

## IMPORTANT NOTICE

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**IMPORTANT: You must read the following before continuing.** The following applies to the supplemental prospectus attached to this electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the supplemental prospectus. In accessing the supplemental prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING SUPPLEMENTAL PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are reminded that this supplemental prospectus has been delivered to you on the basis that you are a person into whose possession this supplemental prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this supplemental prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the managers or any affiliate of the managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of the issuing entity in such jurisdiction.

By accessing the supplemental prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the supplemental prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and (d) if you are a person in the United Kingdom, then you are a person who (i) is an investment professional within the meaning of article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **FPO**) or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the FPO (all such persons together being referred to as "relevant persons"). This supplemental prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this supplemental prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

This supplemental prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer nor any person who controls it nor any director, officer, employee nor agent of it (or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the supplemental prospectus distributed to you in electronic format and the hard copy version available to you on request from the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).



**Bank of Scotland plc**

*(incorporated with limited liability in Scotland with registered number SC 327000)*

**€60 billion Covered Bond Programme unconditionally guaranteed by**

**HBOS plc**

*(incorporated with limited liability in Scotland with registered number SC218813)*

**unconditionally and irrevocably guaranteed as to payments of interest and principal by**

**HBOS Covered Bonds LLP**

*(a limited liability partnership incorporated in England and Wales)*

This Supplement (the "**Supplement**") to the Prospectus dated 10 March 2010 (the "**Prospectus**"), which comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, constitutes a prospectus supplement for the purposes of article 13 of Chapter 1 of Part II of the Luxembourg Act dated 10 July 2005 on prospectuses for securities and is prepared in connection with the €60 billion Covered Bond Programme (the "**Programme**") established by Bank of Scotland plc (the "**Issuer**").

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus. Copies of this Supplement will be available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

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

## **AMENDMENTS TO THE PROSPECTUS**

### **Documents Incorporated by Reference**

The section entitled "Documents Incorporated by Reference" on page 10 of the Prospectus shall be deleted and replaced with the contents of Appendix 1 hereto.

### **Cross Reference List**

The section entitled "Cross Reference List" on page 12 of the Prospectus shall be deleted and replaced with the contents of Appendix 2 hereto.

### **Risk Factors**

The fifth sentence of Risk Factor 2.1.18 as contained on page 59 of the Base Prospectus shall be deleted and replaced with the following: "Lloyds Banking Group continues to provide for its share of the management expenses levy and the estimated interest cost on the FSCS borrowings."

The penultimate sentence of the penultimate paragraph of Risk Factor 2.1.19 as contained on page 61 of the Base Prospectus shall be deleted and replaced with the following: "See Note 44 to the Issuer's Annual Report and Accounts 2009 starting on page 61".

### **Background to the Proposals**

The final paragraph of the sub-section entitled "Background to the Proposals" under the sub-heading "Capital Restructuring" on page 103 of the Prospectus shall be deleted and replaced with the following:

"It also gives the Board a high level of confidence both in the adequacy of the substantial impairments which it has already taken against these assets (including with respect to Lloyds Banking Group's commercial and residential property exposures) and in the scale and timing of expected future impairments. Further detail on Lloyds Banking Group impairments by division is set out below, on page 2 of the Issuer's Annual Report and Accounts 2009, on page 2 of the HBOS Group Guarantor's Annual Report and Accounts 2009 and in the fourth paragraph of page 19 of Lloyds Banking Group plc's Annual Report and Accounts 2009 which are incorporated by reference herein."

### **Impairments**

The contents of the sub-section entitled "Impairments" under the heading "Recent Developments - Capital Restructuring" on page 103 of the Prospectus shall be deleted and replaced with the following:

"A significant proportion of Lloyds Banking Group's impairments to date have originated in Lloyds Banking Group's Wholesale division, primarily reflecting the decline in commercial property valuations and reducing levels of corporate cash flow. In particular the real estate related lending exposures in the legacy HBOS portfolios were more sensitive to the downturn in the economic environment. The Board continues to believe that the overall Wholesale impairment charge peaked in the first half of 2009 and Lloyds Banking Group has seen a significant reduction in the Wholesale impairment charge in the second half of 2009. The Board expects a significant overall reduction in the Wholesale impairment charge in 2010, and beyond.

In the Retail division impairment losses increased, particularly reflecting increases in UK unemployment during 2009 on the unsecured charge, which was partly offset by a lower secured impairment charge as house prices stabilised. Compared to 2009, the Board expects to see a reduction in the impairment charge in 2010, with further improvements thereafter as the UK economic environment improves and house prices continue to stabilise.

In the Wealth and International division, the impairment charge increased in 2009, reflecting significant provisions against Lloyds Banking Group's Irish and Australian commercial real estate portfolios. Lloyds Banking Group continues to have ongoing concerns with regard to the outlook for the Irish economy although the Board expect 2009 to have been the peak for the international impairment charge.

In conclusion, given its view of the economic outlook for the UK, the Board believes that, at Lloyds Banking Group level, the overall impairment charge has now peaked and that the overall impairment charge in 2010 will be significantly lower than the overall impairment charge in 2009."

