate, as the case may be;

“Issue Date” means 1 April 2014;

“Junior Securities” means (i) any Ordinary Share or other securities of the Issuer ranking, or expressed to rank, junior to the AT1 Securities in a winding-up or administration of the Issuer as described in Condition 4(b) and/or (ii) any securities issued by any other member of the Group where the terms of such securities benefit from a guarantee or support agreement entered into by the Issuer which ranks, or is

expressed to rank, junior to the AT1 Securities in a winding-up or administration of the Issuer as described in Condition 4(b);

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

“**Long-Stop Date**” means the date on which any AT1 Securities in relation to which no Conversion Notice has been received by the Settlement Shares Depositary (or its designated agent(s)) on or before the Notice Cut-off Date shall be cancelled, which date is expected to be no more than 15 London business days following the Notice Cut-off Date and which will be notified to Holders in the Conversion Trigger Notice;

“**Margin**” means 5.06 per cent.;

“**New Conversion Condition Effective Date**” has the meaning ascribed to it in Condition 7(j)(v);

“**Newco Scheme**” means a scheme of arrangement or analogous proceeding (“**Scheme of Arrangement**”) which effects the interposition of a limited liability company (“**Newco**”) between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the “**Existing Shareholders**”) and the Issuer; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement;

“**Notice Cut-off Date**” means the date specified as such in the Conversion Trigger Notice, which date shall be at least 20 London business days following the Conversion Date;

“**Ordinary Reporting Date**” means each day on which Quarterly Financial Information is published by the Issuer;

“**Ordinary Shares**” means fully paid ordinary shares in the capital of the Issuer, currently with a par value of £0.10 each;

“**outstanding**” has the meaning given to it in the Trust Deed;

“**Parity Securities**” means (i) the most senior ranking class or classes of preference shares in the capital of the Issuer from time to time and any other securities of the Issuer ranking, or expressed to rank, *pari passu* with the AT1 Securities and/or such preference shares in a winding-up or administration of the Issuer as described in Condition 4(b) and/or (ii) any securities issued by any other member of the Group where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank *pari passu* with the AT1 Securities and/or such preference shares in a winding-up or administration of the Issuer as described in Condition 4(b);

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity);

“Prevailing Rate” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Relevant Page, the rate determined in such other manner as an Independent Adviser shall in good faith prescribe;

“Quarterly Financial Information” means the financial information of the Group in respect of a fiscal quarter that is contained in the principal financial report for such fiscal quarter published by the Issuer. As at the Issue Date, the principal financial reports published by the Issuer with respect to each fiscal quarter are: (i) the Q1 Interim Management Statement in respect of the first fiscal quarter, (ii) the Interim Results Announcement in respect of the first half of the year (including the second fiscal quarter), (iii) the Q3 Interim Management Statement in respect of the first nine months of the year (including the third fiscal quarter) and (iv) the Results Announcement in respect of the full year (including the fourth fiscal quarter);

“Quarterly Financial Period End Date” means the last day of each fiscal quarter of the Issuer;

“Relevant Currency” means pounds sterling or, if at the relevant time or for the purposes of the relevant calculation or determination the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares or the Relevant Shares (as applicable) are quoted or dealt in on the Relevant Stock Exchange at such time;

“Relevant Date” in respect of any payment on any AT1 Security, means the date on which such payment first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount required to be paid is made or, in the case where presentation is required pursuant to the Conditions, (if earlier) the date seven days after that on which notice is duly given to the AT1 Securityholders that, upon further presentation of the AT1 Security (or relative Certificate) being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

“Relevant Page” means the relevant page on Bloomberg or such other information service provider that displays the relevant information;

“Relevant Stock Exchange” means the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market (if any) on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing;

“Relevant Regulator” means the UK Prudential Regulation Authority, or the then relevant regulatory body with primary responsibility for the prudential supervision of the Issuer and the Group;

“Reset Date” means the First Reset Date and each date falling five, or an integral multiple of five, years after the First Reset Date;

“Reset Determination Date” means, in respect of a Reset Period, the day falling two London business days prior to the first day of such Reset Period;

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

“Reset Rate of Interest” has the meaning given to it in Condition 5(d);

“Reset Reference Banks” means four major banks in the interbank market in London as selected by the Calculation Agent, after consultation with the Issuer;

“Reset Reference Rate” means in respect of the relevant Reset Period, (i) the applicable semi-annual mid-swap rate for swap transactions in pounds sterling (with a maturity equal to 5 years) as displayed on the Screen Page at 11.00 a.m. (London time) on the relevant Reset Determination Date or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate,

where:

“Mid-Swap Quotations” means the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a Actual/365 day count basis) of a fixed for floating interest rate swap transaction in pounds sterling which (i) has a term commencing on the relevant Reset Date which is equal to 5 years; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis);

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

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

“Risk Weighted Assets” means, as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Group as at such date, as calculated by the Issuer on a consolidated and fully loaded basis in accordance with the Applicable Regulations applicable to the Group on such date (which calculation shall be binding on the Trustee and the Holders) and where the term “risk weighted assets” means the risk weighted assets or total risk exposure amount, as calculated by the Issuer in accordance with the Applicable Regulations applicable to the Group on the relevant Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be;

“Securities” means any securities including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer (and each a **“Security”**);

“Settlement Date” means:

- (i) with respect to any AT1 Security in relation to which a Conversion Notice is received by the Settlement Shares Depositary or its designated agent on or before the Notice Cut-off Date where the Issuer has not elected that the Settlement Shares Depositary will carry out a Conversion Shares Offer, the date that is two London business days after the latest of (a) the Conversion Date, (b) the date on which the Issuer

announces that it will not elect for the Settlement Shares Depositary to carry out a Conversion Shares Offer (or, if no such announcement is made, the last date on which the Issuer is entitled to give the Conversion Shares Offer Election Notice) and (c) the date on which the relevant Conversion Notice has been received by the Settlement Shares Depositary or its designated agent;

- (ii) with respect to any AT1 Security in relation to which a Conversion Notice is received by the Settlement Shares Depositary or its designated agent on or before the Notice Cut-off Date where the Issuer has elected that the Settlement Shares Depositary will carry out a Conversion Shares Offer, the date that is the later of (a) two London business days after the day on which the Conversion Shares Offer Period expires or is terminated and (b) two London business days after the date on which such Conversion Notice has been so received by the Settlement Shares Depositary or its designated agent; and
- (iii) with respect to any AT1 Security in relation to which a Conversion Notice is not so received by the Settlement Shares Depositary or its designated agent on or before the Notice Cut-off Date, the date on which the Settlement Shares Depositary delivers the relevant Ordinary Shares or the relevant Alternative Consideration, as applicable, to AT1 Securityholders;

“Settlement Shares Depositary” means a reputable financial institution, trust company or similar entity (which in each such case is wholly independent of the Issuer) to be appointed by the Issuer on or prior to any date when a function ascribed to the Settlement Shares Depositary in these Conditions is required to be performed to perform such functions and that will hold the Ordinary Shares (and any Alternative Consideration, if any) on trust for the Holders of the AT1 Securities in one or more segregated accounts, unless otherwise required to be transferred out of such accounts for the purposes of the Conversion Shares Offer, and otherwise on terms consistent with these Conditions;

“Shareholders” means the holders of Ordinary Shares;

“Specified Date” has the meaning provided in Condition 7(e)(iv);

“Subsidiary” has the meaning provided in Section 1159 of the Companies Act;

“successor in business” has the meaning given to it in the Trust Deed;

a **“Tax Event”** is deemed to have occurred if:

- (i) as a result of a Tax Law Change, in making any payments on the AT1 Securities, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts; and/or
- (ii) a Tax Law Change would:
 - (a) result in the Issuer not being entitled to claim a deduction in respect of any payments in respect of the AT1 Securities in computing its taxation liabilities or materially reduce the amount of such deduction;
 - (b) prevent the AT1 Securities from being treated as loan relationships for United Kingdom tax purposes;
 - (c) as a result of the AT1 Securities being in issue, result in the Issuer not being able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the AT1 Securities or any similar system or systems having like effect as may from time to time exist);

- (d) result in a United Kingdom tax liability, or the receipt of income or profit which would be subject to United Kingdom tax, in respect of a write-down of the principal amount of the AT1 Securities or the conversion of the AT1 Securities into Ordinary Shares; or
- (e) result in an AT1 Security or any part thereof being treated as a derivative or an embedded derivative for United Kingdom tax purposes,

provided that, in each such case, the Issuer could not avoid the foregoing in connection with the AT1 Securities by taking measures reasonably available to it;

“Tax Law Change” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom, or any political subdivision or authority therein or thereof, having the power to tax, including any treaty to which the United Kingdom is a party, or any change in any generally published application or interpretation of such laws, including a decision of any court or tribunal or any change in the generally published application or interpretation of such laws by any relevant tax authority or any generally published pronouncement by any tax authority, which change, amendment or pronouncement (x) (subject to (y)) becomes, or would become, effective on or after the Issue Date, or (y) 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 United Kingdom Act of Parliament or implemented by statutory instrument, on or after the Issue Date;

“Tier 1 Capital” has the meaning given to it by the Relevant Regulator from time to time;

“Tier 2 Capital” has the meaning given to it by the Relevant Regulator from time to time; and

“UK Listing Authority” means the Financial Conduct Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000;

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

“Volume Weighted Average Price” means, in respect of an Ordinary Share or Security on any dealing day, the order book volume-weighted average price of an Ordinary Share or Security published by or derived (in the case of an Ordinary Share) from the relevant Bloomberg page or (in the case of a Security (other than Ordinary Shares), options, warrants or other rights) from the principal stock exchange or securities market on which such Securities, options, warrants or other rights are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security, option, warrant or other right, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or determined as an Independent Adviser might otherwise determine in good faith to be appropriate; and

“£” and **“pounds sterling”** means the lawful currency for the time being of the United Kingdom.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such statutory modification or re-enactment.

References to **“ordinary share capital”** has the meaning provided in Section 1119 of the Income and Corporation Taxes Act 2010 and **“equity share capital”** has the meaning provided in Section 548 of the Companies Act.