## **HBOS**

The contents of the section entitled "HBOS" on pages 106 to 113 of the Prospectus, shall be deleted and replaced with the contents of Appendix 3 hereto.

## **The Issuer**

The contents of the section entitled "The Issuer" on pages 114 to 118 of the Prospectus, shall be deleted and replaced with the contents of Appendix 4 hereto.

## **Regulation and Supervision**

The first paragraph of the section entitled "Authorised Firms within the HBOS Group" under the heading "Regulation and Supervision" on page 123 of the Prospectus shall be deleted and replaced with the following:

"As at 31 December 2009 there were approximately 30 UK authorised institutions across the HBOS Group. These are regulated by the FSA on both an individual and a consolidated basis. There was one UK authorised bank: Bank of Scotland plc. The UK investment firms authorised within the HBOS Group were: Bank of Scotland Independent Financial Advisers Ltd, Clerical Medical Financial Advisers Ltd, Clerical Medical Investment Fund Managers Ltd, Halifax Capital Trustees Ltd, Halifax Independent Financial Services Ltd, Halifax Investment Services Ltd, Halifax Share Dealing Ltd, HBOS Investment Fund Managers Ltd, IWEB (UK) Ltd, and Uberior Fund Manager plc."

The last paragraph of the section entitled "Basel II" under the heading "Regulation and Supervision" on page 123 of the Prospectus shall be deleted.

## **General Information**

The subsection entitled "Documents Available" contained in the section entitled "General Information" on page 289 of the Prospectus, shall be deleted and replaced with the contents of Appendix 5 hereto.

The subsection entitled "Significant or Material Change" contained in the section entitled "General Information" on pages 291 to 292 of the Prospectus, shall be deleted and replaced with the following:

### ***"BOS Group***

There has been no significant change in the financial or trading position of the BOS Group since 31 December 2009, the date to which the BOS Group's last published audited financial information was prepared, and there has been no material adverse change in the prospects of the BOS Group since 31 December 2009.

### ***HBOS Group***

There has been no significant change in the financial or trading position of the HBOS Group since 31 December 2009, the date to which the HBOS Group Guarantor's last published audited financial information was prepared, and there has been no material adverse change in the prospects of the HBOS Group since 31 December 2009.

## ***LLP***

There has been no significant change in the financial or trading position of the LLP since 31 December 2008, the date of its last audited consolidated and non-consolidated annual financial statements, and there has been no material adverse change in the prospects of the LLP since 31 December 2008, the date of its last audited consolidated and non-consolidated annual financial statements."

### **Legal Advisers**

The words "To the Arranger as to English law and U.S. law" and the details of the legal advisers to the Arranger as to English law and U.S. law and such legal advisers' address on page 305 of the Prospectus shall be deleted.

The words "To the Arranger as to Scottish law" and the details of the legal advisers to the Arranger as to Scottish law and such legal advisers' address on page 305 of the Prospectus shall be deleted.

The Issuer will provide, without charge, to each person to whom a copy of this Supplement 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 or in the Prospectus. Written or oral requests for such documents should be directed to the Issuer at its registered office at The Mound, Edinburgh EH1 1YZ, Scotland, as described on page 11 of the Prospectus.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

An investor should be aware of its rights arising pursuant to article 13 paragraph 2 of Chapter 1 of Part II of the Luxembourg Act dated 10 July 2005 on prospectuses for securities.

## **Appendix 1**

### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents which have previously been published and have been filed with the CSSF shall, unless otherwise stated, be incorporated by reference herein, and form part of, this Offering Circular:

- 1.1 the Issuer's Annual Report and Accounts 2009;
- 1.2 the Issuer's Annual Report and Accounts 2008 (the "**Issuer's 2008 Annual Report**");
- 1.3 the HBOS Group Guarantor's Annual Report and Accounts 2009;
- 1.4 the HBOS Group Guarantor's Annual Report and Accounts 2008 (the "**HBOS Group Guarantor's 2008 Annual Report**");
- 1.5 the Members' Report and Financial Statements and the audited consolidated and non-consolidated annual financial statements for each of the financial years ended 31 December 2007 and 31 December 2008 of the LLP;
- 1.6 Lloyds Banking Group plc's Annual Report and Accounts 2009; and
- 1.8 Lloyds Banking Group plc's Regulatory News Service announcement entitled "Update on Current Trading" published on 19 March 2010 ("**19 March 2010 RNS Announcement**").

The audited consolidated financial statements referred to in paragraphs 1.2, 1.4 and 1.5 above are collectively referred to herein as the "**Consolidated Financial Statements**".

Any information not listed in the cross reference lists below, but which is contained in a document incorporated by reference, is given for information purposes only.

Following the publication of this Offering Circular a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement to the Offering Circular (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

The Issuer and the Guarantors will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference (unless such documents have been modified or superseded as specified above) and any prospectus supplement. Requests for such documents (including any prospectus supplement) should be directed either to the Issuer, the HBOS Group Guarantor or the LLP, at their respective registered offices set out at the end of this Offering Circular and such documents (including any prospectus supplement) will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). In addition, such documents will be available upon request from the principal office of The Bank of New York Mellon (Luxembourg) S.A. in Luxembourg.