References to any issue or offer or grant to Shareholders or Existing Shareholders “**as a class**” or “**by way of rights**” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Adviser determines in good faith to be appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Condition 7(a), (b), (h), (n) and (r), (1) references to the “**issue**” of Ordinary Shares or Ordinary Shares being “**issued**” shall, unless otherwise expressly specified in those paragraphs, include the delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any of its Subsidiaries, and (2) Ordinary Shares held by or on behalf of the Issuer or any of its respective Subsidiaries (and which, in the case of Condition 7(e)(iv), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “**in issue**” or “**issued**” or entitled to receive the relevant dividend, right or other entitlement.

Unless the context otherwise requires, references to (i) “**principal**” shall be deemed to include any Additional Amounts relating to principal that may be payable under Condition 10 or any undertaking given in addition to or in substitution for it under the Trust Deed in respect of any such amount and all other amounts in the nature of principal payable pursuant to these Conditions or any amendment or supplement to it and (ii) “**interest**” shall be deemed to include any Additional Amounts relating to interest that may be payable under Condition 10 or any undertaking given in addition to or in substitution for it under the Trust Deed in respect of any such amount.

20 Governing Law and Jurisdiction

(a) *Governing Law*

The Trust Deed and the AT1 Securities and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law save that the provisions of Condition 4 (and related provisions of the Trust Deed) relating to the status and subordination of the AT1 Securities are governed by, and shall be construed in accordance with, Scots law.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, or the AT1 Securities (other than Condition 4 (and related provisions of the Trust Deed) relating to the status and subordination of the AT1 Securities (“**Excluded Matters**”), in respect of which the Court of Session in Scotland shall have jurisdiction) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any AT1 Securities (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (other than in respect of Excluded Matters) and to the jurisdiction of the Court of Session in Scotland in respect of any Proceedings relating to Excluded Matters.

PART C

TERMS AND CONDITIONS OF THE STERLING PNC9 ADDITIONAL TIER 1 SECURITIES

The £1,494,392,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “**AT1 Securities**”, which expression shall, unless otherwise indicated, include any Further AT1 Securities) have identical terms to those of the Sterling PNC5 Additional Tier 1 Securities, save that:

- (i) the aggregate principal amount of AT1 Securities issued on the Issue Date was £1,494,392,000.
- (ii) in relation to Condition 5(c)
 - (a) the Initial Fixed Interest Rate will be 7.625 per cent. per annum.
 - (b) the Interest Payment in relation to the short first coupon scheduled to be paid on 27 June 2014 will (if paid in full) amount to £18.0265 per Calculation Amount.
 - (c) each subsequent quarterly Interest Payment thereafter for each Interest Period commencing in the Initial Fixed Rate Interest Period will (if paid in full) amount to £19.0625 per Calculation Amount.
- (iii) in relation to Condition 19
 - (a) “**First Reset Date**” means 27 June 2023; and
 - (b) “**Margin**” means 5.01 per cent.

PART D

TERMS AND CONDITIONS OF THE STERLING PNC15 ADDITIONAL TIER 1 SECURITIES

The £750,009,000 Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities (the “**AT1 Securities**”, which expression shall, unless otherwise indicated, include any Further AT1 Securities) have identical terms to those of the Sterling PNC5 Additional Tier 1 Securities, save that:

- (i) the aggregate principal amount of AT1 Securities issued on the Issue Date was £750,009,000.
- (ii) in relation to Condition 5(c)
 - (a) the Initial Fixed Interest Rate will be 7.875 per cent. per annum.
 - (b) the Interest Payment in relation to the short first coupon scheduled to be paid on 27 June 2014 will (if paid in full) amount to £18.6175 per Calculation Amount.
 - (c) each subsequent quarterly Interest Payment thereafter for each Interest Period commencing in the Initial Fixed Rate Interest Period will (if paid in full) amount to £19.6875 per Calculation Amount.
- (iii) in relation to Condition 19
 - (a) “**First Reset Date**” means 27 June 2029; and
 - (b) “**Margin**” means 4.83 per cent.

SUMMARY OF THE ADDITIONAL TIER 1 SECURITIES WHILE IN GLOBAL FORM

The following provisions will, subject to amendment, apply to the Additional Tier 1 Securities whilst they are represented by the Global Certificate, some of which will modify the effect of the Additional Tier 1 Securities Conditions.

1 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (“**Alternative Clearing System**”) as the holder of Additional Tier 1 Securities represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his or her share of each payment made by LBG, as Issuer (the “**Issuer**”) to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Additional Tier 1 Securities for so long as the Additional Tier 1 Securities are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

2 Cancellation

Cancellation of any Additional Tier 1 Securities following their redemption, purchase by the Issuer or any of the Issuer’s subsidiaries or following their Conversion will be effected by reduction in the aggregate principal amount of the Additional Tier 1 Securities in the register of AT1 Securityholders.

3 Payments

Payments of principal and interest in respect of Additional Tier 1 Securities represented by the Global Certificate will be made to the registered holder of the Global Certificate, provided that if no further payment falls to be made in respect of the Additional Tier 1 Securities, payment will only be made against surrender of the Global Certificate to, or to the order of, the Registrar or such other agent as shall have been notified to the holder of the Global Certificate for such purpose.

Payments of amounts with respect to book-entry interests in the Additional Tier 1 Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant clearing system’s rules and procedures.

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

4 Notices

So long as all of the Additional Tier 1 Securities are represented by the Global Certificate and held through Euroclear or Clearstream, Luxembourg, notices to AT1 Securityholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication to their respective accountholders in substitution for publication as required by the Additional Tier 1 Securities Conditions in

which case such notices will be deemed to have been given to accountholders on the date of delivery to the relevant clearing system for delivery to entitled accountholders.

Whilst any of the Additional Tier 1 Securities held by a AT1 Securityholder are represented by the Global Certificate, notices to be given by such AT1 Securityholder will be given by such AT1 Securityholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Trustee and Euroclear and/or Clearstream, Luxembourg may approve for this purpose.

5 Prescription

Claims against the Issuer for payment in respect of the Additional Tier 1 Securities, shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 19 of the Additional Tier 1 Securities Conditions) in respect of them.

6 Meetings

For the purposes of any meeting of AT1 Securityholders, the holder of the Additional Tier 1 Securities represented by the Global Certificate shall be treated as one person for the purposes of any quorum requirements of a meeting of AT1 Securityholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Additional Tier 1 Securities.

7 Transfers and Exchange

The following will apply in respect of transfers of the Additional Tier 1 Securities held in Euroclear or Clearstream, Luxembourg or another clearing system. These provisions will not prevent the trading of interests in the Additional Tier 1 Securities within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Additional Tier 1 Securities may be withdrawn from the relevant clearing system.

Transfers of the holding of Additional Tier 1 Securities represented by the Global Certificate pursuant to Condition 2(a) of the Additional Tier 1 Securities Conditions may only be made in part:

- (a) if the Additional Tier 1 Securities represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (b) upon or following any failure to pay principal in respect of any Additional Tier 1 Securities when it is due and payable,

provided that, in the case of the first transfer of part of a holding pursuant to (a) or (b) above, the holder of the Additional Tier 1 Securities represented by the Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Additional Tier 1 Securities represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

For the avoidance of doubt, no such transfer shall occur at any time after the second London business day following the giving of a Conversion Trigger Notice by the Issuer.

8 Conversion Notices

Notwithstanding the provisions of Condition 7(m) of the Additional Tier 1 Securities Conditions, if the Additional Tier 1 Securities are represented by the Global Certificate and held through Euroclear or Clearstream, Luxembourg, the AT1 Securityholder shall give a Conversion Notice to the Settlement Shares Depository in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg prior to the Notice Cut-off Date (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depository for them to the Settlement Shares Depository by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time with the following details: (1) the name of the AT1 Securityholder; (2) the principal amount of Additional Tier 1 Securities held by it and the subject of the Conversion; (3) the CREST account details or, if on Conversion the Ordinary Shares are not a participating security in CREST, the address to which any Ordinary Shares (if any) should be delivered; (4) details of a pounds sterling account with a bank in London (in the case of each Series of Sterling Additional Tier 1 Securities) or euro account with a bank in a city in which banks have access to the TARGET System (in the case of the Euro Additional Tier 1 Securities) to which any cash component of any Alternative Consideration (if any) should be paid; and (5) such other details as Euroclear or Clearstream, Luxembourg may require. Any reference in the Additional Tier 1 Securities Conditions to the delivery of Conversion Notices shall be construed accordingly.

9 Trustee's Powers

In considering the interests of AT1 Securityholder while the Global Certificate is held on behalf of, or registered in the name of the nominee for the clearing systems, which shall be registered in the Register as holder of the Global Certificate on the Issue Date, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Additional Tier 1 Securities represented by the Global Certificate.

10 Electronic Consent and Written Resolution

For so long as the Additional Tier 1 Securities are in the form of a Global Certificate registered in the name of any nominee for one or more of Euroclear, Clearstream, Luxembourg or another clearing system, then, in respect of any resolution proposed by the Issuer or the Trustee:

- (a) where the terms of the proposed resolution have been notified to the AT1 Securityholder through the relevant clearing system(s), each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the AT1 Securityholder of not less than 75 per cent. in principal amount of the Additional Tier 1 Securities outstanding ("**Electronic Consent**"). None of the Issuer or the Trustee shall be liable or responsible to anyone for such reliance; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the

accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all AT1 Securityholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “Commercially Reasonable Evidence” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Additional Tier 1 Securities. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Additional Tier 1 Securities is clearly identified together with the amount of such holding. Neither the Issuer, nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

DESCRIPTION OF ORDINARY SHARES

If the Conversion Trigger occurs, each Series of Additional Tier 1 Securities shall be irrevocably discharged and satisfied by its Conversion into Ordinary Shares, credited as fully paid and the issuance and delivery of such Ordinary Shares to the Settlement Shares Depositary.

The holders of Ordinary Shares (excluding the limited voting ordinary shares), who held 99.9 per cent of the total ordinary share capital at 31 December 2013, are entitled to receive the Issuer's report and accounts, attend, speak and vote at general meetings and appoint proxies to exercise voting rights. Holders of Ordinary Shares (excluding the limited voting ordinary shares) may also receive a dividend (subject to the provisions of the Issuer's articles of association) and on a winding up may share in the assets of the Issuer.

The Ordinary Shares are listed on the Official List of the FCA and trade on the London Stock Exchange under the symbol "LLOY". The ISIN for the Ordinary Shares is GB00008706128. Information about the past and future performance of the Ordinary Shares and their volatility can be obtained from the website of the London Stock Exchange at www.londonstockexchange.com.

LLOYDS BANKING GROUP

Overview

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

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

History and development of Lloyds Banking Group

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

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

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

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

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

Pursuant to two placing and open offers which were completed by the Issuer in January and June 2009 and the Rights Issue completed in December 2009, the UK Government acquired 43.4 per cent. of the Issuer's issued ordinary share capital. Following the UK Government's sale of 4,282 million shares on 20 September 2013, a

further sale of 5,555 million shares on 31 March 2014 and the effect of issues of ordinary shares, the UK Government's holding has been reduced to approximately 24.9 per cent. as at 31 March 2014.

The Group completed a number of asset disposals during 2013, including the sales of its shareholding in St. James's Place and its Australian and Spanish banking businesses. In addition in August 2013 the Group announced the sale of its German life insurance business, Heidelberger Lebensversicherung AG, for a consideration valued at around €300 million (or approximately £250 million); and in November 2013, the Group announced that it had agreed to sell its asset management business Scottish Widows Investment Partners to Aberdeen Asset Management for a consideration valued at the time at up to £660 million. Both of these sales are expected to complete in the first half of 2014.

Ratings

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

The Additional Tier 1 Securities are rated BB by Fitch and BB- by S&P.

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

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

Strategy of Lloyds Banking Group

The Group is a leading UK financial services group providing a wide range of banking and financial services, primarily in the UK, to individual and business customers. The Group's main business activities are retail and commercial banking, general insurance and life, pensions and investments. Services are provided through a number of well recognised brands such as Lloyds Bank, Halifax, Bank of Scotland, TSB and Scottish Widows and through a range of distribution channels, including the largest branch network in the UK.

The Group operates a simple, low-risk, customer-focused retail and commercial banking business primarily in the UK. The Group's corporate strategy is built around being the best bank for personal and commercial customers across the UK and creating value by investing in areas that make a real difference to these customers. The Group is creating a simpler, more agile, efficient and responsive customer-focused organisation which operates sustainably and responsibly and helps Britain prosper. The Group is delivering its strategy through a clear action plan focused on reshaping its business portfolio to fit its assets, capabilities and risk appetite, strengthening its balance sheet and liquidity position, simplifying the Group to improve agility and efficiency and investing to be the best bank for customers.

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

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

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

Strengthen the Group's balance sheet and liquidity position

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

Simplify the Group to improve agility and efficiency

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

The programme delivered run-rate cost savings of over £1,450 million by the end of 2013. The simplification programme is central to the successful delivery of the Group's strategy and the Group continues to make progress in driving further cost savings and efficiencies through the business whilst improving the customer experience.

Invest to be the best bank for customers

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

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

Summary

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

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

Following the significant progress made against its original strategic plan, the Group expects to announce an update to the strategic plan in the second half of 2014.

Businesses and Activities of Lloyds Banking Group

At 31 December 2013, the Group's activities were organised into four reporting segments: Retail; Commercial Banking; Wealth, Asset Finance and International; and Insurance.

Retail

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

With its strong stable of brands including Lloyds Bank, Halifax, Bank of Scotland and TSB it serves over 30 million customers through the largest branch network in the UK and comprehensive digital, telephone and mobile services.

Retail is also a major general insurance and bancassurance distributor, offering a wide range of long term savings, protection and general insurance products.

Commercial Banking

The Commercial Banking division supports the Group's business clients from small businesses to large corporates, with a range of propositions fully segmented according to client needs. The division operates a client centric approach, primarily focused on UK and UK-linked businesses, with client segments comprising SME, Mid Markets, Global Corporates and Financial Institutions.

Wealth, Asset Finance and International

The Wealth, Asset Finance and International division comprised the Group's UK and international wealth businesses, its UK and international asset finance and online deposit businesses, along with the Group's international retail businesses.

Insurance

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

The UK Life, Pensions and Investments business provides long-term savings, protection and investment products distributed through the bancassurance, intermediary and direct channels of the Lloyds Bank, Halifax, Bank of Scotland, TSB and Scottish Widows brands. The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands. The disposal of Heidelberger Lebensversicherung AG (Heidelberger Leben) was announced during 2013 and has now completed.

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

Following a reorganisation, the Group will be revising its reporting segments for 2014 reporting as follows:

- The Wealth business will move into the Retail division, in order to better service the needs of the Group's wealthier Retail customers. Also, Retail Business Banking will transfer to the Retail division, leveraging its infrastructure;
- The Wealth, Asset Finance and International division will become Consumer Finance and will include credit cards, asset finance and the European online deposits businesses. As a result, the Retail and Commercial Banking credit cards businesses will transfer into Consumer Finance; and
- A new Group Digital, Marketing and Customer Development function has been created to focus on customers and how the Group services them. The Group Digital, Marketing and Customer Development function aims to create a "centre of excellence" responsible for the development of all digital business across the Group and as such, the new function supports the whole Group and all Divisions serving individual and business and corporate customers. This function will be reported along with Group Operations and Central items.

Competitive Environment

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

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

The markets for the UK financial services, and the other markets within which the Group operates, are competitive, and management expects such competition to continue or intensify in respect to competitor behaviour, including TSB as a new challenger on the high street, consumer demand, technological changes such as the growth of digital banking, and the impact of regulatory actions and other factors.

For more information see “Risk Factors - Business and economic risks - The Group’s businesses are conducted in competitive environments, with increased competition scrutiny, and the Group’s financial performance depends upon management’s ability to respond effectively to competitive pressures”.

Regulation

Overview of UK Regulation

The FCA and the PRA have responsibility under the FSMA and the Financial Services Act 2012 for the regulation and oversight of a wide range of financial services activities in the UK and are responsible for the authorisation and supervision of institutions that perform regulated activities as defined in the FSMA.

Prior to April 2013, financial services regulation in the UK was the responsibility of the FSA. With the Royal Assent of the Financial Services Act 2012, UK financial services regulation adopted the “twin peaks” model, with the FCA being responsible for conduct regulation and the PRA responsible for prudential regulation and supervision.

Regulatory approach of the FCA

As per the Financial Services Act 2012, the FCA has a strategic function to ensure that the relevant markets function well. In support of this, the FCA has three operational objectives: to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system and to promote effective competition in the interests of consumers.

The FCA Handbook sets out rules and guidance across a range of conduct issues with which financial institutions are required to comply including high level principles of business and detailed conduct of business standards and reporting standards.

Regulatory approach of the PRA

As per the Financial Services Act 2012, the PRA has two statutory objectives: to promote the safety and soundness of the firms which it supervises and, with respect to insurers, to contribute to the securing of an appropriate degree of protection for policyholders. The PRA’s regulatory and supervisory approach incorporates three key characteristics: to take a judgement-based approach, a forward-looking approach, and a focused-approach.

The PRA has largely inherited the prudential aspects of the former FCA Handbook, including regulations and guidance relating to capital adequacy and liquidity among several others. A PRA Rulebook is also in development which will replace the PRA Handbook and will only apply to PRA-authorised firms.

Other Bodies Impacting the Regulatory Regime

The Bank of England and HM Treasury

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

UK Financial Ombudsman Service (the “FOS”)

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

The Financial Services Compensation Scheme (the “FSCS”)

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

Lending Standards Board

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

UK Competition and Markets Authority (the “CMA”)

Since 1 April 2014 the competition functions previously exercised by the OFT and the Competition Commission have been transferred to the new CMA or the FCA. The CMA’s regulatory and enforcement powers impact the banking sector in a number of ways, including powers to investigate and prosecute a number of criminal offences under competition law. In addition, the CMA is now the lead enforcer under the Unfair Terms in Consumer Contracts Regulations 1999.

UK Information Commissioner’s Office

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

Independent Commission on Banking (the “ICB”)

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

The ICB specifically recommended in relation to Project Verde, that to create a strong challenger in the UK banking market, the entity which results from the divestment should have, or have the capability to achieve, a share of the personal current account (“PCA”) market of at least 6 per cent. (although this does not need to arise solely from the current accounts acquired from the Group) and a funding position at least as strong as its peers. The ICB did not specify a definitive timeframe for the divested entity to achieve a 6 per cent. market share of PCAs but recommended that a market investigation should be carefully considered by competition authorities if “a strong and effective challenger” has not resulted from the Group’s divestment by 2015. The ICB did not recommend explicitly that the Group should increase the size of the Project Verde disposal agreed with the European Commission but recommended that the Government prioritise the emergence of a strong new challenger over reducing market concentration through a “substantially enhanced” divestment by the Group. The Government stated that the execution of the divestment is a commercial matter, and that it has no intention of using its shareholding to deliver an enhancement.

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

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

On 18 December 2013, the Banking Reform Act was passed. The Act implements the recommendations of the ICB and the PCBS. The Act notably contains the ring-fencing measures recommended by the ICB, and goes on to introduce a bail-in tool to ensure that banks are better able to absorb losses. Furthermore, the Banking Reform Act helps to ensure the accountability for the most important responsibilities within banks, with the introduction of a Senior Persons Regime, as well as a new criminal offence for senior managers, punishable for a maximum of seven years with a fine, for taking a decision which causes a financial institution to fail.

EU Regulation

A High Level Expert Group, chaired by Erkki Liikanen, considered whether there is a need for structural reforms of the EU banking sector and to make relevant proposals as appropriate, with the objective of establishing a stable and efficient banking system serving the needs of citizens, the economy and the internal

market. The High Level Expert Group presented its recommendations to the EU Commissioner on 2 October 2012. They recommended a set of five measures that augment and complement the set of regulatory reforms already enacted or proposed by the EU, the Basel Committee and national governments. First, proprietary trading and other significant trading activities should be assigned to a separate legal entity if the activities to be separated amount to a significant share of the bank's business. This would ensure that trading activities beyond the threshold are carried out on a stand-alone basis and separate from the deposit bank. The other measures include: emphasising the need for banks to draw up and maintain effective and realistic recovery and resolution plans; supporting the use of designated bail out instruments; applying more robust weights in the determination of minimum capital standards; and augmenting existing corporate governance reforms such as strengthening boards and management, promoting the risk management function, rein in compensation for bank management and staff, improve risk disclosure and strengthening sanctioning powers.