The Issuer and the Guarantors will, in the event of any significant new factor, material mistake or inaccuracy relating to information included or incorporated by reference in this Offering Circular which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Offering Circular or publish a new offering circular for use in connection with any subsequent issue of Covered Bonds.

**Appendix 2**  
**CROSS REFERENCE LIST**

**Cross Reference List**

<b>IFRS Financial Statement Commission Regulation (EC) No. 809/2004, Annex IX, 11.1</b>	<b>Annual Report 2008</b>	<b>Annual Report 2009</b>
<i>HBOS plc</i>		
Consolidated Balance Sheet.....	Pages 42-43	Pages 14-15
Consolidated Income Statement.....	Page 41	Page 12
Consolidated Statement of Recognised income and Expense.....	Page 44	Not applicable
Consolidated Statement of Comprehensive Income .....	Not applicable	Page 13
Consolidated Statement of Changes in Equity .....	Not applicable	Page 16
Consolidated Cash Flow Statement.....	Pages 44-45	Page 17
Company Balance Sheet, Statement of recognised Income and Expense and Cash Flow Statement.....	Pages 46-47	Not applicable
Company Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement.....	Not applicable	Pages 18-21
Accounting Policies and Explanatory Notes.....	Pages 48- 140*	Pages 22- 116*
Directors' Report and Directors.....	Not applicable	Pages 2-6
Statement of Directors' responsibilities..	Page 39	Page 4
Principal Risks and Uncertainties.....	Not applicable	Pages 7-9
Auditors' Report .....	Page 40	Pages 10-11
Risk Management .....	Page 13-33	Not applicable
<i>Bank of Scotland plc</i>		
Consolidated Balance Sheet.....	Page 34	Pages 14-15
Consolidated Income Statement.....	Page 33	Page 12
Consolidated Statement of Recognised Income and Expense .....	Page 35	Not applicable
Consolidated Statement of Comprehensive Income .....	Not applicable	Page 13
Consolidated Statement of Changes in Equity .....	Not applicable	Page 16
Consolidated Cash Flow Statement.....	Page 36	Page 17
Bank Balance Sheet, Statement of Recognised Income and Expense and Cash Flow Statement.....	Pages 37-39	Not applicable



**IFRS Financial Statement  
Commission Regulation (EC) No.  
809/2004, Annex IX, 11.1**

	<b>Annual Report 2008</b>	<b>Annual Report 2009</b>
Bank Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement.....	Not applicable	Pages 18-22
Accounting Policies and Explanatory Notes.....	Pages 40-110*	Pages 23-97*
Directors' Report and Directors' Statement of Directors' Responsibilities .....	Not applicable	Pages 2-6
Principal Risks and Uncertainties.....	Page 31	Page 4
Auditors' Report .....	Not applicable	Pages 7-9
Risk Management .....	Page 32	Pages 10-11
	Page 11-28	Not applicable
 <i>Lloyds Banking Group plc</i>		
Risk Management .....	Not applicable	57-62
Summary of Group Results.....	Not applicable	Fourth paragraph on page 19
The second paragraph and the first two sentences of the third paragraph of the 19 March 2010 RNS Announcement		

\* Including such other information in the annual report as is cross-referenced therein.

**IFRS Financial Statement  
Commission Regulation (EC) No.  
809/2004, Annex IX, 11.1**

	<b>Annual Report 2007</b>	<b>Annual Report 2008</b>
<i>HBOS Covered Bonds LLP</i>		
Balance Sheet.....	Pages 11-12	Pages 10-11
Income Statement.....	Page 9	Page 9
Statement of Recognised Income and Expense .....	Page 10	Not applicable
Cash Flow Statement.....	Page 13	Page 12
Accounting Policies and Explanatory Notes.....	Pages 14-38	Pages 13-39
Statement of Member's Responsibilities .....	Page 6	Page 6
Auditors' Reports.....	Pages 7-8	Pages 7-8

## **Appendix 3**

### **HBOS**

#### **Overview of the HBOS Group**

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

HBOS plc was incorporated in Scotland under the Companies Act 1985 as a public limited company on 3 May 2001 (Registration number SC218813) following the merger of Halifax and Bank of Scotland and now comprises a number of key brands including Halifax, Bank of Scotland and Clerical Medical. The registered office and head office of HBOS plc in the United Kingdom is at The Mound, Edinburgh EH1 1YZ, Scotland and its telephone number is +44 (0)870 600 5000. Following the acquisition of HBOS plc by Lloyds Banking Group plc (formerly Lloyds TSB Group plc) on 16 January 2009, and the subsequent transfer of 100 per cent. of the ordinary share capital of HBOS plc to Lloyds TSB Bank plc by Lloyds Banking Group plc on 1 January 2010, HBOS plc is a directly owned and controlled subsidiary of Lloyds TSB Bank plc and is indirectly owned and controlled by Lloyds Banking Group plc. The HBOS plc businesses are operated through four divisions, Retail, Wholesale Wealth and International and Insurance. Retail provides banking and other financial services to personal customers. Wholesale provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages HBOS's activities in financial markets through its treasury function and provides banking and financial services overseas. Services provided by Wealth and International include the provision of private banking, fund management services and International Banking. Insurance offers life assurance, pensions and investment products and general insurance services.

#### **Strategy of HBOS plc**

Following the acquisition of HBOS plc by Lloyds Banking Group plc (formerly Lloyds TSB Group plc), the strategy of the HBOS businesses has been aligned to the business model and strategy of Lloyds Banking Group, as outlined below.

Lloyds Banking Group's vision is to be recognised as the best financial services organisation in the UK by customers, colleagues (employees) and shareholders.

The strategy for Lloyds Banking Group remains to grow the business through developing long-term relationships and building its customer franchise, and its primary focus remains within the UK. Lloyds Banking Group's businesses are focused on extending the reach and depth of their customer relationships, whilst enhancing product capabilities to build competitive advantage. The prudent 'through the cycle' approach to risk continues to be applied within Lloyds Banking Group and will remain important as Lloyds Banking Group plc strives to improve its processing efficiency and use of capital.

Lloyds Banking Group has a diversified UK financial services model. The board believes that the UK remains an attractive market and that Lloyds Banking Group has good potential within its existing franchises to grow by meeting more of Lloyds Banking Group's customers' needs as well as through adding new customers to the franchise, notwithstanding near term economic conditions (see "*Risk Factors – Risks relating to the BOS Group – The BOS Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which the BOS Group operates. Adverse developments, such as the severe dislocation in the global financial markets, recession, and further deterioration of general economic conditions, particularly in the UK, have already adversely affected the BOS*").

*Group's earnings and profits and could continue to cause its earnings and profitability to decline. In addition, any actual or potential credit rating downgrades of sovereigns, particularly the United Kingdom, Spain and Republic of Ireland and/or contagion from other countries could have a significant material adverse effect on the BOS Group's operating results, financial condition and prospects."* for a discussion of such economic conditions).

The integration presents an opportunity to achieve cost leadership through combining both customer bases into the proven Lloyds TSB platform. The board believes that Lloyds Banking Group has market leading distribution and sales capabilities, products and services as well as middle and back office processes that deliver a high quality customer experience. Lloyds Banking Group aspires to have one of the lowest cost to income ratios for financial institutions in the UK, and the anticipated synergies, which are expected to be substantial, arising from the Acquisition will be key to further improving efficiency levels. The effective integration of the two businesses will be a significant challenge over the next few years, but the combination of the two businesses provides a real opportunity to create the UK's leading financial services organisation.

Lloyds Banking Group's directors believe that the heritage Lloyds TSB Group relationship-focused 'through the cycle' approach to risk management has demonstrated its effectiveness. This prudent approach to risk is being rolled out across Lloyds Banking Group. A number of non-core areas in which HBOS previously participated have been exited and Lloyds Banking Group will continue to assess participation in business areas on a conservative basis.

Since August 2007, global financial markets have experienced a period of significant turmoil resulting in a negative impact on capital ratios and liquidity in the banking sector. Throughout this period, Lloyds Banking Group has maintained a robust liquidity position based on its significant retail and corporate deposit base and funding from the wholesale markets. In 2009, Lloyds Banking Group continued to reinforce its funding position initially by actively participating in the liquidity initiatives introduced by the Bank of England and HM Treasury and latterly by further developing its independent capital markets issuance capabilities. The focus on independent issuance has been successfully pursued into 2010, Lloyds Banking Group having accessed multiple diverse investor bases publicly, including senior, subordinated, residential mortgage-backed and covered bonds.

Lloyds Banking Group believes that the successful execution of this strategy focusing on core markets, customer and cost leadership, capital efficiency and a prudent risk appetite will enable Lloyds Banking Group to achieve its vision to be recognised as the best financial services organisation in the UK.

### **Principal activities of HBOS plc**

HBOS operates with four main divisions: Retail, Wholesale, Wealth and International and Insurance.

#### ***Retail***

Retail provides banking, financial services and mortgages to personal customers through HBOS's multi-channel distribution capabilities, including branches, direct mail, telephone and the internet. Its range of multi-branded products includes mortgages, savings, bank accounts, personal loans and credit cards. Bank accounts range from full facilities current accounts to basic social banking facilities and a range of savings accounts are also offered.

HBOS currently provides mortgages and savings products under the Halifax, Bank of Scotland and Birmingham Midshires brands. Personal loans and credit cards are offered through the Halifax and Bank of Scotland brands.

The Retail division also distributes HBOS insurance and investment products on behalf of the Insurance division and participates in a number of joint ventures, such as Sainsbury's Bank.

### ***Wholesale***

The Wholesale division serves businesses, ranging from start-ups and small enterprises to global corporations, with a range of propositions fully segmented according to customer need. The division comprises Corporate Markets, Treasury and Trading and Asset Finance.

Corporate Markets comprises Corporate, Commercial, Corporate Real Estate, Specialist Finance and Wholesale Markets. Corporate, Commercial and Corporate Real Estate provide relationship based banking, risk management and advisory services to corporate and commercial customers, principally in the UK. Relationships with customers with an annual turnover of £15 million are managed within Corporate, and commercial property based relationships (including hotel, property based leisure and construction) are managed within the Corporate Real Estate business. Commercial provides financial services to business customers ranging from new start-ups to those with a turnover up to £15 million and invoice discounting and factoring services to a broader range of customers, Wholesale Markets provides risk management solutions, specialised lending, capital markets' advisory, and multi-product financing solutions to the corporate customer franchise, whilst managing the bank's own portfolio of structured credit investments and treasury assets.