On 17 January 2014, the EU Commission published a press release confirming that it intends to make a proposal for the reform of the structure of banking in the EU, which will be based on the Liikanen Report. The objective of the reforms will be to make the financial sector as a whole more robust and resilient, to reduce the impact of potential bank failures, and ensure the financial sector is at the service of the real economy. In doing so, the reforms will aim to eliminate the concept of banks being "too big to fail."

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

The CRR and CRD IV intend to implement the Basel III agreement in the EU, and introduce significant changes in the prudential regulatory regime applicable to banks including: increased minimum capital ratios, changes to the definition of capital and the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity and funding. They also make changes to rules on corporate governance, including remuneration, and introduces standardised EU regulatory reporting requirements which will specify the information that must be reported to supervisors in areas such as own funds, large exposures and financial information.

U.S. Regulation

In the United States, Lloyds Bank maintains a branch in New York, licensed and subject to regulation and examination by the New York State Department of Financial Services. Bank of Scotland plc maintains a state licensed branch in New York and maintains representative offices in Chicago and Houston. The branches and representative offices of Lloyds Bank and Bank of Scotland plc are subject to extensive federal and state supervision and regulation relating to their operations.

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

The existence of branches and representative offices in the United States subjects the Issuer and its subsidiaries doing business or conducting activities in the United States to oversight by the Board of Governors of the Federal Reserve System (the "**Federal Reserve Board**").

Each of the Issuer, Lloyds Bank, HBOS plc and Bank of Scotland plc is a foreign banking organisation treated as a bank holding company within the meaning of the U.S. Bank Holding Company Act of 1956 (BHC Act) in accordance with the provisions of the International Banking Act of 1978 and has elected to be treated as a financial holding company under the BHC Act.

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

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

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

As at 31 December 2013, the Group does not believe the Group’s business activities relating to countries designated as state sponsors of terrorism were material to its overall business.

The Group estimates that the value of the Group’s business in respect of such states represented less than 0.01 per cent. of the Group’s total assets and, for the year ended 31 December 2013, the Group believes that the Group’s revenues from all activities relating to such states were less than 0.001 per cent. of its total income, net of insurance claims. This information has been compiled from various sources within the Group, including information manually collected from relevant business units, and this has necessarily involved some degree of estimate and judgement.

Dodd-Frank Act

In July 2010, the United States enacted the Dodd-Frank Act, which provides a broad framework for significant regulatory changes that extend to almost every area of U.S. financial regulation. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions in the U.S., over the counter derivatives, restrictions on the ability of banking entities to engage in proprietary trading activities and make investments in and sponsor certain private equity funds and hedge funds (known as the “**Volcker Rule**”), asset securitisation activities and securities market conduct and oversight.

Under the Dodd-Frank Act, entities that are swap dealers and major swap participants must register with the U.S. Commodity Futures Trading Commission, and entities that are security-based swap dealers or major security based swap participants will be required to register with the SEC. Lloyds Bank provisionally registered as a swap dealer in 2013 and as such, is subject to regulation and supervision by the Commodity Futures Trading Commission (the “CFTC”) and the National Futures Association with respect to its swap

activities, including risk management, practices, trade documentation and reporting, business conduct and recordkeeping, among others. The SEC has yet to finalise its registration rules for security-based swap dealers and major security-based swap participants.

As a CFTC-registered swap dealer, the New York branch of Lloyds Bank is subject to the swap “push-out” provisions of the Dodd-Frank Act, which will require monitoring to ensure the Group conducts its derivatives activities in conformity with the implementing regulations.

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

U.S. regulators are implementing many provisions of the Dodd-Frank Act through detailed rulemaking, and the implementation process will likely continue for several more years. In December 2013, U.S. regulators adopted final rules implementing the Volcker Rule. Banking entities, including foreign banking organisations subject to the BHC Act, such as the Issuer, Lloyds Bank, HBOS plc and Bank of Scotland plc, are subject to the final rules and have until 21 July 2015 to bring their activities and investments into conformity with the Volcker Rule, subject to possible extensions. The final rules require banking entities to conform to the restrictions on proprietary trading activities, hedge fund and private equity activities and certain other enumerated investment restrictions, subject to a number of exclusions and exemptions that substantially limit their extraterritorial reach. Certain foreign banking entities are permitted to engage in proprietary trading from outside the United States if the trade lacks the requisite U.S. nexus and the foreign banking entity complies with the various conditions of the exemption. Investments in, and sponsorship of certain retail investment funds organised outside the United States and publicly offered predominantly outside the United States, and certain retirement and pension funds organised and administered outside the United States for the benefit of non-U.S. residents are generally permitted under the final rules. Certain foreign banking entities, but not any U.S. branch, agency or subsidiary of a foreign banking entity, nor any non-U.S. affiliate controlled by such a U.S. branch, agency or subsidiary, are also permitted to invest in and sponsor certain funds in which ownership interests are not offered for sale or sold inside the United States or to U.S. residents and subject to other conditions. The final rules also include certain compliance and reporting requirements. Compliance with the final rules could result in additional costs, but the overall impact remains uncertain.

In February 2014, pursuant to the Dodd-Frank Act’s systemic risk regulation provisions, the Federal Reserve Board adopted final rules that will apply enhanced prudential standards to the U.S. operations of large foreign banking organisations, including the Group. Under the Federal Reserve Board’s final rules, a number of large foreign banking organisations will be required to establish a separately capitalised top-tier U.S. intermediate holding company (“IHC”) that will hold all of the large foreign banking organisation’s U.S. bank and non-bank subsidiaries, except its U.S. branches and agencies and specified types of subsidiaries. However, this requirement will not apply to a large foreign banking organisation with combined U.S. assets of less than U.S.\$50 billion, excluding assets held by its U.S. branches and agencies. The Group does not anticipate that the requirement to form an IHC, will apply to the Group. In addition, under the final rules, effective 1 July 2016, U.S. branches and agencies of large foreign banking organisations will be subject to liquidity and, in certain circumstances, asset maintenance requirements. However, final rules for single counterparty credit limits and for early redemption have yet to be promulgated.

The Dodd-Frank Act and related rules and regulations are expected to result in additional costs and impose certain limitations and restrictions on the way that the Group conducts its business, although uncertainty remains about some of the final details, impact and timing of the implementing regulations.

Legal Actions and Regulatory Matters

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

Interchange fees

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

MasterCard has appealed the General Court’s judgement to the Court of Justice of the European Union. MasterCard is supported by several card issuers, including the Group. Judgement is not expected until the summer of 2014 or later.

In parallel:

- the European Commission is also considering further action, and has proposed legislation to regulate interchange fees, following its 2012 Green Paper (Towards an integrated European market for cards, internet and mobile payments) consultation;
- on 26 February 2014, the European Commission published a press release announcing a further decision in which it accepted an additional set of commitments proposed by VISA on VISA’s interchange fees in respect of consumer credit cards and VISA’s rules on cross-border acquiring. The European Commission’s full decision was not made publicly available as at the date of this Prospectus.

Under these commitments, according to the European Commission’s press release, VISA has, amongst other things, offered to cap its weighted average interchange fee for consumer credit card transactions at 30 basis points. The cap would be applicable first to cross-border transactions within the European Economic Area (the “EEA”) and, after a two year delay, the cap would also be applicable to domestic transactions in each EEA country where interchange fees are either set directly by VISA (the UK is not one of these countries) or VISA cross-border rates would apply by default.

VISA has also offered to revise its rules on cross-border acquiring under which, according to the European Commission’s press release, banks will be able to apply either the domestic interchange fee or a reduced cross-border interchange fee of 0.2 per cent. and 0.3 per cent. for both debit and credit card transactions respectively, when they compete for clients cross-border;

- the OFT has placed on hold its examination of whether the levels of interchange fees paid by retailers in respect of MasterCard and VISA credit cards, debit cards and charge cards in the UK infringe competition law. The OFT has placed the investigation on hold pending the outcome of the MasterCard appeal to the Court of Justice of the European Union; and
- the UK Government has also announced the creation of a new Payment Systems Regulator (“**PSR**”) under the Banking Reform Act. This regulator will operate under the FCA but will have separate duties and powers. It cannot be ruled out that the PSR may in the future wish to investigate and potentially regulate domestic interchange fees in the UK.

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

Payment Protection Insurance

Following the unsuccessful legal challenge by the BBA against the FSA and the FOS, the Group made provisions totalling £6,775 million in 2011 and 2012 against the costs of paying redress to customers in respect of past sales of PPI policies, including the related administrative expenses.

During 2013, average monthly customer initiated complaints have continued to fall. Good progress has also been made in the planned proactive mailings. There have been some adverse trends (as detailed below) and a further £3,050 million has been added to the provision, of which £500 million was at the half year; £750 million in the third quarter and £1,800 million at the year end. This brings the total amount provided to £9,825 million, of which approximately £2,090 million relates to anticipated administrative expenses. As at 31 December 2013, £2,807 million of the provision remained unutilised (29 per cent. of total provision) relative to an average monthly spend including administration costs in the last six months of £230 million.

Investigation and litigation relating to Interbank offered rates, and other references rates

A number of government agencies in the UK, U.S. and elsewhere, including the FCA, the SFO, the U.S. Commodity Futures Trading Commission, the SEC, the U.S. Department of Justice and a number of State Attorneys General, as well as the European and Swiss Competition Commissions, are conducting investigations into submissions made by panel members to the bodies that set various interbank offered rates including LIBOR and the European Banking Federation's Euro Interbank Offered Rate ("EURIBOR"). Certain Group companies were (at the relevant times) and remain members of various panels whose members make submissions to these bodies including the BBA LIBOR panels. No Group company is or was a member of the EURIBOR panel. Certain Group companies have received subpoenas and requests for information from certain government agencies and the Group is co-operating with their investigations.

Certain Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the U.S. in connection with their roles as panel banks contributing to the setting of U.S. dollar LIBOR. The claims have been asserted by plaintiffs claiming to have had an interest in various types of financial instruments linked to U.S. dollar LIBOR. The allegations in these cases, the majority of which have been coordinated for pre-trial purposes in multi-district litigation proceedings in the U.S. District Court for the Southern District of New York (the "**District Court**"), are substantially similar to each other. The lawsuits allege violations of the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act and the Commodity Exchange Act, as well as various state statutes and common law doctrines. Certain of the plaintiffs' claims have been dismissed by the District Court, various motions directed to the sufficiency of their pleading of certain claims are still pending, and many of these cases have been stayed by order of the District Court.

The Group is also reviewing its activities in relation to the setting of certain foreign exchange daily benchmark rates, following the FCA's publicised initiation of an investigation into other financial institutions in relation to this activity. In addition, the Group, together with a number of other banks, has been named as a defendant in several actions in the District Court, in which the plaintiffs allege that the defendants manipulated WM/Reuters foreign exchange rates in violation of U.S. antitrust laws. The time-frame for the Group and the other defendants to move to dismiss these claims has not yet been set.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various regulatory investigations, private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale.

Litigation in relation to insurance branch business in Germany

Clerical Medical Investment Group Limited (“CMIG”) has received a number of claims in the German courts, relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. Following decisions in July 2012 from the Federal Court of Justice (“FCJ”) in Germany the Group recognised a further provision of £150 million in its accounts for the year ended 31 December 2012 bringing the total amount provided to £325 million. During the half-year to 30 June 2013 the Group has charged a further £75 million with respect to this litigation increasing the total provision to £400 million. The remaining unutilised provision as at 31 December 2013 is £246 million.

However, there are still a number of uncertainties as to the full impact of the FCJ’s decisions, and the validity of any of the claims facing CMIG will turn upon the facts and circumstances in respect of each claim. As a result the ultimate financial effect, which could be significantly different from the current provision, will only be known once there is further clarity with respect to a range of legal issues and factual determinations involved in these claims and/or all relevant claims have been resolved.

Interest rate hedging products

In June 2012, a number of banks, including the Group, reached agreement with the FSA (now the FCA) to carry out a review of sales made since 1 December 2001 of interest rate hedging products (“IRHP”) to certain small and medium-sized businesses. As at 31 December 2013, the Group had identified 1,771 sales of IRHPs to customers within scope of the agreement with the FCA which are being reviewed and, where appropriate, redressed. The Group agreed that on conclusion of this review it would provide redress to any in-scope customers where appropriate.

The Group provided £400 million in its accounts for the year ended 31 December 2012 for the estimated cost of redress and related administration costs, based on a pilot review that had been conducted at the time. In the final quarter of 2013, a significant number of additional cases were reviewed, providing a larger and more representative sample from which to estimate the total cost of the review. As a result, an additional provision of £130 million has been recognised. During the same period, the Group confirmed it would pay any redress due to in-scope customers before any consequential loss claims had been outlined and agreed with them. At 31 December 2013, the total amount provided for the cost of redress and related administration costs is £530 million of which £162 million had been utilised. No provision has been recognised in relation to claims from customers which are not covered by the agreement with the FCA, or incremental claims from customers within the scope of the review. These will be monitored and future provisions will be recognised to the extent an obligation resulting in a probable outflow is identified.

Other regulatory matters

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and governmental authorities in relation to a range of matters. A provision is held against the costs expected to be incurred as a result of the conclusions reached. In 2013 the provision was increased by a further £200 million, in respect of matters affecting the Retail, Commercial, and Wealth and Asset Finance businesses, bringing the total amount charged to £300 million of which £75 million had been utilised at 31 December 2013. This increase reflects the Group’s assessment of a limited number of matters under discussion, none of which currently is individually considered financially material in the context of the Group.

U.S. shareholder litigation

In November 2011, the Group and two former members of the Group’s Board of Directors were named as defendants in a purported securities class action filed in the United States District Court for the Southern District of New York. The complaint asserted claims under the Securities Exchange Act of 1934 in connection

with alleged material omissions from statements made in 2008 in connection with the acquisition of HBOS. In October 2012, the court dismissed the complaint. The plaintiffs' appeal against this decision was dismissed on 19 September 2013 and the time limit for further appeals expired in December 2013.

Investigation into Bank of Scotland and report on HBOS

The FSA's enforcement investigation into Bank of Scotland plc's Corporate division between 2006 and 2008 concluded with the publication of a Final Notice on 9 March 2012. No financial penalty was imposed on the Group or Bank of Scotland plc. On 12 September 2012 the FSA confirmed it was starting work on a public interest report on HBOS. That report is currently expected to be published in 2014.

U.S.-Swiss tax programme

The U.S. Department of Justice (the "DOJ") and the Swiss Federal Department of Finance announced on 29 August 2013 a programme (the "DOJ Programme") for Swiss banks to obtain resolution concerning their status in connection with ongoing investigations by the DOJ into individuals and entities that use foreign (i.e. non-U.S.) bank accounts to evade U.S. taxes and reporting requirements, and individuals and entities that facilitate or have facilitated the evasion of such taxes and reporting requirements. Swiss banks that choose to participate have to notify the DOJ of their election to categorise their relevant banking operations according to one of a number of defined categories under the DOJ Programme. The Group, which carried out private banking operations in Switzerland prior to disposing of these operations in November 2013, has notified the DOJ of its elected categorisation on the basis that while it believes it has operated in full compliance with all U.S. federal tax laws, there remains the possibility that certain of its clients may not have declared their assets in compliance with such laws. The Group will continue to co-operate with the DOJ under the terms of the DOJ Programme. However, at this time, it is not possible to predict the ultimate outcome of the Group's participation in the DOJ Programme, including the timing and scale of any fine finally payable to the DOJ.

Tax authorities

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ("HMRC") adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities of approximately £600 million and a reduction in the Group's deferred tax asset of approximately £400 million. The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Other Legal Actions and Regulatory Matters

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

Major Shareholders and Related Party Transactions

Major Shareholders

At 31 March 2014, The Solicitor for the Affairs of Her Majesty's Treasury had a direct interest of approximately 24.9 per cent. (17,771,118,604 ordinary shares) in the Issuer's issued share capital with rights to vote in all circumstances at general meetings (31 December 2013: 32.7 per cent.; 31 December 2012: 39.2 per cent.). No other notification has been received that anyone has an interest of 3 per cent. or more in the Issuer's issued ordinary share capital. Further information on The Solicitor for the Affairs of Her Majesty's Treasury's shareholding in the Issuer is provided above under “- History and development of Lloyds Banking Group” and below under “- Information about the Lloyds Banking Group's relationship with the UK Government”.

All shareholders within a class of the Issuer's shares have the same voting rights.

Related Party Transactions

The Group, as at 31 December 2013, had related party transactions with seven key management personnel and certain of its pension funds, collective investment schemes and joint ventures and associates. See note 51 to the Issuer's 2013 Annual Report. In addition, material contracts with HM Treasury are described below under “Information about the Lloyds Banking Group's relationship with the UK Government”.

The UK Government, through HM Treasury, became a related party of the Group in January 2009, and from 1 January 2011, in accordance with IAS 24, UK Government-controlled entities became related parties of the Group. The Group regards the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc, Northern Rock (Asset Management) plc and Bradford & Bingley plc, as related parties.

Except as described below under “Information about the Lloyds Banking Group's relationship with the UK Government”, there are no transactions to which the Group is a party involving the UK Government or any body controlled by the UK Government which are material to the Group or, to the Group's knowledge, to the UK Government or any UK Government controlled body, that were not made in the ordinary course of business, or that are unusual in their nature or conditions. However, considering the nature and scope of the bodies controlled by the UK Government, it may be difficult for the Group to know whether a transaction is material for such a body.

To the best of the Group's knowledge, any outstanding loans made by the Group to or for the benefit of the UK Government, any body controlled by the UK Government or other related parties, were made (1) in the ordinary course of business, (2) on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, (3) did not involve more than the normal risk of collectability or present other unfavourable features, and (4) were made on an arm's length basis.

The Group also engages in numerous transactions on arm's length commercial terms in the ordinary course of its business with the Government and its various departments and agencies, as well as with other companies in which the Government has invested. This includes financings, lending, banking, asset management and other transactions with UK financial institutions in which the Government has invested. During 2010, 2011, 2012 and 2013 the Group made use of these measures in order to maintain and improve a stable funding position.

Information about the Lloyds Banking Group's relationship with the UK Government

HM Treasury Shareholding

As at 31 March 2014, the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) had a direct interest of approximately 24.9 per cent. in the Issuer's issued share capital with rights to vote in all circumstances at general meetings. This percentage holding has reduced from 39.2 per cent. at 31 December 2012 following the UK Government's sale of 4,282 million shares on 17 September 2013 and the UK Government's sale of 5,555 million shares on 31 March 2014, as well as due to the impact of issues of ordinary shares.

HM Treasury's shareholding in the Issuer is a consequence of its subscription for equity securities of the Issuer and of HBOS (prior to the acquisition of HBOS by the Issuer) in the 2008 placing and open offer and preference share subscription, the concomitant placing and open offer by HBOS, the 2009 placing and open offer and the Issuer's 2009 Rights Issue.

HM Treasury's shareholding in the Issuer is currently managed by UKFI on behalf of HM Treasury. This relationship falls within the scope of the revised framework document between HM Treasury and UKFI published on 1 October 2010 – for more information see “Risk Factors - Government related risks - The Solicitor for the Affairs of HM Treasury is the largest shareholder of the Issuer. Through its shareholding in, and other relationships with, the Issuer, HM Treasury is in a position to exert significant influence over the Group and its business.”

The goals of the framework document are consistent with the stated public policy aims of HM Treasury, as articulated in a variety of public announcements. In the publication “An Introduction: Who We Are, What We Do and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury”, it is stated that UKFI is to “develop and execute an investment strategy for disposing of the investments in the banks in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition”. It further states that UKFI will manage the shareholdings of UK financial institutions in which HM Treasury holds an interest “on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined therein) (including with respect to individual lending or remuneration decisions)”.

The Issuer and HM Treasury in January 2009 entered into a registration rights agreement granting customary demand and “piggyback” registration rights in the United States under the United States Securities Act 1933, as amended, to HM Treasury with respect to any ordinary shares of the Group held by HM Treasury. The agreement was amended in June 2009 to include as registrable securities the new shares subscribed for by HM Treasury in the 2009 placing and open offer, any other securities in the Issuer called by HM Treasury to be issued by any person and any securities issued by HM Treasury which are exchangeable for, convertible into, give rights over or are referable to any such securities. The Issuer also in June 2009 entered into a resale rights agreement with HM Treasury in which it agreed to provide its assistance to HM Treasury in connection with any proposed sale by HM Treasury of ordinary shares, other securities held by HM Treasury in the Issuer or any securities of any description caused by HM Treasury to be issued by any person which are exchangeable for, convertible into, give rights over or are referable to such ordinary shares or other securities issued by the Group, to be sold in such jurisdictions (other than the United States) and in such manner as HM Treasury may determine.

Other Related Party Transactions with the UK Government

Government and central bank facilities

During the year ended 31 December 2013, the Group participated in a number of schemes operated by the UK Government and central banks and made available to eligible banks and building societies.

National Loan Guarantee Scheme

The Group has participated in the UK Government's National Loan Guarantee Scheme, which was launched on 20 March 2012. Through the scheme, the Group is providing eligible UK businesses with discounted funding, subject to continuation of the scheme and its financial benefits, and based on the Group's existing lending criteria. Eligible businesses who have taken up the funding benefit from a 1 per cent. discount on their funding rate for a certain period of time.

Business Growth Fund

In May 2011, the Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300 million of equity investment by subscribing for shares in the Business Growth Fund plc, which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association's Business Taskforce Report of October 2010. At 31 December 2013, the Group had invested £64 million (31 December 2012: £50 million) in the Business Growth Fund and carried the investment at a fair value of £52 million (31 December 2012: £44 million).

Big Society Capital

In January 2012, the Group agreed, together with The Royal Bank of Scotland plc (and two other non-related parties), to commit up to £50 million each of equity investment into the Big Society Capital Fund. The Fund, which was created as part of the Project Merlin arrangements, is a UK social investment fund. The Fund was officially launched on 3 April 2012 and the Group had invested £12 million in the Fund by 31 December 2012 and invested a further £11 million during the year ended 31 December 2013.

Funding for Lending

In August 2012, the Group announced its support for the UK Government's Funding for Lending Scheme and confirmed its intention to participate in the scheme. The Funding for Lending Scheme represents a further source of cost effective secured term funding available to the Group. The initiative supports a broad range of UK based customers, providing householders with more affordable housing finance and businesses with cheaper finance to invest and grow. In November 2013, the Group entered into extension letters with the Bank of England to take part in the extension of the Funding for Lending Scheme until the end of January 2015. The extension of the Funding for Lending Scheme focuses on providing businesses with cheaper finance to invest and grow. At 31 December 2013, the Group had drawn down £8.0 billion under the Funding for Lending Scheme. A further £2.2 billion was drawn in January 2014, which under the Funding for Lending rules counts as funding from the 2013 scheme capacity. This figure includes £0.2 billion drawn by Sainsbury's Bank plc. As a result of the Group's holding in the joint venture, Sainsbury's Bank plc is part of the Group for Funding for Lending purposes for the period to 31 January 2014.

Help to Buy

On 7 October 2013, Bank of Scotland plc entered into an agreement with The Commissioners of HM Treasury by which it agreed that the Halifax Division of Bank of Scotland plc would participate in the Help to Buy Scheme with effect from 11 October 2013 and that the Issuer would participate from 3 January 2014. The Help to Buy Scheme is a scheme promoted by the Government and is aimed to encourage participating lenders to make mortgage loans available to customers who require higher loan-to-value mortgages. Halifax

and Lloyds are currently participating in the scheme whereby customers borrow between 90 per cent. and 95 per cent. of the purchase price.

In return for the payment of a commercial fee, HM Treasury has agreed to provide a guarantee to the lender to cover a proportion of any loss made by the lender arising from a higher loan-to-value loan being made. By 31 December 2013, £79 million had been advanced under this scheme.

Central Bank Facilities

In the ordinary course of business, the Group may from time to time access market-wide facilities provided by central banks.

GAPS Withdrawal Deed

In November 2009, following its withdrawal from its proposed participation in GAPS, the Issuer entered into the GAPS Withdrawal Deed with HM Treasury pursuant to which, among other matters, the Issuer paid HM Treasury £2,500 million in recognition of the benefits to the Group's trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group and, in addition, reimbursed HM Treasury various costs.

The GAPS Withdrawal Deed contained certain undertakings given by the Group to HM Treasury in connection with the state aid approval obtained from the European Commission (on which see the sub-section entitled “- State Aid” below) and its withdrawal from its proposed participation in GAPS.

In particular, the Group is required to do all acts and things necessary to ensure the UK Government's compliance with its obligations under the European Commission decision approving state aid to the Group. This undertaking includes an obligation to: (i) comply with the restructuring measures that the Group agreed to undertake; (ii) comply with the terms of the Restructuring Plan; and (iii) provide certain information to HM Treasury and do such acts as are necessary to enable compliance with the state aid approval to be monitored. The GAPS Withdrawal Deed also provides for the Group's restructuring obligations to be modified in certain limited circumstances (without prejudice to any challenge to such state aid modifications). However, HM Treasury has undertaken that it will not, without the consent of the Issuer, agree modifications to the Group's undertakings with respect to state aid which are significantly more onerous to the Issuer than those granted in order to obtain the state aid approval.

It was also agreed that if the European Commission adopted a decision that the United Kingdom must recover any state aid, the Group would repay all such state aid (subject to the Group's right to challenge any such decision in the European courts).

The GAPS Withdrawal Deed included a number of other commitments given by the Issuer to HM Treasury. The Issuer, among other things:

- (i) acknowledged its commitment to the principle that it should be at the leading edge of implementing the G20 principles, the FSA Code on remuneration and any remuneration provisions accepted by the Government from the Walker Review, provided that this principle shall always be applied in such a way as to allow the Issuer to operate on a level playing field with its competitors;
- (ii) reaffirmed its lending commitments;
- (iii) agreed to implement a (now published) customer charter for lending to businesses;
- (iv) committed:
 - (a) to ensure that its public financial statements comply with best industry practice; and

- (b) to enter into discussions with HM Treasury with a view to ensuring that such public financial statements: (A) enable investors to assess the quality of the assets and liabilities of banking institutions, the financial position and performance of banking institutions and the nature and extent of risks arising from financial instruments to which banking institutions are exposed; and (B) are comparable as between similar banking institutions;
- (v) agreed to develop with the FSA, and implement, a medium term funding plan aimed at reducing dependence on short term funding to be regularly reviewed by the FSA (now the FCA), the Bank of England (now including the PRA) and HM Treasury; and
- (vi) agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry: (A) as detailed in the OFT's report "Personal current accounts in the UK – a follow up report, October 2009" and (B) relating to fees and charges, and the terms and conditions of personal current accounts where any such measures are within the scope of current negotiations with respect thereto.

State Aid

As part of the European Commission's decision approving state aid to the Group, the Group was required to submit the Restructuring Plan to the European Commission in the context of a state aid review. The plan was required to support the long-term viability of the Group and remedy any distortion of competition and trade in the European Union arising from the state aid received by the Group. The College of Commissioners announced its formal approval of the state aid on 18 November 2009 and concluded that the Restructuring Plan was appropriate to achieve the aforementioned aims.

The Restructuring Plan consists of the following principal elements: (i) the disposal of a retail banking business with at least 600 branches, a 4.6 per cent. share of the personal current accounts market in the UK and up to 19.2 per cent. of the Group's mortgage assets; (ii) an asset reduction programme to achieve £181 billion reduction in certain parts of its balance sheet by the end of 2014; and (iii) behavioural commitments, including commitments which restrict the Group's ability to make certain acquisitions for approximately three to four years and not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31 January 2010 until 31 January 2012, which prevented the Group from paying dividends on its ordinary shares for the same duration.

The Group continues to work closely with the European Commission, HM Treasury and the Monitoring Trustee appointed by the European Commission to ensure the implementation of the Restructuring Plan. In line with strengthening of the balance sheet, the Group has made excellent progress against its asset reduction commitment and reached the reduction total required in December 2012, two years ahead of the mandated completion date. The Group has now received formal confirmation from the European Commission that it is released from this commitment.

In June 2011 the Group issued an information memorandum to potential bidders for the retail banking business ("Verde"), which the European Commission confirmed met the requirements to commence the formal sale process no later than 30 November 2011. In December 2011 the Group announced that, having reviewed the formal offers made, its preferred option was for a direct sale and that it was entering exclusive discussions with the Co-operative. On 19 July 2012 the Group announced that it had agreed non-binding heads of terms with the Co-operative for the disposal of Verde. The Group worked with the Co-operative to agree a sale and purchase agreement, with completion of the divestment expected by the end of November 2013, but in April 2013 the board of directors of the Co-operative announced that it had decided that it would no longer proceed with a purchase of the Verde business. The Group announced that it intended instead to divest Verde through an IPO, subject to European Commission and regulatory approval, having maintained

plans for this fall back option throughout the direct sale process, should the proposed divestment to the Co-operative not complete.

The IPO of Verde is targeted for summer 2014 and the Group is pursuing this approach with the support of HM Treasury, and has also received agreement in principle from the European Commission. A disposal by way of an IPO with an extension to the deadline for full divestment of all shares in TSB from 30 November 2013 to 31 December 2015 remains subject to final regulatory and European Commission approval. The branches and business assets included under Project Verde were rebranded to TSB in September 2013 when the Group launched TSB as a new challenger bank. TSB now operates as a separate business within the Group with a distinct brand and marketing focus. TSB has around 4.6 million customers, 631 branches and is the eighth largest bank in the UK. The costs of building TSB were £686 million in the year to 31 December 2013 and, from inception to the end of December 2013, have totalled £1,468 million. Total build costs are now expected to end in 2014 and to be £1.8 billion in total.

Other Relationships with the UK Government

The Group, in common with other financial institutions, is also working closely with a number of Government departments and agencies on various industry-wide initiatives that are intended to support the Government's objective of economic recovery and greater stability in the wider financial system.