Treasury and Trading's role is to provide access to financial markets in order to meet Lloyds Banking Group's balance sheet management requirements, and provides trading infrastructure to support execution of customer driven risk management transactions, whilst operating within a well controlled and conservative risk appetite.

Asset Finance consists of a number of leasing and specialty lending businesses including Contract Hire, Specialist Assets and Consumer Finance which provide individuals and companies with specialist personal lending and financial solutions.

### ***Wealth and International***

Wealth and International provides private banking services and International Banking services.

Wealth Management provides financial planning and advice for HBOS's affluent customers, providing financial solutions across investments, retirement planning and income, trusts, tax and estate planning as well as share dealing. Expert advice is provided through a large population of the HBOS financial advisors who can be accessed via the retail branch network and Private Banking offices throughout the United Kingdom.

The International division comprises HBOS' international banking businesses outside the UK. These largely comprise corporate, commercial and asset finance businesses in Australia, Ireland and continental Europe, and retail businesses in Ireland, Germany and the Netherlands.

### ***Insurance***

The HBOS Insurance division is one of the U.K.'s largest providers of general insurance and investment products, offering multi-brand life, pensions, mutual funds and general insurance products. The division uses a multi-channel, multi-brand operating model which it believes allows it to maximise both distribution reach and product and pricing flexibility. While low cost access to the large Retail division customer base is a core strength, the division also benefits from solid third-party distribution relationships with partners and intermediaries. Products offered by the Insurance division include savings, investments and pensions, life, household, repayment and motor insurance.

The Investment businesses focus on manufacturing and distributing investment funds, bond, pension and protection products. The Insurance division operates through both intermediary and bancassurance channels. HBOS also has a European business which primarily distributes products in the German market under the Heidelberger Leben and Clerical Medical brands.

The General Insurance business focuses on household, repayment and motor insurance. The Retail division's distribution network serves as the Insurance division's core distribution channel for household insurance. However, sales of household insurance are also made direct to customers via e-commerce and telephone channels and through partners and intermediaries. Repayment insurance products are also distributed through the Retail division's network as well as a number of large third party relationships.

## **Competitive Environment**

The HBOS Group Guarantor, an indirect subsidiary of Lloyds Banking Group plc, is a diversified UK based financial services group providing a wide range of banking and financial services, predominately in the UK, to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

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

The HBOS Group Guarantor's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom in which the HBOS Group Guarantor's earnings are predominantly generated. The HBOS Group Guarantor also operates in a substantial number of other jurisdictions, including Ireland, Australia and the United States, and hence is exposed to economic conditions in these markets as well. Over approximately the past 30 months, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty, particularly (i) the very severe dislocation of the financial markets around the world that began in August 2007 and substantially worsened in September 2008 and (ii) related problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions.

UK Government or EU intervention in the banking sector may impact the competitive position of banks within a country and among international competitors which may be subject to different forms of government intervention, thus potentially putting the HBOS Group Guarantor at a competitive disadvantage to other banks.

## **Legal Actions**

The HBOS Group is periodically subject to threatened or filed legal actions in the ordinary course of business.

The HBOS Group is involved in ongoing issues relating to unarranged overdraft charges, the payment of interchange fees and payment protection insurance. See "*Regulation and Supervision — Unarranged Overdraft Charges*," "*Regulation and Supervision — Interchange Fees*" and "*Regulation and Supervision — UK Competition Commission*" herein.

## Principal HBOS Group Subsidiaries

HBOS is the holding company of the HBOS Group. The following table shows the principal direct and indirect subsidiary undertakings of HBOS as at 30 November 2009 which HBOS believes are likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the HBOS Group and HBOS's percentage interest in those companies. Under the HBOS Group Reorganisation Act 2006 (the "Act") (and with effect from 17 September 2007), all assets and liabilities in respect of three former principal subsidiaries of HBOS (HBOS Treasury Services plc, Capital Bank plc and Halifax plc) were assumed by Bank of Scotland.

<b>Company</b>	<b>Activity</b>	<b>Total % of ordinary share capital held (directly or indirectly) by HBOS</b>	<b>Country of incorporation or registration</b>	<b>Registered office/head office</b>
Bank of Scotland plc .....	Banking, financial and related services	100	Scotland	The Mound Edinburgh EH1 1YZ
Bank of Scotland (Ireland) Limited.....	Banking	100	Ireland	Bank of Scotland House 124-127 St. Stephen's Green Dublin 2 Ireland
HBOS Covered Bonds LLP	Residential mortgage funding	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
Lloyds International Pty Limited (formerly HBOS Australia Pty Limited) and subsidiaries .....	Banking	100	Australia	Level 27, 45 Clarence Street, Sydney, NSW 2000 Australia
Halifax Share Dealing Limited.	Execution only stockbroking	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
HBOS Insurance & Investment Group Limited.....	Investment holding	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Halifax General Insurance Services Limited.....	General insurance brokerage	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG

<b>Company</b>	<b>Activity</b>	<b>Total % of ordinary share capital held (directly or indirectly) by HBOS</b>	<b>Country of incorporation or registration</b>	<b>Registered office/head office</b>
St Andrew's Insurance plc.....	General insurance	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Clerical Medical Investment Group Limited.....	Life assurance	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Clerical Medical Managed Funds Limited.....	Life assurance	100	England and Wales	33 Old Broad Street London EC2N 1HZ
Halifax Life Limited.....	Life assurance	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
HBOS Investment Fund Managers Limited.....	OEIC management	100	England and Wales	Trinity Road Halifax West Yorkshire HX1 2RG
Invista Real Estate Investment Management Holdings plc.....	Property investment management	55	England and Wales	Exchequer Court 33 St. Mary Axe London EC3A 8AA
St. James's Place plc.....	Financial services	60	England and Wales	St. James's Place House, 1 Tetbury Road Cirencester GL7 1EP
St Andrew's Life Assurance plc .....	Pensions	100	England and Wales	33 Old Broad Street, London EC2N 1HZ

### **Management of HBOS**

The directors of HBOS, the business address of each of whom is 25 Gresham Street, London EC2V 7HN, England, and their respective principal outside activities, where significant to HBOS are as follows:

<b>Name</b>	<b>Principal outside activities</b>
<b>Sir Winfried Bischoff</b> Chairman	A non-executive director of the McGraw-Hill Companies, Inc. and Eli Lilly and Company. Chairman of the UK Career Academy Foundation. A member of the Akbank International Advisory Board.



<b>Name</b>	<b>Principal outside activities</b>
<b>Lord Leitch</b> Deputy Chairman	Chairman of Scottish Widows. Chairman of the Government's Review of Skills and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster.
<b>Executive directors</b>	
<b>J. Eric Daniels</b> Group Chief Executive	A non-executive director of BT Group.
<b>Archie G. Kane</b> Group Executive Director, Insurance	Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, The Takeover Panel and the Chancellor's Insurance Industry Working Group.
<b>G. Truett Tate</b> Group Executive Director, Wholesale	A non-executive director of BritishAmerican Business Inc. A director of Business in the Community and Arora Holdings and a director and trustee of In Kind Direct.
<b>Tim J.W. Tookey</b> Group Finance Director	None.
<b>Helen A. Weir CBE</b> Group Executive Director, Retail	A member of the Said Business School Advisory Board.
<b>Non-executive directors</b>	
<b>Wolfgang C.G. Berndt</b>	A non-executive director of Cadbury, GfK AG and MIBA AG.
<b>Sir Julian Horn-Smith</b>	A non-executive director of De La Rue, Digicel Group, and Emobile (Japan), a director of Sky Malta, a member of the Altimo International advisory board and a senior adviser to UBS and CVC Capital Partners in relation to the global telecommunications sector.
<b>Glen Moreno</b>	Chairman of Pearson and a non-executive director of Fidelity International.
<b>David Roberts</b>	A member of the strategy board for Henley Business School, non-executive chairman of The Mind Gym and a non-executive director of Campion Willcocks.
<b>T. Timothy Ryan Jr</b>	President and chief executive of the Securities

<b>Name</b>	<b>Principal outside activities</b>
	Industry and Financial Markets Association. A director of the US-Japan Foundation, Great-West Life Annuity Insurance Co. and Putnam Investments and a member of the Global Markets Advisory Committee for the National Intelligence Council.
<b>Martin A. Scicluna</b>	Chairman of Great Portland Estates. A member of the council of Leeds University and a governor of Berkhamsted School.
<b>Anthony Watson CBE</b>	A non-executive director of Hammerson, Vodafone and Witan Investment Trust and chairman of Marks and Spencer Pension Trust, Asian Infrastructure Fund and Lincoln's Inn investment committee.

Dr. Wolfgang Berndt has informed the HBOS Group of his intention to retire from the board of directors of HBOS at HBOS' Annual General Meeting in May 2010.

**Conflicts of Interest**

None of the directors of HBOS has any actual or potential conflict between their duties to HBOS and their private interests or other duties as listed above.

## **Appendix 4 THE ISSUER**

### **Overview of Bank of Scotland plc**

Bank of Scotland plc (“**BOS**”) (incorporated in Scotland with limited liability, registration number SC327000) is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. BOS is the parent company of the BOS Group (as defined on page 44). The registered office of Bank of Scotland is located at The Mound, Edinburgh EH1 1YZ, Scotland and its telephone number is +44 (0)870 600 5000.

Its main business activities are retail, commercial and corporate banking. The main businesses of BOS are split into three divisions, Retail, Wholesale and Wealth and International. Services provided by Retail include banking and other financial services to personal customers. Wholesale provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages BOS’s activities in financial markets through its treasury function and provides banking and financial services overseas. Services provided by Wealth and International include the provision of private banking and International Banking.