For more detail on industry-wide initiatives see “- Business Growth Fund” and “- Big Society Capital” above.

Other Related Party Transactions

Sale of certain securitisation notes

During the ended 31 December 2013, the Group sold at fair value certain securitisation notes to Lloyds Bank Pension Trust (No.1) Limited for a consideration of approximately £340 million. Following the sale, the Group deconsolidated the relevant securitisation entities recognising a profit of £236 million.

Subsequently, the Group entered into a commercially negotiated agreement with Lloyds Bank Pension Trust (No.1) Limited to jointly sell a portfolio of US Residential Mortgage-Backed Securities with a book value of £3.5 billion. As a result of selling the portfolio together a price premium was achieved compared to selling the notes separately. Under the terms of the agreement the Group and Lloyds Bank Pension Trust (No.1) Limited agreed to share any price premium achieved above an agreed minimum threshold amount. The joint sale resulted in the Group realising a total pre-tax gain of approximately £538 million, of which £99 million related to the premium sharing agreement.

St. James's Place Plc

In March 2013, the Group sold 102 million shares in St. James's Place plc; fees totalling £5 million in relation to the sale were settled by St. James's Place plc.

Liquidity Portfolio

At 31 December 2013, the Group had £89.3 billion (2012: £87.6 billion) of highly liquid unencumbered assets in its primary liquidity portfolio which are available to meet cash and collateral outflows and PRA regulatory requirements. In addition the Group had £105.4 billion (2012: £117.1 billion) of secondary liquidity which is eligible for use in a range of central bank or similar facilities. This liquidity is managed as a single pool in the centre and is under the control of the function charged with managing the liquidity of the Group. It is available for deployment at immediate notice, subject to complying with regulatory requirements, and is a key component of the Group's liquidity management process.

Directors

The directors of the Issuer, the business address of each of whom is The Mound, Edinburgh, EH1 1YZ United Kingdom, and their respective principal outside activities, where significant to the Issuer, are as follows:

Name	Principal outside activities
Lord Blackwell Chairman	Chairman of Interserve plc, a non-executive director of Halma plc and a member of the board of the Centre for Policy Studies.
Executive directors	
António Horta-Osório Group Chief Executive	A non-executive director of Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal and a governor of the London Business School.
Juan Colombás Chief Risk Officer	Member of the International Financial Risk Institute Executive Committee.
George Culmer Chief Financial Officer	None
Non-executive directors	
Carolyn Fairbairn	Non-executive director of The Vitec Group plc (also serves as a member of the Audit, Nominations and Remuneration Committees of The Vitec Group plc) and a trustee of Marie Curie Cancer Care. Non-executive director of the Competition and Markets Authority and the UK Statistics Authority.
Anita Frew	Chairman of Victrex Plc. Senior non-executive director of Aberdeen Asset Management Plc and Non-Executive director of IMI Plc.
Dyfrig John CBE	Chairman of the Principality Building Society (until 17 April 2014) and Member of the Welsh Rugby Union's Audit Committee.
Nicholas Luff	Group finance director of Centrica plc (will step down by the end of 2014). Due to take up the position of Chief Financial officer of Reed Elsevier during 2014.
David Roberts (Deputy Chairman)	None.
Anthony Watson CBE (Senior Independent Director)	A non-executive director of Hammerson, Vodafone and Witan Investment Trust. Chairman of Lincoln's Inn investment committee and member of the Norges Bank Investment Management Corporate Governance Advisory Board.
Sara Weller	Non-executive director of United Utilities Group plc (also serves as chairperson of the Remuneration Committee of United Utilities Group plc).

None of the directors of the Issuer has any actual or potential conflict between their duties to the Issuer and their private interests or other duties as listed above.

Recent Developments

On 11 March 2014, the Issuer announced a change to the Group's defined benefit pension schemes, whereby with effect from 2 April 2014 the cap on increases in pensionable pay that is used in calculating the pension benefit, was revised from 2 per cent. to 0 per cent. The estimated effect of the change on the Group's income statement as of 11 March 2014 was a one-off benefit of approximately £1 billion to the Group to be recognised in the second quarter of 2014.

TAXATION

UNITED KINGDOM

The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and HMRC practice (which may not be binding on HMRC) and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Additional Tier 1 Securities and may not apply to certain classes of persons (such as dealers) to whom special rules may apply. Any holders of Additional Tier 1 Securities who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

1 UK Withholding Tax

Interest on the Additional Tier 1 Securities will be made without withholding for or deduction of United Kingdom income tax under Section 874 of the Income Tax Act 2007 (the “**Act**”), provided that:

- (a) the Additional Tier 1 Securities are “regulatory capital securities” for the purposes of the Taxation of Regulatory Capital Securities Regulations 2013 (the “**Regulations**”). The Additional Tier 1 Securities will be “regulatory capital securities” for these purposes provided that such securities qualify as Additional Tier 1 instruments under Article 52 of Commission Regulation (EU) No 575/2013 (as amended from time to time) (the “**CRR**”) and such Additional Tier 1 Securities form, or formed, a component of Additional Tier 1 capital for the purposes of the CRR and provided further that there are not arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the Regulations, or
- (b) the Additional Tier 1 Securities are and remain listed on a “recognised stock exchange” within the meaning of Section 1005 of the Act. The Global Exchange Market of the Irish Stock Exchange is currently a recognised stock exchange for these purposes. The Additional Tier 1 Securities will satisfy this requirement if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable to countries in the EEA and are admitted to trading on the Global Exchange Market of the Irish Stock Exchange.

In all other cases, an amount on account of United Kingdom income tax must generally be withheld at the basic rate (currently 20 per cent.), unless another relief applies.

2 Information Sharing

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of the Additional Tier 1 Securities (or the persons for whom the Additional Tier 1 Securities are held), details of the persons to whom payments derived from the Additional Tier 1 Securities are or may be paid and information and documents in connection with transactions relating to the Additional Tier 1 Securities. Information may be required to be provided by, amongst others, the holders of the Additional Tier 1 Securities, persons by (or via) whom payments derived from the Additional Tier 1 Securities are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Additional Tier 1 Securities on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

3 EU Directive on Taxation of Savings Income (Directive 2003/48/EC)

The Council of the European Union has adopted a directive regarding the taxation of savings income. The Directive requires Member States of the European Union to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person within its jurisdiction to (or for the benefit of) an individual resident, or certain other persons established, in another Member State, except that Luxembourg and Austria will instead operate a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) in relation to such payments unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

4 UK Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

No United Kingdom stamp duty or SDRT will be payable on the issue of the Additional Tier 1 Securities. Provided that the Additional Tier 1 Securities are “regulatory capital securities” under the Regulations (see Paragraph 1(a) above), no UK stamp duty or SDRT will be payable on the transfer of the Additional Tier 1 Securities.

GENERAL INFORMATION

1 Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the UK in connection with the issue and performance of the Additional Tier 1 Securities. The issue of the Additional Tier 1 Securities and the performance of the LBG's obligations thereunder have been duly authorised by resolutions of the ordinary shareholders of LBG passed on 16 May 2013 and by resolutions of the Board of Directors of LBG passed on 27 February 2014 and of a committee of the Board of Directors of LBG passed on 5 March 2014.

2 Legal Proceedings and Regulatory Matters

Save as disclosed in the sub-sections entitled "Interchange fees", "Payment Protection Insurance", "Investigation and litigation relating to Interbank offered rates, and other references rates", "Litigation in relation to insurance branch business in Germany", "Interest rate hedging products", "Other regulatory matters", "U.S. shareholder litigation", "Investigation into Bank of Scotland and report on HBOS", "U.S.-Swiss tax programme" and "Tax authorities" of the section "Lloyds Banking Group – Legal Actions and Regulatory Matters" on pages 167 to 170 of these Listing Particulars, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have or have had during the 12 months preceding the date of these Listing Particulars, a significant effect on the financial position or profitability of the Issuer or the Group.

3 Significant/Material Change

There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2013, the date to which the Group's last published audited financial information (as set out in the Issuer's Annual Report for the year ended 31 December 2013) was prepared.

Save as set out below, there has been no significant change in the financial or trading position of the Issuer or the Group since 31 December 2013, the date to which the Group's last published audited financial information (as set out in the Issuer's Annual Report for the year ended 31 December 2013) was prepared.

On 6 March 2014, the Issuer announced the launch of concurrent sterling, euro and U.S. dollar exchange offers for holders of certain series of the Group's Enhanced Capital Notes ("ECNs") to exchange them for Additional Tier 1 Securities. At the same time, the Issuer announced that in addition to the exchange offers, a tender offer will be made to eligible retail holders outside of the United States to sell their sterling-denominated ECNs for cash. The maximum nominal amount of new Additional Tier 1 Securities that will be issued by the Group in the exchange offers is approximately £5 billion. As announced on 20 March 2014, the Additional Tier 1 Securities that will be issued under the sterling and euro exchange offers will be £4.3 billion. Assuming the full issuance of Additional Tier 1 Securities under the exchange offers, the Group is expected to suffer a one-off accounting charge of approximately £1 billion in the first half of 2014. This one-off accounting charge is expected to be partially offset in the medium term by the removal of future accounting charges that would have arisen over the remaining life of the ECNs.

On 11 March 2014, the Issuer announced a change to the Group's defined benefit pension schemes, whereby with effect from 2 April 2014 the cap on increases in pensionable pay that is used in calculating the pension benefit, was revised from 2% to 0%. The estimated effect of the change on the Group's income statement as of 11 March 2014 was a one-off benefit of approximately £1 billion to the Group to be recognised in the second quarter of 2014.