### **History and development of BOS**

BOS was originally established in 1695 as The Governor and Company of the Bank of Scotland by an Act of the Parliament of Scotland. On 17 September 2007, in accordance with the provisions of the Act (as defined on page 110), The Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act 1985 and changed its name to Bank of Scotland plc. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of Capital Bank plc, Halifax plc and HBOS Treasury Services plc transferred to BOS.

BOS is a United Kingdom clearing bank with its headquarters in Edinburgh and an “authorised person” under the Financial Services and Markets Act 2000. It is a member of the British Bankers’ Association and the Committee of Scottish Clearing Bankers. The Bank Notes (Scotland) Act 1845 confirmed Bank of Scotland’s right to issue bank notes in Scotland.

Following the acquisition of HBOS plc by Lloyds Banking Group plc (formerly Lloyds TSB Group plc) on 16 January 2009, and the subsequent transfer of 100 per cent. of the ordinary share capital of HBOS plc to Lloyds TSB Bank plc by Lloyds Banking Group plc on 1 January 2010, BOS is a directly owned and controlled subsidiary of HBOS plc which in turn is now directly owned and controlled by Lloyds TSB Bank plc and is indirectly owned and controlled by Lloyds Banking Group plc.

### **Strategy of BOS**

Following the acquisition of HBOS plc by Lloyds Banking Group plc (formerly Lloyds TSB Group plc), the strategy of the BOS businesses has been aligned to the business model and strategy of Lloyds Banking Group, see “*HBOS – Strategy of HBOS plc*” above.

### **Principal activities of BOS**

BOS operates with three main divisions: Retail, Wholesale and the Wealth and International division.

## ***Retail***

Retail provides banking, financial services and mortgages to personal customers through BOS's multi-channel distribution capabilities, including branches, direct mail, telephone and the internet. Its range of multi-branded products includes mortgages, savings, bank accounts, personal loans and credit cards. Bank accounts range from full facilities current accounts to basic social banking facilities and a range of savings accounts are also offered.

BOS currently provides mortgages and savings products under the Halifax, Bank of Scotland and Birmingham Midshires brands. Personal loans and credit cards are offered through the Halifax and Bank of Scotland brands.

The Retail division also distributes HBOS insurance and investment products on behalf of the insurance division of HBOS and participates in a number of joint ventures, such as Sainsbury's Bank.

## ***Wholesale***

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

Corporate Markets comprises Corporate, Commercial, Commercial Real Estate, Specialist Finance and Wholesale Markets. Corporate, Commercial and Commercial Real Estate provide relationship based financial and advisory services to corporate customers throughout the UK, US and Canada. Transactions with customers with an annual turnover greater than £15 million are managed within Corporate and commercial property based transactions (including hotel and property based leisure) are managed within the Commercial Real Estate business. Commercial specialises in financial services to customers ranging from new start-up business to those with a turnover up to £15 million, an element of which is property related. Wholesale Markets provides risk management solutions, specialised lending, capital markets' advisory, and multi-product financing solutions to the corporate customer franchise, whilst managing the bank's own portfolio of structured credit investments and treasury assets.

Treasury and Trading manages the global trading, funding and liquidity risks and provides risk management solutions to both internal and external clients.

The BOS asset finance businesses provide individuals and companies with specialist personal lending, and finance solutions.

## ***Wealth and International***

Wealth and International provides private banking services and International Banking services.

Wealth Management provides financial planning and advice for BOS's affluent customers, providing financial solutions across investments, retirement planning and income, trusts, tax and estate planning as well as share dealing. Expert advice is provided through a large population of BOS financial advisors who can be accessed via the retail branch network and Private Banking offices throughout the United Kingdom.

The International division comprises BOS' international banking businesses outside the UK. These largely comprise corporate, commercial and asset finance businesses in Australia, Ireland and continental Europe, and retail businesses in Ireland, Germany and the Netherlands.

## **Principal Bank of Scotland Subsidiaries**

The following table shows the principal direct and indirect subsidiary undertakings of Bank of Scotland as at 30 November 2009 which Bank of Scotland believes are likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the BOS Group and Bank of Scotland's percentage interest in those companies:

<u>Company</u>	<u>Activity</u>	<u>Total % of ordinary share capital held (directly or indirectly) by Bank of Scotland</u>	<u>Country of incorporation or registration</u>	<u>Registered office/head office</u>
Bank of Scotland (Ireland) Ltd	Banking	100	Ireland	Bank of Scotland House 124-127 St. Stephen's Green Dublin 2, Ireland
Lloyds International Pty Limited (formerly HBOS Australia Pty Ltd) and subsidiaries	Banking	100	Australia	Level 27, 45 Clarence Street, Sydney, NSW 2000, Australia
Banco Halifax Hispania SA	Banking	100	Spain	c/Anabel Segura 16 Edificio Vega Norte 2, 28108 Alcobendas, Madrid Spain
Halifax Estate Agencies Ltd	Estate agency and financial services	100	England and Wales	Trinity Road, Halifax West Yorkshire HX1 2RG
HBOS Covered Bonds LLP	Residential Mortgage Loans	100	England and Wales	Trinity Road, Halifax West Yorkshire HX1 2RG
Uberior Investments plc	Investment holding	100	Scotland	Level 1 Citymark 150 Fountainbridge Edinburgh EH3 9PE