4 Corporate Information

- (a) LBG was incorporated and registered in Scotland on 21 October 1985 with registered number 95000 as a public company limited by shares under the name TSB Group Public Limited Company. On 28 December 1995, it changed its name to Lloyds TSB Group plc. On 16 January 2009, LBG changed its name to its present name. The principal legislation under which LBG operates, and pursuant to which any Ordinary Shares will be created, is the Companies Act and regulations made thereunder. LBG is domiciled in Scotland. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44 (0)20 7626 1500) and its registered office is at The Mound, Edinburgh, EH1 1YZ.
- (b) The most recent Articles of Association of LBG were adopted on 5 June 2009 with effect from 1 October 2009 and were last amended by special resolution passed on 26 November 2009. The Articles of Association of LBG are available for inspection on the website of LBG at www.lloydsbankinggroup.com.
- (c) The Articles of Association of LBG do not set out objects for which LBG is formed and incorporated and as such, subject to applicable law and regulation, LBG may carry out any business activities.
- (d) Articles 48, 49, 56, 127, 129, 131, 132, 133 and 136 of the Articles of Association of LBG regulate how LBG provides notices to its members. These Articles do not apply to the provision of notices to holders of the Additional Tier 1 Securities, as the provision of such notices is regulated by the terms and conditions of the securities themselves and any requirements of the Financial Conduct Authority, the Prudential Regulation Authority and any stock exchange on which such debt securities are listed.
- (e) The issued share capital of LBG is comprised of:
 - (i) 1,369,954,233 Ordinary Shares with a nominal value of £0.10 each;
 - (ii) 71,369,954,233 Ordinary Shares with a nominal value of £0.10 each;
 - (iii) 400 6 per cent. non-cumulative redeemable preference shares with a nominal value of £0.25 each;
 - (iv) 299,987,729 9.25 per cent. non-cumulative irredeemable preference shares with a nominal value of £0.25 and a liquidation preference of £1 each;
 - (v) 55,740,886 9.75 per cent. non-cumulative irredeemable preference shares with a nominal value of £0.25 and a liquidation preference of £1 each;
 - (vi) 56,472,211 6.475 per cent. non-cumulative preference shares with a nominal value of £0.25 and a liquidation preference of £1 each;
 - (vii) 10,914 6.0884 per cent. non-cumulative fixed to floating rate preference shares with a nominal value of £0.25 and a liquidation preference of £1,000 each;
 - (viii) 2,925 6.3673 per cent. non-cumulative fixed to floating rate preference shares with a nominal value of £0.25 and a liquidation preference of £1,000 each;
 - (ix) 374,810 6.413 per cent. non-cumulative fixed to floating rate preference shares with a nominal value of U.S.\$0.25 and a liquidation preference of U.S.\$1,000 each;
 - (x) 213,287 5.92 per cent. non-cumulative fixed to floating rate preference shares with a nominal value of U.S.\$0.25 and a liquidation preference of U.S.\$1,000 each;
 - (xi) 434,350 6.657 per cent. non-cumulative fixed to floating rate preference shares with a nominal value of U.S.\$0.25 and a liquidation preference of U.S.\$1,000 each; and

- (xii) 397,728 6.267 per cent. fixed to floating rate non-cumulative callable dollar preference shares with a nominal value of U.S.\$0.25 and a liquidation preference of U.S.\$1,000 each.
- (f) The Ordinary Shares currently in issue are listed on the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange's Regulated Market for listed securities. The price of such Ordinary Shares is calculated and notified to the London Stock Exchange in real time during market hours. The trading prices of such Ordinary Shares and daily trading volumes are published on the London Stock Exchange's website and in the London Stock Exchange's Daily Official List. The London Stock Exchange website does not form part of this document. The London Stock Exchange is a key element of the financial infrastructure in the United Kingdom. Its roots stretch back to 1801 and the London Stock Exchange's regulated market is regulated by the Financial Conduct Authority. The daily trading volume of all order book trading on the London Stock Exchange on 25 March 2014 was 1,036,049,618 shares. The ISIN of the Ordinary Shares is GB0008706128. Further information about the London Stock Exchange can be obtained from the website of the London Stock Exchange at www.londonstockexchange.com.
- (g) LBG has not declared or paid any dividends on its Ordinary Shares in the previous five years. As at the date of these Listing Particulars, no dividends have been declared or paid on its Ordinary Shares in 2014.

5 Auditors

The annual consolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2012 and 31 December 2013 by PricewaterhouseCoopers LLP, chartered accountants and registered auditors (a member of the Institute of Chartered Accountants in England and Wales).

6 Documents on Display

Copies of the following documents (in physical form) may be inspected during normal business hours at the offices at Lloyds Banking Group plc, The Mound, Edinburgh EH1 1YZ, United Kingdom for 12 months from the date of these Listing Particulars:

- (a) the Articles of Association of the Issuer; and
- (b) the Issuer's Annual Report on Form 20-F for the year ended 31 December 2013 as amended or supplemented from time to time; the Form 6-K dated 5 March 2014 containing the Group's ratio of earnings to fixed charges as at 31 December 2013 and for the years ended 31 December 2012, 2011, 2010 and 2009 and the Form 6-K dated 5 March 2014 containing the Group's capitalisation and indebtedness on a consolidated basis in accordance with IFRS as at 31 December 2013.

7 Approval, Listing and Admission to Trading

Application has been made to the Irish Stock Exchange for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange for the Additional Tier 1 Securities to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Additional Tier 1 Securities and is not itself seeking admission of the Additional Tier 1 Securities to the

Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

Listing expenses are expected to be €5,690. The Issuer does not currently expect that the Additional Tier 1 Securities would remain listed following a Conversion.

8 ISIN and Common Code

The Additional Tier 1 Securities have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with the following International Securities Identification Numbers (“**ISIN**”s) and Common Codes:

Euro Additional Tier 1 Securities

ISIN: XS1043545059

Common Code: 104354505

Sterling PNC5 Additional Tier 1 Securities

ISIN: XS1043550307

Common Code: 104355030

Sterling PNC9 Additional Tier 1 Securities

ISIN: XS1043552188

Common Code: 104355218

Sterling PNC15 Additional Tier 1 Securities

ISIN: XS1043552261

Common Code: 104355226

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L -1855 Luxembourg.

DEFINITIONS

The following definitions apply throughout these Listing Particulars unless the context otherwise requires:

Additional Tier 1 Securities	The Euro Additional Tier 1 Securities and each Series of Sterling Additional Tier 1 Securities.
Additional Tier 1 Securities Conditions	The Terms and Conditions of the Sterling PNC5 Additional Tier 1 Securities, Terms and Conditions of the Sterling PNC9 Additional Tier 1 Securities, Terms and Conditions of the Sterling PNC15 Additional Tier 1 Securities and Terms and Conditions of the Euro Additional Tier 1 Securities set out in these Listing Particulars.
AT1 Securityholder	A holder of the Additional Tier 1 Securities.
Business Day	A day other than a Saturday or Sunday or a public holiday on which commercial banks and foreign exchange markets are open for business in London and (in the case of a sum payable on the Settlement Date in euro) a day on which the TARGET 2 System is open.
Capital Requirements Regulation	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/2012.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
Clearstream, Luxembourg	Clearstream Banking, société anonyme.
CRD IV	The legislative package of the relevant authorities of the European Union including the fourth capital requirements directive (Directive 2013/36/EU of the European Parliament) and CRR.
CRR	European Commission Regulation (EU) No 575/2013 (as amended from time to time).
EBA	The European Banking Authority.
Euro Additional Tier 1 Securities	€750,000,000 6.375 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2020.
Euroclear	Euroclear Bank SA/NV.
Eurozone	The region comprised of member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended.
FCA	The Financial Conduct Authority.
Fitch	Fitch Ratings Limited.
FSA	The Financial Services Authority, which has been succeeded by the FCA and the PRA.

FSMA	The Financial Services and Markets Act 2000.
Group	LBG and its subsidiary and associated undertakings.
Group Company	Any subsidiary of LBG.
Initial Coupon	The Euro Additional Tier 1 Securities Initial Coupon and/or the relevant Sterling Additional Tier 1 Securities Initial Coupon, as applicable.
LBG	Lloyds Banking Group plc.
London Stock Exchange	The London Stock Exchange plc.
PRA	The Prudential Regulation Authority.
Official List	The Official List of the Irish Stock Exchange
Reset Reference Rate	Has the meaning given to it in the relevant Additional Tier 1 Securities Conditions.
RNS	Regulatory News Service provided by the London Stock Exchange (being a Regulated Information Service on the list of Regulatory Information Services maintained by the Financial Conduct Authority).
S&P	Standard & Poor's Credit Market Services Europe Limited.
Securities Act	The United States Securities Act of 1933, as amended.
Series	A series of Additional Tier 1 Securities, each as further described in the relevant Additional Tier 1 Securities Conditions.
Sterling Additional Tier 1 Securities	Means the Sterling PNC5 Additional Tier 1 Securities, the Sterling PNC9 Additional Tier 1 Securities and/or the Sterling PNC15 Additional Tier 1 Securities.
Sterling PNC5 Additional Tier 1 Securities	£1,480,784,000 7.000 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2019.
Sterling PNC9 Additional Tier 1 Securities	£1,494,392,000 7.625 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2023.
Sterling PNC15 Additional Tier 1 Securities	£750,009,000 7.875 per cent. Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Contingent Convertible Securities Callable 2029.
TARGET 2 System	The Trans-European Automated Real-Time Gross Settlement Express Transfer System.
Terms and Conditions of the Euro Additional Tier 1 Securities	The terms and conditions of the Euro Additional Tier 1 Securities set out on pages 65 to 107 of these Listing Particulars.
Terms and Conditions of the Sterling PNC5 Additional Tier 1 Securities	The terms and conditions of the Sterling PNC5 Additional Tier 1 Securities set out on pages 108 to 149 of these Listing Particulars.
Terms and Conditions of the Sterling	The terms and conditions of the Sterling PNC9 Additional Tier

PNC9 Additional Tier 1 Securities	1 Securities set out on page 150 of these Listing Particulars.
Terms and Conditions of the Sterling PNC15 Additional Tier 1 Securities	The terms and conditions of the Sterling PNC15 Additional Tier 1 Securities set out on page 151 of these Listing Particulars.
Trust Deeds	The trust deeds constituting each Series of Additional Tier 1 Securities to be entered into between the Trustee (acting as trustee for the holders of the relevant Series of Additional Tier 1 Securities) and LBG and each a “Trust Deed”.
Trustee	BNY Mellon Corporate Trustee Services Limited.
United Kingdom or UK	United Kingdom of Great Britain and Northern Ireland.
United States or U.S.	The United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

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*To the Issuer
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