### **Management of BOS**

The directors of the Issuer, the business address of each of whom is 25 Gresham Street, London EC2V 7HN, England, and their respective principal outside activities, where significant to the Issuer are as follows:

## Directors

<b>Name</b>	<b>Principal outside activities</b>
<b>Sir Winfried Bischoff</b> Chairman	A non-executive director of the McGraw-Hill Companies, Inc. and Eli Lilly and Company. Chairman of the UK Career Academy Foundation. A member of the Akbank International advisory board.
<b>Lord Leitch</b> <b>Deputy Chairman</b>	Chairman of Scottish Widows. Chairman of the Government's Review of Skills and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster.
<b>Executive directors</b>	
<b>J. Eric Daniels</b> Group Chief Executive	A non-executive director of BT Group.
<b>Archie G. Kane</b> Group Executive Director, Insurance	Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, The Takeover Panel and the Chancellor's Insurance Industry Working Group.
<b>G. Truett Tate</b> Group Executive Director, Wholesale	A non-executive director of BritishAmerican Business Inc. A director of Business in the Community and a director and trustee of In Kind Direct.
<b>Tim J.W. Tookey</b> Group Finance Director	None.
<b>Helen A. Weir CBE</b> Group Executive Director, Retail	A member of the Said Business School Advisory Board.
<b>Non-executive directors</b>	
<b>Wolfgang C.G. Berndt</b>	A non-executive director of Cadbury, GfK AG and MIBA AG.
<b>Sir Julian Horn-Smith</b>	A non-executive director of De La Rue, Digicel Group, and Emobile (Japan), a director of Sky Malta, a member of the Altimo International advisory board and a senior adviser to UBS and CVC Capital Partners in relation to the global telecommunications sector.
<b>Glen Moreno</b>	Chairman of Pearson and a non-executive director of Fidelity International

<b>Name</b>	<b>Principal outside activities</b>
<b>David Roberts</b>	A member of the strategy board for Henley Business School, non-executive chairman of The Mind Gym and a non-executive director of Campion Willcocks.
<b>T. Timothy Ryan Jr</b>	President and chief executive of the Securities Industry and Financial Markets Association. A director of the US-Japan Foundation, Great-West Life Annuity Insurance Co. and Putnam Investments and a member of the Global Markets Advisory Committee for the National Intelligence Council.
<b>Martin A. Scicluna</b>	Chairman of Great Portland Estates. A member of the council of Leeds University and a governor of Berkhamsted School.
<b>Anthony Watson CBE</b>	A non-executive director of Hammerson, Vodafone and Witan Investment Trust and chairman of Marks and Spencer Pension Trust, Asian Infrastructure Fund and Lincoln's Inn investment committee.

Dr. Wolfgang Berndt has informed the BOS Group of his intention to retire from the board of directors of BOS at BOS' Annual General Meeting in May 2010.

**Conflicts of Interest**

None of the directors of BOS has any actual or potential conflict between their duties to BOS and their private interests or other duties as listed above.

## **Appendix 5 DOCUMENTS AVAILABLE**

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the Guarantors;
- (ii) the Issuer's Annual Report and Accounts 2009;
- (iii) the Issuer's Annual Report and Accounts 2008;
- (iv) the HBOS Group Guarantor's Annual Report and Accounts 2009;
- (v) the HBOS Group Guarantor's Annual Report and Accounts 2008;
- (vi) the Members' Report and Financial Statements and the audited consolidated and non-consolidated annual financial statements for each of the financial years ended 31 December 2007 and 31 December 2008 of the LLP;
- (vii) Lloyds Banking Group plc's Annual Report and Accounts 2009;
- (viii) Lloyds Banking Group plc's Regulatory News Service announcement entitled "Update on Current Trading" published on 19 March 2010;
- (ix) the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (x) a copy of this Offering Circular;
- (xi) any future offering circulars, prospectuses, information memoranda and supplements to this Offering Circular and any other documents incorporated herein including Final Terms (including a Final Terms relating to an unlisted Covered Bond) or therein by reference; and
- (xii) each of the following transaction documents (the "Transaction Documents"), namely:
  - Mortgage Sale Agreement
  - each Scottish Declaration of Trust
  - each Servicing Agreement
  - Asset Monitor Agreement
  - Intercompany Loan Agreement
  - LLP Deed
  - Deed of Admission
  - Cash Management Agreement
  - each Interest Rate Swap Agreement
  - each Covered Bond Swap Agreement
  - Guaranteed Investment Contract
  - Stand-by Guaranteed Investment Contract



- Bank Account Agreement
- Stand-by Bank Account Agreement
- Corporate Services Agreement
- Deed of Charge (and any documents entered into pursuant to the Deed of Charge)
- Trust Deed
- Agency Agreement
- Programme Agreement
- the Deed Poll
- each Subscription Agreement (as applicable in the case of each issue of Covered Bonds admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement)
- Master Definitions and Construction Agreement
- any other agreement or document designated in writing as a Transaction Document by the Issuer and the Note Trustee and / or the Security Trustee.

In addition, copies of this Offering Circular and each document incorporated herein by reference are available on the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu).